

**WESTERNO ONE EQUITY**  
**WESTERNO ONE EQUITY INCOME FUND**

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**Annual Information Form**

**For the year ended December 31, 2006**

**March 30, 2007**

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## CERTAIN REFERENCES

In this annual information form (“AIF”), unless the context otherwise requires, references to “we”, “us”, “our” or similar terms refer to the Fund (either alone or together with its subsidiaries) and includes, where applicable, the period prior to August 15, 2006 when Production Equipment was owned by Production Equipment Rentals Company.

## FORWARD LOOKING STATEMENTS

Forward-looking statements are included in this AIF, which 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 expressed or implied by such forward-looking statements. These forward-looking statements are 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 statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

These statements reflect current expectations of management regarding future events and operating performance as of the date of this AIF. Forward-looking statements involve 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 statements, 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, foreign exchange, cash distributions are not guaranteed and will fluctuate with the performance of subsidiaries, nature of Units, and the proposed changes to the Canadian federal income tax treatment of income trusts, all as discussed under “Risks and Uncertainties”.

Although the forward-looking statements contained in this AIF are based upon what the Fund’s management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements reflect management’s current beliefs and are based on information currently available to the Fund. They reflect current assumptions regarding future events and operating performance including, without limitation, a strong economy in Western Canada, stable interest rates and continued strength in the equipment rental and equipment sales industry in which the Fund operates, and speak only as of the date of this discussion. These forward-looking statements are made as of the date of this AIF and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

### **NON-GAAP MEASURES**

In addition to financial measures prescribed by GAAP, certain non-GAAP measures are used in this AIF. These measures include “EBITDA”, “Adjusted EBITDA” and “cash available for distribution”.

References to the Fund’s “EBITDA” for any period are to the Fund’s net income for such period before interest expense, taxes, depreciation and amortization, in each case to the extent reflected in such net income. EBITDA is a metric used by many investors to determine the ability of an issuer to generate cash from operations. As the Fund intends to distribute a substantial portion of its available cash on an ongoing basis (after providing for certain amounts described elsewhere in this AIF), it believes that, in addition to net income or loss and statements of cash flows, EBITDA is a useful supplemental measure from which to determine the Fund’s ability to generate, and from which to make adjustments to determine, its cash available for distribution.

The Fund has used Adjusted EBITDA as the basis for the analysis of its past financial performance. References to Adjusted EBITDA are to EBITDA after adjusting for various non-recurring or other items. Adjusted EBITDA is a measure that the Fund believes facilitates the comparability of the results of historical periods and the analysis of its financial performance.

References to “cash available for distribution” are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund described in this AIF. Cash available for distribution is presented in this AIF as the Fund intends to make monthly cash distributions and it is therefore a useful financial measure as an indication of the Fund’s ability to make such distributions. It is also a measure generally used by income funds in Canada as an indicator of financial performance. As one of the factors that may be considered relevant by prospective investors is the cash available to be distributed by the Fund relative to the price of the Units, the Fund believes that cash available for distribution is a useful supplemental measure that may assist prospective investors to assess an investment in Units. The Fund’s method of determining cash available for distribution is derived from Adjusted EBITDA, which is derived from EBITDA and net income (a measure recognized under GAAP) for the 12 months ended December 31, 2006, as opposed to cash flows from operating activities because it is the underlying performance of the Fund’s business that must be maintained in order to fund its distributions. In addition, only a pro forma statement of operations (and not a pro forma statement of cash flows) of the Fund is available.

EBITDA, Adjusted EBITDA and cash available for distribution are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, Adjusted EBITDA and cash available for distribution may not be comparable to similar measures presented by other issuers, including other companies or income funds that operate in businesses similar to the Fund’s. Investors are cautioned that EBITDA, Adjusted EBITDA and cash available for distribution 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 liquidity and cash flows.

### **DATE OF INFORMATION**

The information in this AIF is presented as of December 31, 2006, unless otherwise indicated.

## GLOSSARY OF TERMS

“**Acquisition Agreement**” means the acquisition agreement dated June 27, 2006 between WEQ Production Equipment LP and 566655 B.C. Ltd., 572292 B.C. Ltd. and Production Equipment ULC;

“**Adjusted EBITDA**” has the meaning ascribed to it under “Non-GAAP Measures”;

“**Administration Agreement**” means the administration agreement between the Fund, the Trust and WesternOne Equity LP dated August 15, 2006;

“**affiliate**” has the meaning provided for in the CBCA, read as if the word “body corporate” includes a trust, partnership, limited liability company or other form of business organization;

“**Agency Agreement**” means the agency agreement dated July 31, 2006 between the Fund, the Trust, WesternOne Equity LP, WesternOne Equity GP, the Principal Unitholder and the Agents;

“**Agents**” means, collectively, Blackmont Capital Inc., Dundee Securities Corporation and Sora Group Wealth Advisors Inc.;

“**Book-Entry System**” means a book-based system administered by CDS;

“**Business LP**” means a limited partnership established to carry on the business of owning and operating a platform business acquired by WesternOne Equity LP, as well as activities ancillary thereto;

“**cash available for distribution**” has the meaning ascribed to it under “Non-GAAP Measures”;

“**CBCA**” means the *Canada Business Corporations Act* and the regulations thereto, as amended;

“**CDS**” means The Canadian Depository for Securities Limited;

“**Closing**” means the closing of the Offering on August 15, 2006;

“**Credit Facility**” means the credit facility referred to under “Financing”;

“**EBITDA**” has the meaning ascribed to it under “Non-GAAP Measures”;

“**Exchange**” means the TSX Venture Exchange;

“**exchangeable units**” means units of a Business LP that may be issued to a vendor of a business as part of the acquisition of such business by the Business LP;

“**film industry**” means the film and television production industry;

“**floor plan financing**” is a type of asset-based financing used to finance the inventories of a business;

“**fully-diluted**” in respect to the number of securities of any person to be issued and outstanding at such time means the number of such securities of such person that would be issued and outstanding at such time if all rights to acquire or be issued such securities under all issued and outstanding rights of conversion, exchange, issue or purchase has been exercised at such time, other than securities that would be issued under any incentive unit option plan;

“**Fund**” means WesternOne Equity Income Fund, an unincorporated, open-ended limited purpose trust established under the laws of the Province of British Columbia;

“**Fund Declaration of Trust**” means the declaration of trust by which the Fund is governed, dated June 14, 2006, as it may be amended, supplemented or restated from time to time;

“**Fund Parties**” means the Fund, the Trust, WesternOne Equity LP, WesternOne Equity GP, WEQ Production Equipment LP and WEQ Production Equipment GP Inc.;

“**GAAP**” means generally accepted accounting principles in Canada;

“**GST**” means the goods and services tax payable under Part IX of the *Excise Tax Act* (Canada).

“**Indenture Trustee**” means Computershare Trust Company of Canada;

“**Investment Agreement**” means the investment agreement between the Fund, the Trust, WesternOne Equity LP, WesternOne Equity GP, WEQ Production Equipment LP, and WEQ Production Equipment GP Inc., dated August 15, 2006;

“**LP Units**” means the limited partnership units of WesternOne Equity LP designated as LP Units and having the attributes described in the Prospectus;

“**Offering**” means the offering of 4,571,429 Units and 100,000 Series A Debentures issued and sold by the Fund on July 31, 2006 pursuant to the Prospectus;

“**Ordinary Resolution**” means a resolution passed by a majority of the votes cast at a meeting of the Voting Unitholders;

“**Over-Allotment Option**” means the option granted by the Fund to the Agents to purchase up to 457,142 additional Units, exercisable for a period of 30 days from the Closing;

“**Participant**” means a participant in the CDS depository service;

“**Partners**” means the partners of Production Equipment Rentals Company, being 566655 B.C. Ltd., 572292 B.C. Ltd. and Production Equipment ULC;

“**Partnership Agreement**” means the WesternOne Equity LP limited partnership agreement between WesternOne Equity GP and the Trust dated June 15, 2006;

“**Partnership Units**” means units representing an interest as a limited partner of a Business LP, including limited partnership units and, if applicable, exchangeable units;

“**Plans**” means trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act;

“**platform business**” means a business that is an industry leader, with strong existing management and in-depth industry knowledge in a market in which the Fund is not currently active;

“**Principal Unitholder**” means Darren Financial Group Inc.;

“**Production Equipment**” means the business currently owned by WEQ Production Equipment LP, a leading operator in renting, selling and servicing quality high reach and material handling equipment and providing logistical support to its customers in British Columbia;

“**Prospectus**” means the final prospectus of the Fund dated July 31, 2006;

“**Redemption Date**” shall have the meaning ascribed thereto under “WesternOne Equity Income Fund — Redemption at the Option of Unitholders”;

“**Redemption Price**” shall have the meaning ascribed thereto under “WesternOne Equity Income Fund — Redemption at the Option of Unitholders”;

“**Senior Security**” has the meaning set forth in the Series A Trust Indenture;

“**Series A Debenture**” means a \$100 principal amount of 9% convertible Series A Debenture issued by the Fund pursuant to the Series A Trust Indenture;

“**Series A Trust Indenture**” means the trust indenture entered into by the Fund and the Indenture Trustee dated August 15, 2006, providing for the issuance of the Series A Debentures;

“**Series 1 Trust Notes**” means the series 1 notes of the Trust issued under the Trust Note Indenture;

“**Series 2 Trust Notes**” means the series 2 notes of the Trust issued under the Trust Note Indenture;

“**Special Resolution**” means a resolution passed by the affirmative vote of the holders of not less than 66-2/3% of the Units and Special Voting Units who voted in respect of that resolution at a meeting of Voting Unitholders at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66-2/3% of the Voting Units entitled to vote on such resolution;

“**Special Voting Units**” means Units that may be issued in connection with the issuance of exchangeable units, to represent voting rights in the Fund that accompany exchangeable units;

“**subsidiary**” has the meaning provided for in the CBCA, read as if the word “body corporate” includes a trust, partnership, limited liability company or other form of business organization;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

“**Trust**” means WesternOne Equity Operating Trust, an unincorporated, open-ended limited purpose trust established under the laws of the Province of British Columbia;

“**Trust Declaration of Trust**” means the declaration of trust pursuant to which the Trust is governed, dated June 14, 2006, as the same may be amended, supplemented or restated from time to time;

“**Trust Note Indenture**” means the note indenture governing the Trust Notes between the Trust and Computershare Trust Company of Canada dated August 15, 2006;

“**Trust Notes**” means, collectively, the Series 1 Trust Notes and the Series 2 Trust Notes;

“**Trust Units**” means units of the Trust;

“**Trustee**” or “**Trustees**” means the trustees of the Fund or any one of them;

“**Trust’s Trustees**” means the trustees of the Trust;

“**TSX**” means the Toronto Stock Exchange;

“**Unitholders**” means the holders of Units;

“**Units**” means units of the Fund;

“**Voting Unitholders**” means the holders of Voting Units;

“**Voting Units**” means Units;

“**Western Canada**” means the provinces of British Columbia, Alberta, and Saskatchewan;

“**WesternOne Equity**” means the Fund and its interests in the Trust, WesternOne Equity LP, WesternOne Equity GP and any other subsidiaries;

“**WesternOne Equity GP**” means WesternOne Equity GP Inc., a corporation incorporated under the CBCA;

“**WesternOne Equity Option Plan**” means the incentive unit option plan of the Fund known as the WesternOne Equity 2006 Unit Option Plan; and

“**working capital**” means at any time, the excess of the sum of accounts receivable, inventory and prepaid expenses over the sum of accounts payable and accrued liabilities, deferred warranty revenue and customer deposits at such time.

Words importing the singular number only include the plural and vice versa and words importing any gender include all genders. All dollar amounts set forth in this AIF are in Canadian dollars, except where otherwise indicated.

## **OUR STRUCTURE**

### **WesternOne Equity Income Fund**

The Fund was established on June 14, 2006 and is an unincorporated, open-ended trust governed by the laws of the Province of British Columbia and by the Fund Declaration of Trust. The Fund has been formed to acquire and hold Trust Units and all of the outstanding shares of WesternOne Equity GP. See “WesternOne Equity Income Fund”.

### **WesternOne Equity Operating Trust**

The Trust was established on June 14, 2006 and is an unincorporated, open-ended trust governed by the laws of the Province of British Columbia and by the Trust Declaration of Trust. It is a limited partner of WesternOne Equity LP, owning 100% of WesternOne Equity LP. All of the Trust Units are held by the Fund. See “WesternOne Equity Operating Trust”.

### **WesternOne Equity LP**

WesternOne Equity LP is a limited partnership formed under the laws of the Province of Manitoba on June 15, 2006. WesternOne Equity LP was created to acquire and hold all, or in some cases, a majority of the Partnership Units in each of the Business LPs. WesternOne Equity LP holds all of the Partnership Units of WEQ Production Equipment LP, which acquired Production Equipment at Closing. See “WesternOne Equity LP”.

### **WesternOne Equity GP**

WesternOne Equity GP is a corporation incorporated under the CBCA on June 8, 2006. WesternOne Equity GP is the general partner of WesternOne Equity LP and holds the shares of the general partner of any Business LP. See “WesternOne Equity GP”.

### **WEQ Production Equipment LP**

WEQ Production Equipment LP is a limited partnership formed under the laws of the Province of Manitoba on June 15, 2006. It was formed to acquire and operate Production Equipment.

### **WEQ Production Equipment GP Inc.**

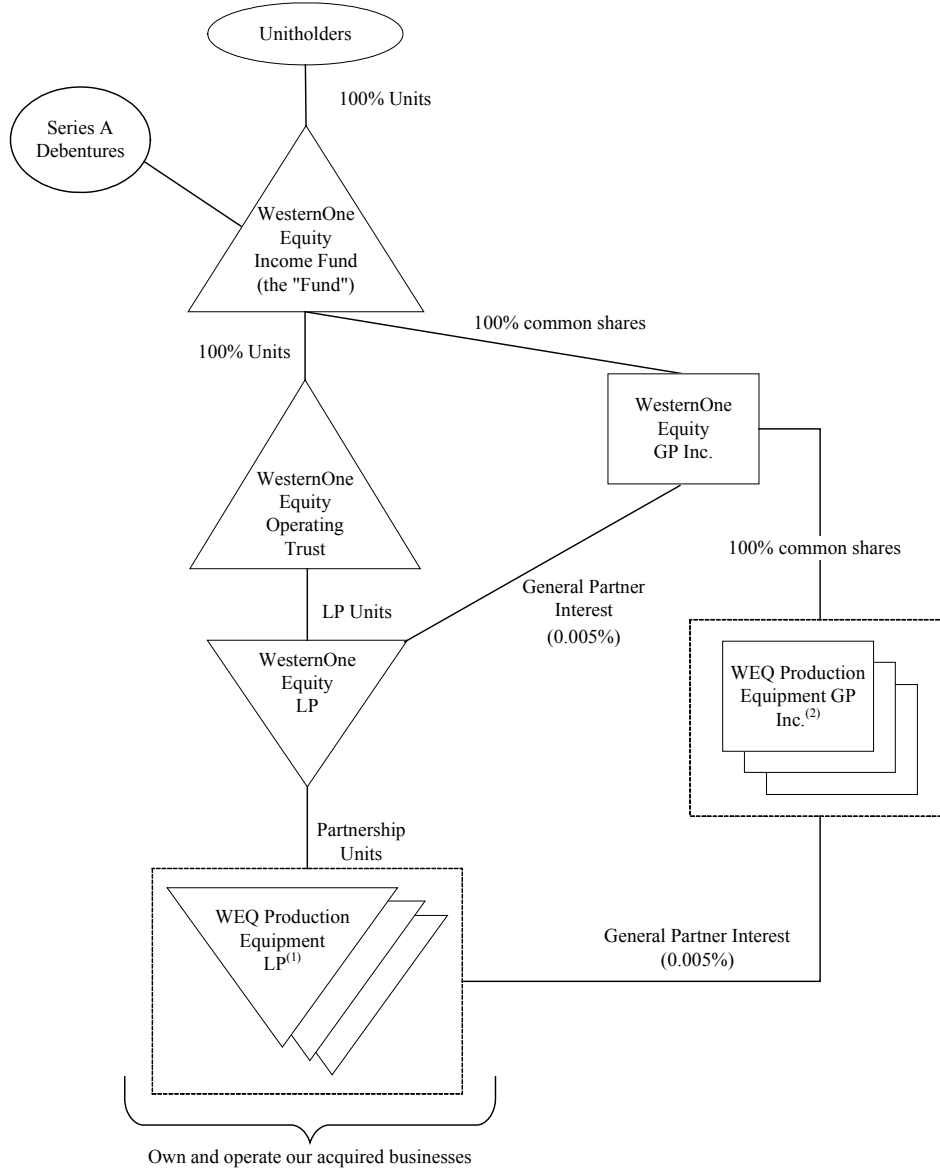
WEQ Production Equipment GP Inc. is a corporation incorporated under the CBCA on June 8, 2006. WEQ Production Equipment GP Inc. is the general partner of WEQ Production Equipment LP.

### **Principal and Head Offices**

The principal and head offices of the Fund, the Trust, WesternOne Equity GP and WesternOne Equity LP are located at Suite 910, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2. The principal and head offices of WEQ Production Equipment GP Inc. and WEQ Production Equipment LP are located at 1156 Kingsway, Port Coquitlam, British Columbia V3C 3Y9.

## Organizational Structure

The following chart illustrates our structure:



- (1) WEQ Production Equipment LP was formed to acquire and operate Production Equipment. A new Business LP will be formed for each additional business WesternOne Equity acquires.
- (2) WEQ Production Equipment GP Inc. is the general partner of WEQ Production Equipment LP and has the exclusive authority to manage it. A new subsidiary general partner will be incorporated for every Business LP formed.

## GENERAL DEVELOPMENT OF OUR BUSINESS

### History

WesternOne Equity was established in order to seek out and acquire predominantly privately owned businesses located primarily in Western Canada in order to generate stable and growing distributions to Unitholders as well as to achieve overall capital appreciation.

On August 15, 2006, we completed the Offering of 4,571,429 Units at a price of \$3.50 per Unit, and 100,000 Series A Debentures at a price of \$100 per Series A Debenture, to raise aggregate gross proceeds of \$26,000,000. Prior to the Offering, we did not have a business or material assets. We used the proceeds of the Offering, together with proceeds from the Credit Facility, to acquire Production Equipment. See "Acquisition of Our Initial Business" below. On August 31, 2006, we completed an additional sale of 238,621 Units pursuant to the exercise of the Over-Allotment Option by the Agents.

### Acquisition of Our Initial Business

Prior to August 15, 2006, Production Equipment was owned and operated by Production Equipment Rentals Company.

The Fund, the Trust, WesternOne Equity LP, WesternOne Equity GP, WEQ Production Equipment LP and WEQ Production Equipment GP Inc. entered into the Investment Agreement on August 15, 2006. The Investment Agreement contained customary representations and warranties from each of the Fund Parties in favour of the other Fund Parties. The representations and warranties of the Fund Parties will survive until the 90<sup>th</sup> day after the date on which the Fund's audited financial statements for the year ended December 31, 2007 are publicly disclosed, except for certain limited representations and warranties, which will survive without limitation of time.

Pursuant to the Investment Agreement, WesternOne Equity used the proceeds of the Offering, together with proceeds from the Credit Facility, to acquire Production Equipment as follows:

- The Fund used the gross proceeds of the Offering of \$26.0 million to subscribe for 2,600,000 Trust Units.
- The Trust subscribed for 2,600,000 LP Units for \$26.0 million.
- WesternOne Equity LP used a portion of the proceeds from the issuance of the LP Units to pay, directly and indirectly, the Agents' fee and expenses of the Offering of \$2.76 million and to subscribe for limited partnership units of WEQ Production Equipment LP for \$22.9 million.
- WEQ Production Equipment LP purchased Production Equipment from Production Equipment Rentals Company for a total amount of \$29.2 million, payable in cash (being the total of the amounts received by WesternOne Equity LP and proceeds from the Credit Facility).

### Recent Developments

On January 29, 2007, the Fund installed new rental management software and infrastructure for WEQ Production Equipment LP. Management expects this software to be operational by April 2007, and its overall cost, including hardware additions and training, to be approximately \$80,000.

On January 29, 2007, the Fund also announced that it had signed a letter of intent to purchase the assets of an equipment rental company with two locations on Vancouver Island, British Columbia. This proposed transaction is currently undergoing due diligence.

## **BUSINESS OF THE FUND**

### **The Fund**

The Fund seeks to acquire businesses with a proven track record, an opportunity for growth, and whose management wishes to continue to operate the business going forward. In many situations, the business owners may acquire an equity interest in the Fund, thereby aligning their interests with those of the Fund.

### **Investment Approach**

The Fund is guided by an investment approach that favours growth through the acquisition of suitable platform businesses and then continuing to build revenues and earnings within these businesses. Value will be created by solid management, operational excellence, optimal capital structures and a sound, long-term growth program for the businesses. By being proactive in its investments and focussed on these key items, the Fund seeks to achieve significant long-term appreciation in the value of the Units.

### **Growth Strategy**

The Fund's growth strategy involves the following key areas:

- *Accretive Acquisitions* – The Fund intends to continue to seek out and acquire new platform businesses in a variety of industries that are consistent with its business strategy and which compliment any existing portfolio businesses, at valuations that are accretive to Unitholders.
- *Growth Through Acquisitions* – By combining the Fund's network of contacts in the Western Canadian marketplace with the in-depth industry knowledge and contacts of its portfolio businesses management, the Fund will work to grow the portfolio businesses through add-on acquisitions of competitors and other complimentary businesses.
- *Organic Growth* – The Fund will work with its platform acquisitions to build upon their track record of internal growth and improving profitability.

Selection of businesses will be prioritized by the ability to implement the Fund's investment approach and generate value-added returns to the Fund and its Unitholders. To achieve these returns the Fund will operate in much the same fashion as successful private equity firms with the exception of the high level of debt these groups typically place on their businesses, which can limit growth and create undue risk. The Fund's returns will instead be derived from growth and operating improvements, not excessive financial leverage. With this type of conservative capital structure, management of the platform businesses will be allowed to keep their attention focussed on their operations.

The Fund intends to add to its platform acquisitions by acquiring smaller "add-on" businesses in the same industries, the owners of which typically have no succession plan. Management believes there are a significant number of these opportunities in Western Canada and that they are well positioned to offer owners of these businesses an attractive exit strategy that can be tailored to their individual circumstances. The Fund will acquire from 51% to 100% of the ownership of each such business, utilizing a combination of cash and Units for acquisitions. This approach will enable the Fund and selling business owners to structure the most efficient exit strategy from both a tax and operational viewpoint.

### **Acquisition Criteria**

Within the parameters set by the investment approach, the Fund intends to acquire a portfolio of platform businesses in manufacturing, distribution, services and other industries that address the industrial, consumer and other markets which meet the Fund's acquisition criteria (the "Acquisition Criteria") as set forth below.

### ***Western Canada Focus***

The Fund will focus on acquisition opportunities located primarily in Western Canada where the Fund's extensive network of relationships and geographic proximity will allow it to be most effective in sourcing new

acquisitions and in working with the businesses post-acquisition. Western Canada has, in recent years, been the engine of growth for the Canadian economy. This growth has been fuelled by a combination of soaring revenues from oil and gas and other natural resources, from strong growth in both residential and non-residential construction and from steady increases in consumer spending and retail sales.

Management believes that these trends will continue in the coming years and with the initial platform business and primary focus on Western Canada for new acquisitions and organic growth, the Fund is well positioned to benefit from the region's economic strength and population trends.

The Fund is well positioned to identify acquisition opportunities in Western Canada by leveraging its strong network of relationships through its well-connected management team, board of directors and network advisors. Through this network, the Fund will be able to identify and complete off-market acquisitions. By avoiding a competitive bidding process, these off-market transactions will be completed at valuations that are more accretive to the Fund, thus maximizing overall returns to Unitholders.

The management team and a majority of the directors and Trustees are located in Western Canada, making post-acquisition management of the acquired businesses more efficient and effective. By being located near the acquired businesses, the Fund will be better able to monitor its investments while allowing managers of acquired businesses easier access to the knowledge, advice and support of the Fund.

### ***Growth Opportunities with Stable Cash Flows***

The Fund seeks to acquire platform businesses that have a history of stable cash flows and that offer strong growth opportunities either through the acquisition or consolidation of other complementary businesses, or through expansion and organic growth.

The Fund will grow its acquired businesses through identifying and implementing operational improvements and continuing their historical growth, both internally and through add-on acquisitions. Management believes that acquiring add-on acquisitions, which are smaller businesses within the same industry as platform businesses, will expand product offerings, leverage economies of scale and enable management to realize the significant savings and growth which it believes will result in more profitable businesses.

The Fund will also pursue growth through industry consolidation. Consolidation can be considered a subset of outsourcing, in which larger industries look for strength in their outsourcing partners, strength not available from smaller independents. Management expects these smaller firms will find it more difficult in the future to compete on a stand-alone basis in an increasingly competitive environment and will need to consolidate to create larger, more efficient businesses able to compete and to service their customers who are also consolidating and seeking more efficient suppliers. In many cases, efficiencies of combining facilities or capabilities enable a business to become stronger, leaner and larger.

### ***Strong Market Share Positions***

Acquisition targets will typically be leaders in their markets with strong and growing market share positions in a well defined market, a long-term or loyal customer base and a dedicated group of employees. Acquiring a market leader will help the Fund pursue additional add-on acquisitions of smaller, independent businesses operating in the same industry as the platform business. Being the dominant player in a market also provides a more stable position for the business which in turn helps to ensure stability of cash flows for distribution to Unitholders.

### ***Mid-Market Capitalization***

The Fund seeks primarily to acquire businesses with trailing EBITDA of between \$3 million and \$10 million. The Fund has chosen to focus on such businesses as they typically embody many of the other facets of the Acquisition Criteria. In particular, mid-market businesses are frequently privately owned, in the early or middle stages of growth while requiring additional capital to continue and/or accelerate the growth opportunities, have

stable historical cash flows, and have strong and committed management teams. Additionally, mid-market businesses are frequently overlooked by larger acquisition funds or private equity groups and thus offer less competition for the Fund in their identification and acquisition, which may result in superior returns to Unitholders.

### ***Strong Committed Management Team***

The Fund's goal is to be partners with and not just owners of its acquired businesses. The Fund's role is not to manage the day-to-day operations of the acquired business, but to offer strategic advice, provide growth capital and to assist in further add-on acquisitions. As such, the Fund will look for targets that have strong, experienced management teams who have in-depth knowledge of their business and industry and who are committed to the continuing growth and development of their business.

### ***Privately Owned***

The Fund will predominantly focus on privately owned businesses that are experiencing succession or transitional issues, or that require additional capital in order to finance their ongoing growth. Management believes that by focusing on these privately owned businesses it can achieve superior returns for Unitholders as there is typically less competition when acquiring private businesses, thus reducing the risk of inflated prices caused by multiple bidders or public auctions. In addition, a "private company discount" can sometimes be applied to the valuation, thus improving the overall return to the Fund.

While the focus will primarily be on privately owned businesses, sometimes the listed trading price of listed securities of public companies and trusts are unjustly penalized by the public markets for a variety of reasons, including short term earnings disappointments and overall depressed market conditions. These firms can be undervalued as compared to their private counterparts and can provide an attractive and accretive acquisition opportunity. Advantageous transactions also arise from acquiring non-core divisions of larger businesses who are focusing on their core competencies. Most businesses today are focusing on their core skills and strategic goals as they manage for greater profitability and growth. This trend has led businesses to divest non-core business lines as well as shed assets such as manufacturing and distribution facilities. This trend will generate opportunities for the Fund as businesses look to increase value by disposing of non-core operations and redeploying resources. Many of these non-core divisions are neglected by senior management and on acquisition can be revitalized by providing existing management with proper incentives and bringing in new team members to increase cash flow and decrease inefficiency.

### **Target Industries**

The Fund will not invest in real estate (other than when it is part of the business operations), technology or start-up ventures. Targeted industries may include, without limitation:

- infrastructure and construction;
- logistics and distribution;
- outsourcing;
- manufacturing;
- financial and other services; and
- businesses operating in markets with the potential for strong demographic growth.

Management believes that these industries offer acquisition opportunities while also offering strong growth potential necessary to produce attractive returns to Unitholders.

### **Operating Philosophy**

The Fund follows a simple operating philosophy with its businesses:

- *Hands-Off Management* – The Fund will not control the day-to-day operations of its acquired businesses, leaving it instead to existing management teams.

- *Strategic Overview* – While day-to-day operations are controlled by the management of the individual businesses, the Fund will oversee all major strategic and capital allocation and expenditure decisions.

### **Benefits to Business Owners**

Management believes that business owners will be attracted to the Fund for any or all of the following reasons:

- *Liquidity and Diversity* – By divesting some or all of their ownership in their business for either cash or equity in the Fund, they are able to monetize some value while diversifying their financial holdings.
- *Maintenance of Business Legacy* – When the Fund acquires a business, it will attempt to retain the management and employees. In many situations, this will also allow the implementation of an effective succession plan for business owners.
- *Lower Cost of Capital* – The Fund's access to the public markets may provide its acquired businesses with a lower cost of capital. The acquired businesses may also have access to banking facilities at the Fund's level which may provide them with better financing rates and additional flexibility.

### **Acquisition Process**

The Fund operates under a defined process that enables the efficient and effective management of the due diligence and acquisition process. This process has five primary steps: (i) screening of a target; (ii) pre-acquisition due diligence; (iii) acquisition due diligence; (iv) closing of the acquisition; and (v) post-closing support and growth.

#### ***Screening of a Target***

The Fund prefers to acquire businesses other than pursuant to an auction process. While it may participate in a limited number of auctions, the Fund will not become involved in the bidding wars that can result. It will instead focus on acquiring businesses through privately negotiated transactions.

Sourcing privately negotiated transactions will come from management, Trustees, directors and network advisors, each of whom have a broad external network, including investment bankers, lawyers, business brokers, accountants, corporate development officers and other private equity investors. They also represent successful, closely held, private businesses.

Management believes owners of these businesses usually need more than simply an exit strategy. They typically have members of their family working in the business and have developed close relationships with many long-term employees. They want to know they are leaving their business in the hands of an ethical and well connected group; not with a large multi-national company where the identity they spent years building can be erased along with the security of employment for the employees of the business. Management further believes that it will be in the unique situation of being able to provide the new base from which many of these privately held businesses can continue to grow.

Potential targets will first be reviewed to ensure they are consistent with the Acquisition Criteria and can be acquired at a reasonable purchase price. The Fund will poll its network to discuss the suitability of potential acquisitions and their fit with the Acquisition Criteria. Significant consideration will be given to synergies and organic growth potential and early accretion to cash available for distribution.

#### ***Pre-Acquisition Due Diligence***

Prior to entering into formal discussions with a target business or their advisors, the Fund will conduct initial due diligence of the business and its industry by reviewing industry research on the firm and its competitors and conferring with the Fund's network on industry fundamentals and related information. For example, when approached with an opportunity to acquire a firm that derives the majority of its revenues from construction, the Fund's network within the construction industry would be contacted to discuss the trends in construction, any projected changes in technology and the overall climate of the industry. In addition, research reports on any public

comparables would be reviewed. The Fund needs to ensure that the target business itself, and the industry it operates in, possesses long-term viability.

### ***Acquisition Due Diligence***

Prior to meeting with ownership and management of a target business, a detailed time and responsibilities schedule is drawn up which includes internal and external professionals and advisors. The Fund would then meet with the ownership and management team, review their financial and operating plan and enter into detailed discussions on their strategic goals. In addition, the professionals on the team, in consultation with the Trustees and directors, will discuss management's expectation for compensation in the future.

The entire due diligence process will determine the structure of the transaction. Key factors influencing structure would include the review of the management team and their operational plan, with particular emphasis on capital expenditure requirements necessary to meet the plan's targets and to remain competitive in the industry as a whole. The process continues with full legal and financial due diligence and culminates in the preparation of an internal acquisition memorandum (the "Internal Acquisition Memorandum"), a comprehensive summary of the target business.

### ***Closing of the Acquisition***

Directors at WesternOne Equity GP will have been kept apprised of the transaction on an ongoing basis throughout the due diligence process. With the completion of the Internal Acquisition Memorandum, the transaction team would then make a presentation to all directors at an investment approval meeting. Only after review and approval by the directors would the transaction team be authorized to proceed with the closing process and the ultimate acquisition of the business.

During the closing period, the Fund, along with the vendors, lawyers, accountants and other intermediaries, work in frequent communication to ensure a successful and timely closing.

### ***Post-Closing Support and Growth***

The Fund will be acquiring businesses to a great extent based on the management in place and does not intend to interfere with their daily operation of the business, but rather act as counsel to them. The Fund will work with management at each of the acquired businesses to assist them in creating value by building revenue and cash flow. This may include diversifying revenue sources and/or geographic focus within Western Canada, acquiring add-on businesses and evaluating operations to determine areas for cost reductions and efficiency improvements in working capital and fixed assets. The Fund will work with its platform management teams to ensure that suitable capital is readily available for profitable investment in their businesses, for both organic growth and add-on acquisitions. The Fund will play a leading role in instigating, reviewing and assisting in acquisitions when pursuing add-on and consolidation strategies. In addition, all of its businesses will have access to the significant knowledge base and relationships of the Fund's other platform businesses and its Trustees, directors and network advisors.

To ensure an alignment of interest with its senior management team at each business, the Fund may, from time to time, provide them with equity ownership through the WesternOne Equity Option Plan, as well as incentives based on the achievement of financial targets within their individual businesses. These two methods of compensation, in addition to competitive base salaries, will provide management teams with an incentive to see the Fund succeed, while still receiving the bulk of their compensation as a direct result of their own performance in their business. The compensation committee of the board of directors will oversee and approve all incentive based compensation programs.

### **Trustees, Directors, Management and Network Advisors**

The Fund's Trustees, directors and management team have a breadth of experience in corporate finance, private equity and asset management. The team is well connected in the Western Canadian market with ties to business owners in a variety of sectors. See "Trustees, Directors and Management".

The Fund intends to establish a team of network advisors, who will assist with identifying and reviewing potential business acquisitions. The advisors will have experience across a broad range of industries and markets. The Fund plans to consult with the advisors on an individual basis to draw on their expertise and knowledge base, and also to identify additional niche industry experts and resources that may be useful to the Fund. The advisors will neither be officers nor directors and will not have any management or fiduciary obligations to the Fund. They will not advise the Fund whether to proceed with any specific transactions.

## **OUR BUSINESS**

### **Acquisition of Production Equipment**

On August 15, 2006, WEQ Production Equipment LP purchased Production Equipment pursuant to the Acquisition Agreement. The Partners, among others have made customary representations and warranties under the Acquisition Agreement including with respect to the status of assets and business operations, financial statements, insurance coverage, tax matters, employee matters, litigation and claims, contracts and commitments, environmental and other matters. The Acquisition Agreement also required each of the Partners, among others, to enter into confidentiality, non-solicitation and non-competition agreements with WesternOne Equity, in which they agreed not to be involved in, or interested in, any business that competes with Production Equipment for the period of the agreements.

### **Overview of Production Equipment**

Production Equipment specializes in renting, selling and servicing quality high reach and material handling equipment and providing logistical support to its customers in British Columbia. It is one of the largest operators engaged in this segment of the equipment market in British Columbia. Management estimates there are currently approximately 2,000 pieces of high reach and material handling equipment available for rent in British Columbia, most of which presently serve the contractor/construction industry, film industry and service and maintenance industries, in addition to government agencies and special events. Management also estimates that Production Equipment has a market share of approximately 25% in the segments in which it currently operates as a result of developing a strong reputation for its quality equipment, on-time deliveries and customer-first orientation.

Production Equipment represents all major North American manufacturers of high reach and material handling equipment for rental and sales purposes, owns more than 560 various rental machines, services a broad spectrum of customers, and possesses four principal sources of revenue from those customers (see below).

### ***Suppliers***

Production Equipment represents all major North American high reach and material handling equipment manufacturers for rental and sales purposes, including Genie Industries, JLG Industries Inc., Skyjack Inc. and Snorkel International. See "Production Equipment's Operations – Suppliers".

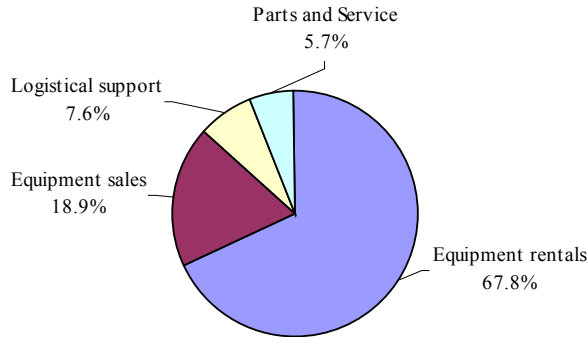
### ***Customers***

High reach and material handling equipment services a broad spectrum of industries. At any point in time, Production Equipment has a diverse base of customers in the contractor/construction industry, film industry and service and maintenance industries, in addition to government agencies and special events co-ordinators, with no one customer representing a significant percentage of revenue. This base has grown to over 1,600 customers due to inventory depth and logistical support not available elsewhere.

**Sources of Revenue**

Production Equipment currently has four principal sources of revenue from its customers: (i) equipment rentals; (ii) equipment sales; (iii) logistical support; and (iv) parts and service. The following chart illustrates the revenue contribution of each source for the year ended December 31, 2006:

Revenue by Source for the Year Ending December 31, 2006



**Production Equipment’s Strengths**

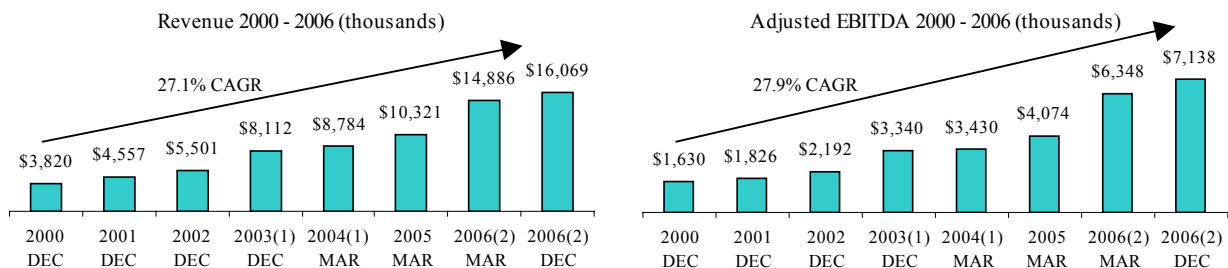
Production Equipment’s principal corporate strengths, which management believes will enable it to sustain and enhance its market power and generate continued growth, include the following:

**Superior Product Offerings**

Production Equipment represents all major North American manufacturers of high reach and material handling equipment. It offers its customers a broad range of equipment for rent and sale, as well as a variety of associated services. Management’s experience in the equipment rental and sales industries, as well as its knowledge and understanding of its customers’ operations and equipment requirements, has enabled Production Equipment to align its products and services with the specific and evolving needs of its customers. Production Equipment supplies a more diverse selection of high reach and material handling equipment than its competition. In addition, during the 12 months ended December 31, 2006, Production Equipment purchased \$3.0 million of equipment to further advance the depth and breadth of its equipment fleet. The assembly of an equipment fleet equivalent to that of Production Equipment’s poses a significant barrier to entry to new competitors.

**Strong Financial Growth**

Production Equipment’s revenues for the year ended December 31, 2006 were \$16.1 million. Its revenues and Adjusted EBITDA have increased by 421% and 438%, respectively, since December 31, 2000 at a compound annual growth rate (“CAGR”) of 27.1% and 27.9%, respectively. The following charts illustrate Production Equipment’s growth in revenue and Adjusted EBITDA for the periods indicated:



(1) Production Equipment changed its fiscal year-end from December to March in 2004.  
 (2) WEQ Production Equipment LP's fiscal year end is December 31.

### ***Unique Approach to Customer Service***

Recognizing the importance of customer relationships to the continued success in its market segments, Production Equipment has a customer-first approach to business and strives to ensure that each of its customers enjoys excellent service every time they rent or purchase equipment. Production Equipment offers on-site service to its customers' locations, 24 hours a day, seven days a week. It is also able to meet the precise timing for the delivery of equipment that some customers require, especially in the film industry.

### ***Diverse, Loyal and Growing Customer Base***

Production Equipment has a broad base of active customers and long standing relationships in the contractor/construction industry, film industry, service and maintenance industries, and with government agencies and special events co-ordinators. These relationships have resulted in a diverse customer base, which exceeds 1,600. Management believes that this diversity reduces its exposure to any one group of customers and industry specific cycles. Management believes that the knowledge and experience of Production Equipment's sales team and their longstanding customer relationships enhance customer loyalty and drive recurring sales, which management estimates currently represents at least 80% of its business. These customers value the high level of service and logistical capabilities Production Equipment offers, which results in ongoing referrals of new customers it receives from the existing customer base.

### ***High Market Share***

Production Equipment is a leading high reach and material handling rental and sales business in British Columbia. Management believes that it has an approximate 25% share in the markets in which it operates. Since 1998, Production Equipment has developed significant brand recognition and a reputation for offering a broad range of well-maintained equipment and providing excellent logistical support and service. The depth of its equipment fleet allows Production Equipment to offer a more complete solution to its customers' equipment and logistical support needs.

### ***Strong, Experienced and Incentivized Management Team***

Production Equipment's senior managers have a combined 90 years of experience with equipment sales, rental and service. Management believes they have the most experienced high reach and material handling equipment management team in the markets in which Production Equipment operates. The relationships with suppliers that management has fostered and developed over the course of their careers offers a significant competitive advantage that cannot readily be duplicated.

Production Equipment's senior management is compensated, to a significant extent, on the basis of the financial performance of the business. The compensation of sales personnel is also, to a significant extent, on the basis of the financial performance of the business.

### ***Production Equipment's Growth Strategy***

Combined with Production Equipment's strong market position and the favourable economic outlook for Western Canada, management believes Production Equipment can pursue various significant growth opportunities in both the near and longer term, including the following:

#### ***Leverage Existing Infrastructure***

From its inception in 1998, Production Equipment has invested a significant amount of capital and management effort to position itself to successfully execute its business model of providing rental, sales and logistical support to customers in the high reach and material handling equipment markets. Among other initiatives, Production Equipment has implemented an efficient logistics model, developed a large and loyal customer base and instilled a customer-first approach to its employees and business operations. It 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. For example, during seasonal slowdowns in the construction industry, Production Equipment looks to rent its equipment to alternative users for special events and holiday applications.

### ***Expand Product and Service Offerings***

Production Equipment intends to continue to expand its product and service offerings within the large industrial equipment market to better serve its customers and to maximize profitable revenues per customer. The industrial equipment rental market alone for Vancouver and the surrounding areas is estimated by management at approximately \$180 million in revenue in 2006.

Production Equipment leverages its relationships in the industry and continues to expand its equipment line. For example, as a result of its relationships in the film industry, Production Equipment was able to purchase the assets of a utility vehicle supplier enabling it to diversify into a new equipment segment in which it was not previously active.

Production Equipment already provides outside servicing to existing customers as well as third party equipment owners. One of its major goals is to retain each equipment purchaser as a long-term customer of the parts and service department. A substantial number of Production Equipment's customers return for warranty work on new equipment paid for by the manufacturers and for other parts and services after the manufacturer's warranty expires. This relationship allows Production Equipment to offer equipment parts and service for all of a customer's equipment, new or used, and whether or not the equipment was originally acquired from Production Equipment. Parts and service activities are an integral part of Production Equipment's overall approach to customer service.

Production Equipment management believes that each sale of new or used equipment provides it with several selling opportunities including, other equipment, lease financing and extended warranty products. Management intends to increase its focus on these areas, some of which will be profit centres and others of which may simply enhance customer service.

### ***Increase Equipment Sales***

Production Equipment can continue to grow organically by hiring additional sales people to increase sales of its equipment, parts and service offerings. Management expects that with additional marketing and relationship development, sales across all business lines could be increased.

### ***Geographically Expand Operations***

As Production Equipment identifies other attractive markets that it does not currently service, to the extent that there are no suitable acquisition targets available, it will consider opening new branches or developing sub-dealer relationships as a means of expanding into these markets. Before entering into a new market, Production Equipment considers numerous factors, including demographic characteristics, business growth projections, the overall economic prospects of the market and the existing competitive landscape within the market.

Management believes geographic expansion for Production Equipment's business is most likely to next occur in northern and interior British Columbia, Vancouver Island and Alberta.

### ***Accretive Acquisitions***

Production Equipment intends to grow through a disciplined acquisition program. Management believes there are a significant number of available acquisition opportunities within Western Canada's fragmented equipment market. In particular, Production Equipment will seek to acquire businesses that will supplement existing or anticipated branches or which have complimentary product and service offerings.

## **Key Trends in Equipment Usage**

High reach and material handling equipment is increasingly being used by customers who seek greater productivity and recognize the increased societal and governmental expectations for safer workplaces.

### ***Increased Emphasis on Productivity***

High reach equipment continues to gain support in the marketplace as a preferred alternative to traditional scaffolding, ladders and suspended stages largely because:

- it can reach areas that scaffolding, ladders and suspended stages cannot as they must be vertically erected;
- it has greater versatility of motion and height and ease of manoeuvrability, compared to scaffolding which is stationary;
- it is more efficient with the length of set-up time being significantly reduced from scaffolding which is time-consuming and labour intensive;
- it results in greater productivity as workers do not have to climb up and down frequently to access the work location; and
- it is typically safer and cheaper to insure.

Material handling equipment is gaining more support in the marketplace because of its versatility. For example:

- it can replace the need for crane rentals in the unloading and placement of materials, saving time and cost;
- it reduces manual transportation of materials around building and other sites;
- it has the ability to lift and place material and pre-fabricated components in the exact spot required; and
- it can be fitted with multi-tool attachments such as forks, material handling buckets, concrete buckets, winches and extended carriages to increase reach, which reduces the amount of separate equipment required.

### ***Growing Need for Logistical Support***

Customers using high reach and material handling equipment increasingly require the provision of logistical support to co-ordinate with sub-contractors and work within strict project timelines. For example:

- in the film industry there are strict municipal by-laws regarding production schedules;
- in the special events industry there are defined windows of time to mobilize and demobilize equipment and displays from facilities; and
- in the construction industry there are requirements to co-ordinate multiple trades to prevent significant disruptions in building schedules, which would result in cost over-runs.

### ***Increased Emphasis on Safety***

Workers' compensation legislative requirements for fall protection have become more stringent as to the height that an employee can work without being adequately secured or without utilizing suitable high reach equipment. These requirements, coupled with an increasing societal expectation for better worker safety, have resulted in greater demand for high reach equipment to replace ladders and suspended stages.

## Production Equipment's Operations

### *Suppliers*

Production Equipment represents all major North American high reach and material handling equipment manufacturers for rental and sales purposes, including:

<b>Manufacturer</b>	<b>Description</b>
Genie Industries genielift.com	With offices worldwide, Genie Industries manufactures material lifts, aerial work platforms, trailer-mounted booms and light towers, scissor lifts and self-propelled telescopic and articulating booms. Genie Industries is a division of TEREX Corporation (NYSE: TEX).
JLG Industries Inc. jlg.com	JLG, a wholly-owned subsidiary of Oshkosh Truck Corporation (NYSE:OSK), is a leading producer of access equipment (aerial work platforms and telehandlers) and highway-speed telescopic hydraulic excavators. JLG brands purchased by Production Equipment include JLG and Gradall. Production Equipment is JLG Industries Inc.'s recommended supplier of extendable reach forklifts in British Columbia. Production Equipment is JLG Industries Inc.'s exclusive distributor in British Columbia for JLG/Gradall telescoping handlers, which enables it to offer JLG/Gradall financing and provide authorized warranty service.
Skyjack Inc. skyjackinc.com	Skyjack, a wholly-owned subsidiary of Linamar Corp (TSX: LNR), is located in Guelph, Ontario. It is a leader in the scissor lift work platform sector of the high reach equipment lift industry.
Snorkel International snorkelusa.com	Snorkel is a world-wide supplier of high quality industrial maintenance and construction high reach equipment including self-propelled booms, articulating booms and telescoping booms, aerial lifts, and self-propelled-scissor-lift.

### *Customers*

Production Equipment employs a sales team focused on establishing and maintaining customer relationships. Customers are provided with an information package which includes rental, sales and freight rates, and brochures with product descriptions and specifications. Production Equipment also maintains a website to showcase its products and services (productionequipment.ca). Management believes its relationships with customers are the key driver of sales. Production Equipment has also established a high profile in the community by sponsoring certain charities and events through donations of equipment and staff time.

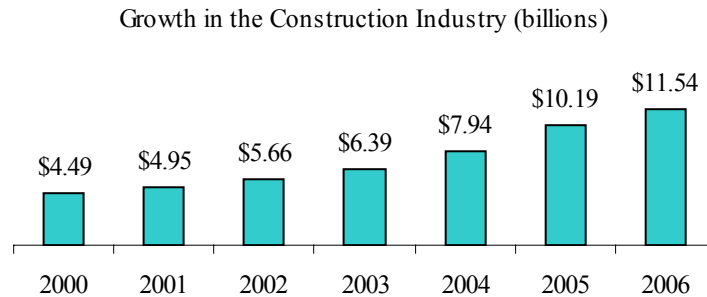
Production Equipment has more than 560 rental machines available to its customers, including boom lifts, scissor lifts, straight mast forklifts, telescoping fork lifts (handlers) and personnel and material lifts. It operates service and delivery trucks to ensure on-time delivery and strong customer service. It employs a service staff that is factory-trained with specialized experience servicing high reach and material handling equipment, which is on call 24 hours a day, seven days a week.

High reach and material handling equipment services a broad spectrum of industries. At any point in time Production Equipment has a diverse base of customers in the contractor/construction industry, film industry and service and maintenance industries, in addition to government agencies and special events co-ordinators, with no one customer representing a significant percentage of revenue. This base has grown to over 1,600 customers due to inventory depth and logistical support not available elsewhere.

### *Contractor/Construction Industry*

Low interest rates and robust world commodity markets have contributed to a buoyant British Columbia economy in 2006.

The non-residential construction sector has benefited from strong economic conditions in British Columbia. According to the Business Council of British Columbia, the total dollar amount of building permits has increased by approximately 157% from 2000 to 2006, making British Columbia one of the fastest growing construction markets in the country.



Source: Statistics Canada 2006

Production Equipment has strong relationships with the majority of the large contracting firms in Vancouver and surrounding areas and has the reputation as a premier provider of high reach and material handling equipment and service for the industry.

The contractor/construction industry uses the equipment for lifting workers and materials.

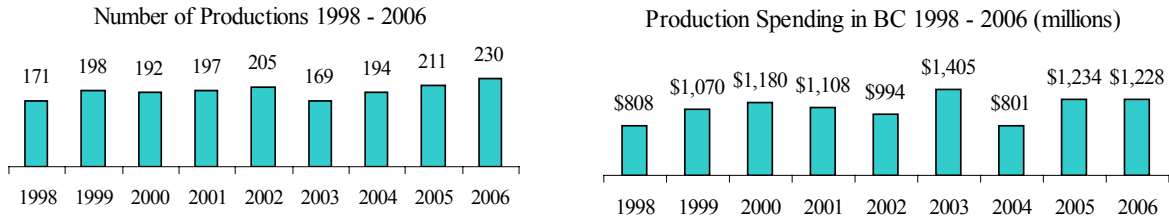
Production Equipment's contractor customers include general contractors, fire protection companies, electrical contractors, glass installers, steel erectors, dry-wallers, painters and demolition companies. These customers are involved in elevated rail construction, waterfront construction, shipbuilding and a host of other construction and industrial related projects.

### *Film Industry*

Vancouver has the third largest film and television production centre in North America, due mainly to the following factors:

- an experienced work force and world-class film crews;
- state-of-the-art facilities and services;
- a mild climate;
- a favourable regulatory environment;
- diverse accessible locations and scenery including urban, rural, mountain, forest and ocean settings;
- close proximity to, and same time zone as, Los Angeles; and
- competitive costs, financing and government tax credits.

As the following charts indicate, both the number of productions and total production spending have increased in British Columbia since 1998. Management expects the additional capacity from new facilities currently under construction will allow for further increases in production spending.



SOURCE: British Columbia Film Commission Production Statistics 2006

Film industry customers typically rent equipment for shorter rental periods than other customers and demand a high level of logistical support. Production Equipment has developed an excellent reputation for customer service among industry participants.

The film industry rents high reach and material handling equipment for set construction and aerial lighting and sound applications.

The decisions relating to the rental of high reach equipment for the film industry are typically made by the transport and construction co-ordinators and production managers. Production Equipment has strong relationships with this network of individuals in the industry, including production staff and special effects co-ordinators. Production Equipment also has a strong relationship with the trade unions associated with the film industry.

Management estimates that Production Equipment continues to retain approximately a 90% market share of the high reach and material handling equipment rental market in the film industry within Vancouver and the surrounding areas. Production Equipment's management has achieved this market share through strong relationships forged with industry participants since film production became a significant sector in British Columbia over 20 years ago.

Production Equipment's customers include most of the major Vancouver film studios, including Mammoth Studios (Burnaby), North Shore Studios/Lions Gate Entertainment (North Vancouver), the Bridge Studios (Burnaby), Eagle Creek Studios (Burnaby), Canadian Motion Picture Park (Burnaby), MJA Studios (Burnaby) and First Light Studios (Burnaby).

Approximately 75% of equipment rented to the film industry is used outside of a studio for location work and therefore requires extensive use of Production Equipment's logistical support capabilities.

#### *Service and Maintenance Industries, Government and Special Events*

The equipment services and building maintenance industries are increasingly utilizing high reach and material handling equipment and logistical support for their contracts at British Columbia ports, air terminals, ferries and marine transportation, commercial buildings, warehouses and shopping centres.

Government agencies are also a growing market segment. School boards, municipalities, health authorities, regional districts and crown corporations require high reach and material handling equipment for ongoing and annual maintenance.

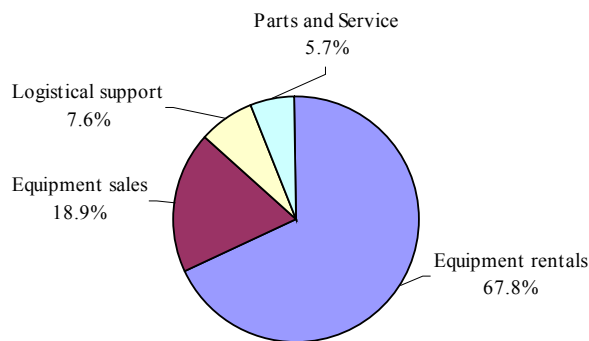
The special events market includes trade and convention centre, corporate, community, sporting and holiday events. Uses of high reach and material handling equipment include the hanging of banners, festive lighting and corporate signage.

Management has fostered strong relationships with building service and equipment maintenance companies over many years. Strong relationships have also been formed with the different municipalities and school districts. With respect to special events, Production Equipment works with large event management companies based in Vancouver and the surrounding areas that are responsible for staging major trade shows and special events for corporate organizations. These niche markets require a significant level of logistical support from Production Equipment with respect to their use of high reach and material handling equipment.

### ***Sources of Revenue***

Production Equipment currently has four principal sources of revenue from its customers: (i) equipment rentals; (ii) equipment sales; (iii) logistical support; and (iv) parts and service. The following chart illustrates the contribution of each source of revenue for the year ended December 31, 2006.

Revenue by Source for the Year Ending December 31, 2006



### ***Equipment Rentals***

Production Equipment rents its equipment to its customers on a daily, weekly and monthly basis, depending on the nature of the customer and the use of the equipment. Rental rates vary accordingly with rental periods but are generally standard across the different industries served.

Rental revenue has increased each year since Production Equipment was founded. Rental revenue of \$10.9 million accounted for 67.8% of Production Equipment's total revenue for the year ended December 31, 2006.

Production Equipment's customers depend on being supplied equipment that is well-serviced and reliable. Its rental fleet comprises over 560 pieces of high reach and material handling equipment which are powered by diesel, gas or electrical sources. The rental fleet includes high reach equipment that can reach a work height of up to 116 feet and material handling equipment that has a lift capacity of up to 10,000 pounds. Production Equipment's rental fleet currently includes the following equipment lines:

- straight mast boom lifts;
- knuckle boom lifts;
- scissor lifts;
- straight mast forklifts;
- telescoping forklifts;
- personnel and material lifts; and
- utility vehicles and trailers.

Production Equipment purchased an additional \$3.0 million in equipment for its rental fleet during the year ended December 31, 2006. Net growth capital expenditures currently approved for management under the 2007 budget are \$1.7 million in fiscal 2007, the majority of which will be purchased in the first half of the year.

Historically, management estimates that Production Equipment’s equipment utilization rate has averaged approximately 65%-85%, depending on the time of year.

A loss damage waiver insurance product was introduced in February 2007 to provide both existing and future customers with a convenient and cost effective way to protect their rental equipment, eliminating the need to provide adequate evidence of insurance in advance of renting equipment. Production Equipment acts only as the selling agent, and has no risk of loss, for this product.

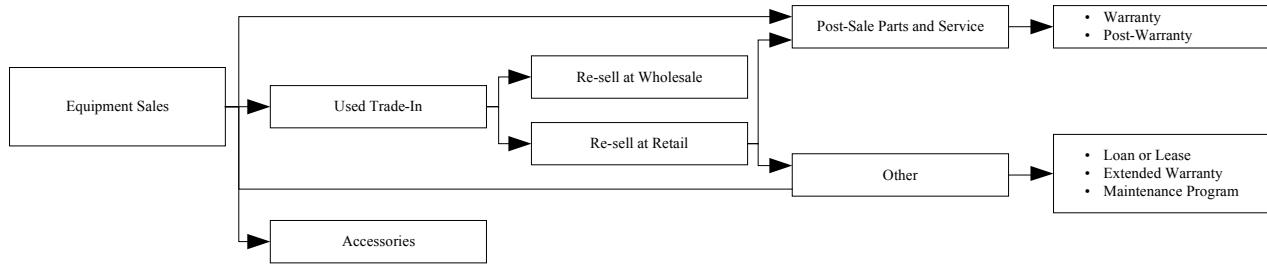
*Equipment Sales*

Production Equipment sells new and used high reach and material handling equipment. It sells its used equipment to manage the age, composition and size of its rental fleet. Beginning in 2003, Production Equipment increased its focus on the sale of new equipment in order to improve revenue diversification, enhance existing customer relationships and develop more service business.

Equipment sales are a significant part of Production Equipment’s business, accounting for 18.9% of its total revenue for the year ended December 31, 2006. Equipment sales revenue increased from \$0.3 million for the year ended December 31, 2002 to \$3.0 million for the year ended December 31, 2006.

While Production Equipment will sell any of the equipment lines that it rents, the majority of sales are extendable reach forklifts.

Sales of new and used equipment can lead to several selling opportunities for Production Equipment. For example, equipment sales can lead to cross-selling of other equipment, rental of equipment while a customer’s equipment is being serviced, increased used equipment inventory through trade-ins and a source of recurring parts and service and repeat customers. The following chart illustrates new revenue sources that can be generated from equipment sales:



As is standard in the industry, equipment warranties are provided on all new equipment sales with the manufacturer being responsible for all warranty commitments.

*Logistical Support*

Production Equipment has a logistical support team which is responsible for taking reservations, dispatching drivers for equipment delivery and pick-up, tracking the location of all equipment and handling any customer requests. It has a fleet of five tractor trailers and two seven-ton trucks dedicated to equipment transportation, and employs eight drivers for drop-off and pick-up of equipment. The drivers are trained on the equipment and are knowledgeable of customer requirements.

Production Equipment considers customer service to be the most important aspect of its business and on-time equipment deliveries are a key aspect of high-quality customer service. It charges a delivery fee for the pick-up and drop-off of rental and sales equipment, depending on where the equipment is required to be delivered.

Film industry customers often have precise timing requirements in respect of the delivery of equipment, with some delivery windows that are only a few minutes in duration, to ensure maximum efficiency and compliance

with municipal by-laws around filming schedules. Production Equipment has a reputation for consistently delivering on-time service to the film industry.

Logistical support revenue of \$1.2 million accounted for 7.6% of Production Equipment's total revenue for the year ended December 31, 2006.

#### *Parts and Service*

The parts and service aspect of the business is highly profitable for Production Equipment and management expects it to continue to grow as a result of increased equipment sales in recent years. Its service customers are generally involved in the contractor/construction business.

Production Equipment's mechanics are trained and certified on high reach and material handling equipment with training tailored specifically to the products it rents and sells. It also employs four road mechanics and four service vans to exclusively provide on-call roadside service at any time to its customers' equipment and to its own off-site, on duty equipment fleet.

Production Equipment provides equipment training and certification courses to its customers as certification is often necessary to operate equipment.

Parts and service revenue of \$0.9 million accounted for 5.7% of Production Equipment's total revenue for the year ended December 31, 2006.

### **Management and Employees**

#### *Management*

Production Equipment's senior management team has been instrumental in its growth.

Ron McAleer, Production Equipment's Vice President of Operations, was hired in March 2004. He has over 21 years of management experience in the equipment rental business with both large and medium size companies, having managed both single and multi-location branch operations. Mr. McAleer handles operational decisions, makes equipment purchases, and has an excellent relationship with the other managers. Mr. McAleer was an area manager for United Rentals Inc. from 2000 to 2004, with overall responsibility for branches in Vancouver and surrounding areas, including responsibility for revenue, growth and profitability.

Steve Taylor, Production Equipment's Vice President of Sales, has been with Production Equipment for seven years and has over 26 years experience in the equipment rental business. Prior to joining Production Equipment, Mr. Taylor was with Skyreach Inc. from 1994 to 1999 and was the Vancouver branch manager from 1998 to 1999. From 1988 to 1992, Mr. Taylor was responsible for the JLG/Gradall line of telescoping forklifts in British Columbia. Mr. Taylor is very involved with the film industry in British Columbia and sits on a number of boards and committees which allows him to remain current with industry developments.

Richard Graf, Production Equipment's Service Manager, has been with Production Equipment since 1999, and has over 16 years experience in the equipment business as a mechanic and a manager. Mr. Graf is responsible for Production Equipment's mechanical and service personnel.

Robert McDonald, Production Equipment's Logistics Manager, has been with Production Equipment since 2000. Mr. McDonald has over 21 years of experience in the equipment industry and prior to joining Production Equipment he was a branch manager for United Rentals Inc. Mr. McDonald is responsible for ensuring timely delivery, pick-up and other logistical support to customers.

## **Employees**

Production Equipment currently employs 37 full-time employees, excluding senior management. The number of employees by function is as follows:

Sales .....	6
Parts and Service .....	15
Logistical Support .....	13
Office/Administration .....	3

Management believes Production Equipment enjoys excellent employee relations and has experienced very little turnover.

Production Equipment provides group insurance benefits to all employees and a defined contribution pension plan on behalf of its unionized employees through contributions to the Operating Engineers Pension Plan (based on a rate per hour worked by unionized employees). It does not provide a pension plan for its salaried employees. 23 employees are members of the International Union of Operating Engineers. The last collective agreement came into effect in July 2004 and expires in June 2007. Production Equipment has a good relationship with its unionized employees and has never experienced a strike, lock-out or other labour disturbance.

## **Facilities**

Production Equipment's central facility is located in Port Coquitlam, British Columbia. It consists of a two acre secured site for equipment storage, including a concrete wash base with environmental protection features. The site has a 12,000 square foot covered services area with eight service bays. In addition, there is 3,600 square feet of administration offices, including a training area. The entire facility is fully secured with an electric perimeter fence and an alarm system that requires card access. The business has been located on the same site since it was founded in 1998, and the current lease for the site expires on November 30, 2011. The landlord has verbally indicated a desire to retain Production Equipment as a tenant beyond the expiration of the current lease.

## **Information Systems**

On January 29, 2007 Production Equipment installed new rental management software and infrastructure. This software is expected to be operational in April 2007 and its overall cost, including hardware additions and training, is expected to be approximately \$80,000. As part of the Offering, \$125,000 of the transaction proceeds was allocated towards the upgrade of Production Equipment's current information systems. This allocated amount included a contingency provision of \$25,000.

Production Equipment utilizes a networked computer system with a centralized server for its financial and human resource functions.

## **Competition**

The Western Canadian equipment market is highly fragmented, consisting of a small number of multi-location national operators and a large number of relatively small businesses serving discreet local markets. In Vancouver and the surrounding areas, Production Equipment's largest competitors are comprised of diversified companies based in North America, including United Rentals Inc., Reliable Rentals Inc., CAT the Rental Store (a division of Finning International Inc.), and Hertz Equipment Rentals Corp. As the majority of their business involves renting general equipment to industrial and construction contractors, these companies have significantly different operating footprints than Production Equipment. Production Equipment also competes with numerous privately-owned equipment companies, most of which are smaller and less diversified than Production Equipment.

## **Governmental Regulations**

Production Equipment's operations are subject to federal, provincial and local laws governing matters such as environmental and workers' health and safety matters associated with the storage, distribution and handling of products for sale and the disposal of materials and by-products of the servicing of repair equipment, the operation of its facilities (including accessibility for disabled people), as well as wages, consumer protection, consumer finance, protection of privacy, advertising, competition and insurance and vehicle licensing. Production Equipment's management believes it is in material compliance with all such laws.

## **Environmental Matters**

Production Equipment is subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination. Production Equipment's business involves the generation, use, handling and disposal of hazardous or toxic substances and wastes, particularly with its parts and service centre operations. Pursuant to these laws, provincial environmental agencies have established approved methods for handling, storage, treatment, transportation and disposal of regulated substances and wastes with which Production Equipment must comply.

Production Equipment's business also involves the use of above ground and underground storage tanks. Under applicable laws and regulations, Production Equipment is responsible for the use, maintenance and abandonment of its regulated storage tanks and for remediation of subsurface soils and groundwater impacted by releases from existing or abandoned storage tanks. In addition to these regulated tanks, Production Equipment owns, operates or has otherwise closed in-place other underground and above ground devices or containers that may not be classified as regulated, which could or may have released stored materials into the environment, thereby potentially obligating Production Equipment to clean up any contaminated soils or groundwater resulting from such releases.

Production Equipment is also subject to laws and regulations governing remediation of contamination at or from its facilities or to which it sends hazardous or toxic substances or wastes for treatment, recycling or disposal.

Production Equipment obtained a Phase 1 environmental assessment from an independent environmental consultant for its Port Coquitlam facility on June 19, 2006. Nothing was identified that is likely to give rise to potential subsurface impacts in connection with the facility. No further work was recommended.

Environmental laws and regulations are very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. From time to time Production Equipment experiences incidents and encounters conditions that will not be in compliance with environmental laws and regulations. However it has not been subject to any material environmental liabilities in the past and it does not anticipate that any material environmental liabilities will be incurred in the future. Nevertheless, environmental laws and regulations and their interpretation and enforcement are changed frequently and management believes that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. There can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by Production Equipment, or that such expenditures would not be material. See "Risk Factors – Risks Related to Production Equipment – Environmental Regulation and Health and Safety Matters".

## **Intellectual Property and Proprietary Rights**

Production Equipment's intellectual property was transferred to WEQ Production Equipment LP at Closing. A request for the transfer of the domain name productionequipment.ca is being processed by Production Equipment's web name registrar.

## Capital Expenditures

Capital expenditures associated with Production Equipment can be categorised into three types:

- *Rental Fleet Maintenance* – Rental fleet maintenance capital expenditures refer to the ongoing replacement of equipment in the rental fleet, which is required to maintain the revenue generating ability of the rental assets. Maintaining an up-to-date fleet enables Production Equipment to meet customer demand for high-quality equipment that is in good repair. Production Equipment routinely sells used equipment as part of the active management of the age, composition and size of its rental fleet. Proceeds from the sale of used equipment are used to purchase new equipment, constituting an important component of the Production Equipments’ rental fleet maintenance capital expenditure program.
- *Infrastructure Maintenance* – Infrastructure maintenance capital expenditures represent the investment required to maintain Production Equipment’s non-rental assets, and include office equipment, office furniture, shop equipment, tractors and trailers, leasehold improvements, computers and software.
- *Growth* – Growth capital expenditures refer to the investment in the rental fleet that is targeted to contribute to the future growth in rental revenue. Management evaluates growth capital expenditures on a regular basis and considers acquiring additional equipment based on the estimated accretive nature of such purchases.

The table below sets out the historical amounts and types of capital expenditures for the past three 12 month periods:

	<u>12 Months Ended</u> <u>December 31, 2006</u>	<u>12 Months Ended March 31,</u>		
		<u>2006</u>	<u>2005</u>	<u>2004</u>
		(in thousands of dollars)		
Rental fleet maintenance capital expenditures <sup>(1)</sup> .....	289	140	168	78
Infrastructure maintenance capital expenditures .....	-	102	51	14
Maintenance capital expenditures <sup>(2)</sup> .....	289	242	219	92
Growth capital expenditures <sup>(3)</sup> .....	3,019	3,156	3,295	3,054
Total capital expenditures (maintenance and growth).....	3,308	3,398	3,514	3,146

(1) Includes replacement capital expenditures related to office equipment, office furniture, shop equipment, tractors and trailers, leasehold improvements and computer and software.

(2) “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. Maintenance capital expenditures were not tracked by the predecessor company. For comparative purposes within the 12 months ended December 31, 2006, the gain on sale of used equipment plus the cost of additions to operating assets is used for Production Equipment. For the three 12 month periods ended March 31, 2004, 2005 and 2006, rental fleet maintenance capital expenditures were determined by subtracting the net book value of used equipment sold from the estimated gross rental fleet maintenance capital expenditures.

(3) Includes infrastructure capital expenditures associated with growth.

Based on Production Equipment’s fleet maintenance practices, older equipment is generally sold and replaced with newer equipment. The sale of the older equipment generates revenue that offsets some of the cost of its replacement.

Because Production Equipment has a dedicated service facility, it is able to maintain all of its equipment in good working condition, and the high level of maintenance performed by its dedicated service facility results in the recovery on the sale of the older equipment being generally comparable to the cost of replacement. An added benefit of having its own dedicated service facility is that Production Equipment is able to purchase used equipment and refurbish it to high quality standards.

Due to the integration of Production Equipment's service facility with its rental operations, the cost of maintaining its rental fleet (excluding maintenance via asset purchases and sales) is expensed as incurred, and is therefore reflected in Production Equipment's income and EBITDA. The remainder of Production Equipment's expenditures, shown as "maintenance capital expenditures" in the preceding table, are capitalized and amortized in accordance with its accounting policies.

The average maintenance capital expenditures for the three most recent 12 month periods presented above is \$0.25 million (12 months ended December 31, 2006, and 12 months ended March 31, 2006 and 2005). The recovery experienced on the sales of used equipment, combined with Production Equipment's dedicated in-house service facility, as explained above, have enabled the business to minimise maintenance capital expenditures to this low historic average.

### FINANCING

A single Canadian chartered bank (the "Bank") has made an operating loan and capital loans available to WEQ Production Equipment LP, which is indirectly owned by the Fund.

The Bank has provided the operating loan on an interest only basis, which is payable upon demand. The operating loan is at the Bank's prime rate plus 1.00% per annum and, in addition to covenant requirements, is secured by 50% of inventory up to a limit of \$0.75 million and 75% of acceptable accounts receivable, minus priority claims. The covenant requirements include a minimum level of tangible net worth of \$3.25 million, a minimum debt service coverage ratio of 1.25 to 1.0, a minimum current ratio of 1.2 to 1.0, a maximum debt to tangible net worth of 3.0 to 1.0, and a restriction on distributions to Unitholders that would cause any breach of the covenants without the prior written consent of the Bank.

The capital loans are repayable on demand and unless and until demanded in monthly instalments, with interest at the Bank's prime rate plus 0.65% per annum or 1.60% above banker's acceptance rates, secured by a general security agreement and a personal guarantee. The lending requirements include definitions of the eligibility for assets subject to financing, and covenants specifying a minimum level of tangible net worth of \$3.25 million, a minimum debt service coverage ratio of 1.25 to 1.0, a minimum current ratio of 1.2 to 1.0, a maximum debt to tangible net worth of 3.0 to 1.0, and a restriction on distributions to Unitholders that would cause any breach of the covenants without the prior written consent of the Bank.

Interest only is payable on the above capital loans for the first three monthly instalments following Closing.

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

2007 .....	\$944,448
2008 .....	944,448
2009 .....	944,448
2010 .....	944,448
2011 .....	2,649,325

### Floor Plan Financing

Commencing January 2007, Production Equipment began financing certain items of its new equipment for resale under a wholesale line of credit, also known as floor plan financing. This new floor plan financing agreement

provides a revolving line of credit for the financing of new units of equipment acquired to a maximum of \$1 million, at the lender's prime rate plus 1.00% per annum.

Production Equipment's floor plan financing agreement provides financing by way of advances of up to 100% of the manufacturer's net invoice on the purchase of new equipment. Advances are necessary because equipment generally requires payment in advance of being shipped. The floor plan financing is available from the date of purchase until the time that the equipment is sold, up to 12 months, with a provision for extension at the lender's prime rate plus 4.00% per annum. The floor plan financing provides for the financing of GST for up to 90 days, which is also available through advances. The lender also assists Production Equipment in the sale of new equipment by providing certain customers with financing on new equipment purchases at competitive rates.

The floor plan financing is secured by a security interest over the financed assets. At December 31, 2006, none of Production Equipment's equipment for resale was financed under the floor plan financing agreement. The lending requirements include a 60-day audit cycle and review of monthly and annual financial information.

### CAPITAL STRUCTURE

The following table sets out the consolidated capitalization of the Fund as at December 31, 2006:

<b>Security</b>	<b>Authorized</b>	<b>Issued</b>	<b>As at December 31, 2006 (\$000s)</b>
Units	Unlimited	6,410,050	16,812
Special Voting Units	Unlimited	-	-
Convertible Debentures	Unlimited	100,000	8,964

#### Units

The Fund is authorized to issue an unlimited number of trust units of one class designated as ("Units"), each of which represents a Unitholder's proportionate undivided beneficial interest in the Fund. See "WesternOne Equity Income Fund – Units".

#### Special Voting Units

The Fund is authorized to issue an unlimited number of Special Voting Units in connection with or in relation to securities that are, directly or indirectly, exchangeable for Units, in each case for the sole purpose of providing voting rights at the Fund level to the holders of such securities. See "WesternOne Equity Income Fund – Units".

#### Series A Debentures

The following is a brief summary of certain attributes and characteristics of the Series A Debentures and certain principal provisions which have been incorporated into the Series A Trust Indenture. The following does not purport to be complete and for full particulars, reference should be made to the Series A Trust Indenture.

#### General

The aggregate principal amount of Series A Debentures were issued under and secured by the Series A Trust Indenture entered into among the Fund and the Indenture Trustee. The Series A Debentures were issued at an issue price of \$100. The fees of the Indenture Trustee for the administration of the Series A Trust Indentures are paid by the Fund. The Series A Debentures are available in fully registered form only and in minimum denominations of \$100 (and integral multiples of \$100 thereafter). The following terms are subject in their entirety to the terms and conditions of the Senior Security.

Computershare Trust Company of Canada serves as the Indenture Trustee with respect to the Series A Debentures. It also serves as the trustee under the Trust Note Indenture. In the event that Trust Notes are issued by

the Trust, Computershare Trust Company of Canada may be in a position of conflict with respect to its duties as the trustee under the Trust Note Indenture and as the Indenture Trustee.

***Covenant***

The Series A Debentures are a direct obligation of the Fund and the Fund covenants to pay principal and interest thereon when due.

***Realization***

The Indenture Trustee is required to realize against the assets charged by the Series A Trust Indenture (the "Trust Assets") upon any prescribed default of the Fund in accordance with the terms of the Series A Trust Indenture.

***Interest***

The Series A Debentures bear interest from the date of Closing at the rate of 9% per annum calculated semi-annually, not in advance. Interest on the Series A Debentures is payable semi-annually.

***Term***

The Series A Debentures are dated the date of issue and will mature on the fifth anniversary of Closing.

***Forced Conversion at Maturity at Fund's Option***

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

***Security***

The Series A Debentures are secured, subject only to Senior Security and permitted encumbrances and to the reservation of the last day of the term of any lease, under the Series A Trust Indenture, by a floating charge to and in favour of the Indenture Trustee the undertaking and all the property and assets of the Fund.

The Series A Debentures rank senior to the Units, *pari passu* in all respects with any other Series A Debentures issued from time to time and are subordinate only to Senior Security.

***Sale***

The Series A Trust Indenture contains provisions whereby the Fund is permitted to sell, transfer or assign in the ordinary course of business assets owned by it or any part or parts thereof or an interest therein without any consent or approval of the holders of Series A Debentures or the Indenture Trustee.

***Defeasance***

The Series A Trust Indenture contains provisions stipulating that if the Fund (i) pays the holders of Series A Debentures the principal and interest on the Series A Debentures and all other sums payable by the Fund under the Series A Trust Indenture; (ii) keeps, performs and observes its covenants in the Series A Debentures and in the Series A Trust Indenture; and (iii) requests in writing that its covenants and the security interest created by the Series A Trust Indenture become null and void; then the covenants of the Fund and the security interest will cease and

become null and void, and the assets will revert to the Fund without the necessity of any release, acquittance, reconveyance, re-entry or other act or formality whatsoever.

### ***Conversion***

The Series A Trust Indenture contains provisions whereby the holders of Series A Debentures are permitted to convert all or any part of the principal of, and accrued interest on, the Series A Debentures held by them into Units at the conversion price of \$4.20 per Unit at any time prior to the maturity of the Series A Debentures except in respect of the 15 days before an interest payment date or the maturity date, subject to anti-dilution provisions which provide for adjustment to the conversion price in certain circumstances, including a subdivision, redivision, reduction, combination or consolidation of the Units. In order to convert the Series A Debentures, a holder of Series A Debentures must present the Series A Debentures for conversion to the Indenture Trustee in accordance with the terms of the Series A Debentures.

### ***Redemption***

The Fund may not redeem the Series A Debentures at any time before the date that is two years and a day following the issue date. At any time after the second anniversary of the issue date of the Series A Debentures, on not more than 60 days' notice and not less than 30 days' notice, the Fund may redeem the Series A Debentures at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption, provided that the current market price (defined as "the weighted average trading price of the Units on the Exchange for the 20 consecutive trading days ending on the fifth trading day preceding such date") of the Units on the day preceding the date on which notice of redemption is given is at least 125% of the conversion price.

### ***Non-Resident Ownership Restrictions***

No Units will be issued pursuant to the conversion of all or part of the Series A Debentures and no Series A Debentures will be issued if any such issuance of Units or Series A Debentures would result in persons who are non-residents holding or beneficially owning more than 49% of the Units (on either a basic or fully-diluted basis).

In addition, the Indenture Trustee may require declarations as to the jurisdictions in which holders or beneficial owners of Series A Debentures are resident. If the Fund becomes aware that 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the Fund may make a public announcement thereof and will notify the Indenture Trustee in writing and the Indenture Trustee shall not accept a subscription for Series A Debentures from or issue or register a transfer of Series A Debentures to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustee determines that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the Fund may send a notice to non-resident holder of Series A Debentures, chosen in inverse order to the order of acquisition or registration or in such a manner as the Fund may consider equitable and practicable, requiring them to sell their Series A Debentures or a portion thereof within a specified period of not more than 60 days. If the holders of Series A Debentures receiving such notice have not sold the specified number of Series A Debentures or provided the Fund with satisfactory evidence that they are not non-residents and do not hold their Series A Debentures for the benefit of non-residents within such period, the Fund may sell such Series A Debentures on behalf of such holders of Series A Debentures to a person or persons that are not non-residents and, in the interim, all rights attaching to such Series A Debentures (including any right to receive payments of interest) will be immediately suspended and the rights of any such holders of Series A Debentures in respect of such Series A Debentures will be limited to receiving the net proceeds of sale (net of any withholding tax).

***Certain Covenants of the Fund***

Among other things, the Fund covenants in the Series A Trust Indenture substantially to the effect that, so long as any of the Series A Debentures remain outstanding:

- (a) The Fund will carry on and conduct its business in a proper and efficient manner and at all reasonable times it will furnish or cause to be furnished to the Indenture Trustee or its duly authorized agent or attorney such information relating to the business of the Fund as the Indenture Trustee may reasonably require for the performance of its duties thereunder;
- (b) The Fund will pay the Indenture Trustee's reasonable remuneration for services thereunder and will repay to the Indenture Trustee on demand all moneys which will have been paid by the Indenture Trustee with interest at the rate of 2% per month from 30 days after the date of the invoice from the Indenture Trustee to the Fund with respect to such expenditure until repayment, and such moneys and the interest thereon, including the Indenture Trustee's remuneration, will be payable out of any funds coming into the possession of the Indenture Trustee in priority to any of the Series A Debentures or interest thereon. The said remuneration will continue to be payable until the trusts thereof be finally wound up and whether or not the trusts of the Series A Trust Indenture will be in the course of administration by or under the direction of the court;
- (c) The Fund will not, without the prior approval of the holders of Series A Debentures given by extraordinary resolution, call for redemption or purchase for cancellation or make or declare any capital distribution with respect to any Units of the Fund, at any time when the Fund is in arrears of payment of any principal or interest outstanding on the Series A Debentures;
- (d) The Fund will furnish to the Indenture Trustee sufficient copies of all interim reports to Unitholders, annual reports, financial statements, and the report, if any, of the Fund's auditors thereon, which are furnished to the holders of Units to enable the Indenture Trustee to forward to all holders of Series A Debentures (at the Fund's expense) a copy of such documents;
- (e) In order to prevent any accumulation after maturity of unpaid interest, the Fund will not directly or indirectly extend or assent to the extension of time for payment of any interest upon any Series A Debentures and it will not directly or indirectly be or become a party to or approve any such arrangement by purchasing or funding any interest on Series A Debentures or in any other manner;
- (f) The Fund will diligently preserve such rights, powers, privileges, franchises and goodwill as are necessary or advisable, and such qualifications to do business and own property in all jurisdictions in which such qualification is necessary or advisable, in respect of the Fund's assets;
- (g) The Fund will observe and comply in all respects with all governing laws and other requirements relating to the assets (including without limitation, applicable statutes, regulations, orders and restrictions relating to environmental standards or controls or to energy regulations);
- (h) The Fund will ensure that all covenants, conditions, stipulations and provisos contained in the Series A Trust Indenture and the Series A Debentures are duly performed;
- (i) The Fund will maintain or cause to be maintained (to the extent that the nature of its interest permits) the assets in good standing, free and clear of any liens, charges and encumbrances that rank or are capable of ranking prior to or pari passu with the charges created by the Series A Trust Indenture, other than Senior Security and permitted encumbrances;
- (j) The Fund will promptly notify the holders of Series A Debentures of any material adverse change in its investments;

- (k) The Fund will pay and discharge or cause to be paid and discharged, promptly when due, all taxes, assessments and governmental charges or levies imposed upon it in respect of the assets or upon the income or profits therefrom as well as all claims of any kind (including claims for labour, materials, supplies and rent) which, if unpaid, might become a lien thereupon; providing however, that it will not be required to pay or cause to be paid any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof will concurrently be contested in good faith by appropriate proceedings diligently conducted;
- (l) The Fund will cause all necessary and proper steps to be taken diligently to protect and defend the assets and the proceeds thereof against any material adverse claim or demand, including without limitation, the employment or use of counsel for the prosecution or defence of litigation and the contest, settlement, release or discharge of any such claim or demand;
- (m) The Fund will maintain with financially sound and reputable insurers, insurance with respect to the assets against such liabilities, casual risks and contingencies and in such types and amounts as is customary in the case of corporations holding assets of a similar nature and similarly situated; and
- (n) The Fund will use its best efforts to maintain the listing of the Units and Series A Debentures on the Exchange and any other stock exchanges upon which they may become listed.

### ***Events of Default***

The Series A Trust Indenture provides that the security for the Series A Debentures will become enforceable upon, among other things, the occurrence of any of the following events (each an “Event of Default”):

- (a) if the Fund makes default in payment of the principal on any Series A Debenture when the same becomes due and payable under any provision thereof or of the Series A Debentures;
- (b) if the Fund makes default in payment of any interest due on any Series A Debenture and such default continues for a period of 30 days;
- (c) if a decree or order of a court having jurisdiction in the premises is entered adjudging the Fund a bankrupt or insolvent under the *Bankruptcy and Insolvency Act (Canada)* or any other bankruptcy, insolvency or analogous laws, or issuing sequestration or process of execution against, or against all or any substantial part of the property of the Fund, or appointing a receiver or receiver-manager of any substantial part of the property of the Fund or ordering the winding-up or liquidation of its affairs;
- (d) if a resolution is passed for the winding-up or liquidation of the Fund except in the course of carrying out or pursuant to a transaction with respect to which the conditions of the Series A Trust Indenture with respect to successor entities are duly observed and performed, or if the Fund institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it under the *Bankruptcy and Insolvency Act (Canada)* or any other bankruptcy, insolvency or analogous laws or consents to the filing of any such petition, or if a receiver or receiver-manager is appointed over all or any substantial part of the property of the Fund, or the Fund makes a general assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any of the aforesaid purposes;
- (e) if an event of default, as defined in any indenture or instrument under which the Fund has or will thereafter have outstanding any indebtedness for borrowed money which matures by its terms, or which is renewable at the option of the payor, to a date more than 18 months after the creation, assumption or guarantee thereof, will happen and be continuing and such indebtedness will have been accelerated so that an amount in excess of \$200,000 will be or become due and payable prior

to the date on which the same would otherwise have become due and payable, and such acceleration will not be rescinded or annulled, or such event of default under such indenture or instrument will not be remedied or cured, whether by payment or otherwise, or waived by the holders of such indebtedness, within 10 days after such acceleration will have occurred; or

- (f) if the Fund will neglect to observe or perform any other covenant or condition contained in the Series A Trust Indenture on its part to be observed or performed and, after a notice in writing has been given by the Indenture Trustee to the Fund specifying such default and requiring the Fund to rectify the same (which said notice may be given by the Indenture Trustee upon receipt of a request from a holder of Series A Debentures as contemplated by the Series A Trust Indenture), the Fund will fail to make good such default within a period of 30 days, unless the Indenture Trustee (having regard to the subject matter of the default) will have agreed to a longer period, and in such event, within the period agreed to by the Indenture Trustee.

Upon the happening of any Event of Default:

- (a) the holders of not less than 51% of the principal amount of the Series A Debentures then outstanding will have the power (in addition to the powers exercisable by extraordinary resolution) by requisition in writing to instruct the Indenture Trustee to waive any Event of Default and the Indenture Trustee will thereupon waive the Event of Default upon such terms and conditions as will be prescribed in such requisition; and
- (b) the Indenture Trustee, so long as it has not become bound to declare the principal of and interest on the Series A Debentures then outstanding to be due and payable, or to obtain or enforce payment of the same, will have power to waive any Event of Default if, in the Indenture Trustee's opinion, the same will have been cured or adequate satisfaction made therefor, and in such event to cancel any such declaration theretofore made by the Indenture Trustee in the exercise of its discretion, upon such terms and conditions as the Indenture Trustee may deem advisable,

provided that no act or omission either of the Indenture Trustee or of holders of Series A Debentures in the premises will extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

## **WESTERNOE EQUITY INCOME FUND**

### **General**

The Fund is an unincorporated, open-ended trust governed by the laws of the Province of British Columbia and the Fund Declaration of Trust. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. Reference should be made to the Fund Declaration of Trust for a complete description of the Units and the full text of its provisions. See "Material Contracts".

### **Activities of the Fund**

The Fund Declaration of Trust provides that the activities of the Fund are restricted to:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of any person, including securities of the Trust, WesternOne Equity LP, WesternOne Equity GP or any of their respective subsidiaries, and such other investments as the Trustees determine;
- (b) temporarily holding cash in interest-bearing accounts, short term government debt or short term investment grade corporate debt or money market mutual funds for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the

redemption of any Voting Units or other securities of the Fund, and making distributions to Unitholders;

- (c) issuing Units and other securities of the Fund (including securities convertible into or exchangeable for Units or other securities of the Fund, or warrants, options or other rights to acquire Units or other securities of the Fund) as described in Section 3.3 of the Fund Declaration of Trust, for the purposes of: (i) obtaining funds to conduct the activities of the Fund, including raising funds for acquisitions and development; (ii) satisfying any non-cash distribution; or (iii) implementing any distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, the Trust, WesternOne Equity GP, WesternOne Equity LP, or their respective subsidiaries;
- (d) issuing debt securities (including debt securities convertible into, or exchangeable for, Units or other securities of the Fund) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- (e) guaranteeing the payment of any indebtedness, liability or obligation of the Trust, WesternOne Equity LP, WesternOne Equity GP or any other subsidiary or the performance of any obligation of any of them, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the assets of the Fund as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness;
- (f) disposing of all or any part of the assets of the Fund;
- (g) issuing or redeeming rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (h) repurchasing securities issued by the Fund, including Units and Special Voting Units, for cancellation subject to the provisions of the Fund Declaration of Trust and applicable laws;
- (i) satisfying the obligations, liabilities or indebtedness of the Fund;
- (j) retaining the services of WesternOne Equity LP or any other person to perform certain of the Trustees' functions and responsibilities;
- (k) entering into and performing its obligations under the Investment Agreement, Administration Agreement and such other agreements as are contemplated by the Prospectus, the Offering or are ancillary thereto; and
- (l) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust,

provided that the Fund must not undertake any activity, take any action, omit to take any action or make or retain any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act.

It is intended that at all times the Fund will qualify as a "mutual fund trust" for purposes of the Tax Act. In furtherance of that intention, the Trustees are required to use their reasonable commercial efforts to ensure that the Fund maintains its status as a mutual fund trust for purposes of the Tax Act.

## **Units**

An unlimited number of Units may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or

other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the Unitholders thereof to one vote for each whole Unit held at all meetings of Voting Unitholders. Except as set out under “Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

An unlimited number of Special Voting Units may also be issued pursuant to the Fund Declaration of Trust. Special Voting Units may be issued in series and will only be issued in connection with or in relation to securities that are, directly or indirectly, exchangeable for Units, in each case for the sole purpose of providing voting rights at the Fund level to the holders of such securities. Such securities may be issued, for example, should the Fund acquire a business where the selling owner seeks to retain an indirect interest in the business for a period of time, subject to conversion of that ownership interest into Units at a later time. The Special Voting Units will not be entitled to any beneficial interest in any distribution from the Fund whether of net income, net realized capital gains or other realized amounts or in the net assets of the Fund in the event of a termination or winding up of the Fund. The Fund shall redeem Special Voting Units at the option of the holder at any time for no consideration.

No certificates will be issued for fractional Units and fractional Units will not entitle the holders thereof to vote.

### **Issuance and Transfer of Units**

The Fund Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any Unitholder rights plan or any incentive option or other Unit compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis to the extent that the Fund does not have available cash to cover such distributions. See “WesternOne Equity Income Fund - Distributions”.

Except as set out in this paragraph, Units may be transferred by the holder without restriction by the Fund. The Trustees may refuse to allow the issue or register the transfer of any Units, where such issuance or transfer would, in their opinion, adversely affect the treatment of the Fund or the entities in which it directly or indirectly invests under applicable Canadian tax legislation or their qualification to carry on any relevant business. See “WesternOne Equity Income Fund — Limitation on Non-Resident Ownership”.

### **Trustees**

The Fund will have a minimum of three Trustees and a maximum of ten Trustees, the majority of whom must be residents of Canada (within the meaning of the Tax Act). The nominees for election as Trustees will be determined by the nominating and governance committee of the Fund.

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the assets of the Fund and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the assets of the Fund. Subject to such terms and conditions, the Trustees will supervise the investments and conduct the affairs of the Fund and are responsible for, among other things:

- supervising the activities and managing the investments and affairs of the Fund;
- acting for, voting on behalf of and representing the Fund as a holder of Trust Units and Trust Notes, the shares of WesternOne Equity GP and other securities held by the Fund;
- maintaining records and providing reports to Unitholders;
- effecting payments of cash available for distribution from the Fund to Unitholders;
- using reasonable commercial efforts to ensure that the Fund qualifies at all times as a “mutual fund trust” under the Tax Act; and
- voting in favour of the Fund nominees to serve as directors of WesternOne Equity GP.

In order to fulfill their obligations to ensure the Fund maintains its status as a “mutual fund trust”, the Trustees have the right to require Unitholders to sell Units, to require Unitholders to provide evidence of their status as residents or non-residents of Canada or Canadian or non-Canadian partnerships, to suspend the voting rights and/or distribution rights attaching to Units held by Unitholders who refuse to comply with a notice requiring them to sell Units and to sell, on behalf of such Unitholders, their Units and to pay to them only the net proceeds of such sales.

Any Trustee may resign upon ten days’ written notice to the Fund, and a Trustee appointed by the Voting Unitholders may be removed by an Ordinary Resolution and the vacancy created by the removal or resignation must be filled at the same meeting, failing which it may be filled by the affirmative vote of a quorum of the Trustees.

Trustees are appointed at each annual meeting of Voting Unitholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Trustees, being the majority of the Trustees then holding office (provided a majority of the Trustees comprising such quorum are residents of Canada), may fill a vacancy in the Trustees appointed by the Voting Unitholders, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Voting Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Voting Unitholders to elect the required number of Trustees appointed by the Voting Unitholders, the Trustees will promptly call a special meeting of the Voting Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there are no Trustees then in office, any Unitholder may call the meeting. Except as otherwise provided in the Fund Declaration of Trust, the Trustees may, between annual meetings of Voting Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Voting Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Voting Unitholders.

The Fund Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee will be entitled to indemnification from the Fund in respect of the exercise of the Trustee’s power and the discharge of the Trustee’s duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all the Voting Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his or her conduct was lawful.

## **Distributions**

The Fund intends to continue to make monthly distributions of a substantial portion of its available cash to Unitholders. The amount of the Fund’s cash available for distribution will be equal to the distributions on or in respect of Trust Units owned by the Fund less: (i) administrative expenses and other obligations of the Fund; (ii) amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units; (iii) satisfaction of the Fund’s debt service obligations (principal and interest) on indebtedness, if any; and (iv) any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Fund, that have been or are reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the cash available for distribution of the Fund).

The Fund may make additional distributions in excess of the aforementioned monthly distributions during the year, as the Trustees may determine. The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for ordinary income taxes under the Tax Act in such year.

Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable

securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder's share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident Unitholders will be subject to withholding tax and, if so, the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such registered non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

The Fund's policy is to make monthly cash distributions to Unitholders of record on the last business day of each month, and the distributions will be paid on or about the 15th day following the end of each month. See "Distributions — Distribution Policy".

Unitholders who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

#### **Redemption at the Option of Unitholders**

Units are redeemable at any time on demand by the Unitholders. As the Units have been issued in book-entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who is required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- (a) 90% of the "market price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and
- (b) 100% of the "closing market price" on the Redemption Date.

For purposes of this calculation, the "market price" of a Unit as at a specified date will be:

- (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;
- (b) an amount equal to the weighted average of the closing market prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or
- (c) if there was trading on the applicable exchange or market for fewer than five of the ten trading days, an amount equal to the simple average of the following prices established for each of the ten consecutive trading days ending on such date: the simple average of the last bid and last asking prices of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

The “closing market price” of a Unit for the purpose of the foregoing calculations, as at any date, will be:

- (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date and the principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date;
- (b) an amount equal to the closing price of a Unit on the principal market or exchange, if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;
- (c) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or
- (d) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

The aggregate Redemption Price payable by the Fund in respect of all Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- (a) the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (the “Monthly Limit”), provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- (b) at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and
- (c) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten day trading period ending on the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the Monthly Limit, then each Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a payment, on a proportionate basis, of cash up to the Monthly Limit, and the balance by distribution in specie. If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of other specified limitations, then each redeeming Unitholder will be entitled to receive a price per Unit (the “In Specie Redemption Price”) equal to the fair market value thereof as determined by the Trustees, which may be satisfied by way of a distribution in specie of the assets of the Fund. In each case, Trust Units having an aggregate value equal to the non-cash portion of the Redemption Price (or, as applicable, the In Specie Redemption Price) will be redeemed by the Trust in consideration of the issuance to the Fund of Series 1 Trust Notes, as to 20% of the redemption price thereof, and Series 2 Trust Notes, as to 80% of the redemption price thereof. The Series 1 Trust Notes and Series 2 Trust Notes (collectively, the “Trust Notes”) will then be distributed to the redeeming Unitholder in full satisfaction of the non-cash portion of the Redemption Price (or, as applicable, the Specie Redemption Price). No Trust Notes in integral multiples of less than \$100 will be distributed and, where the number of securities of the Trust to be received by a Unitholder includes a multiple of less than \$100, that number shall be rounded to the next lowest integral multiple of \$100 and the difference shall be paid in immediately available funds. The Fund will be entitled to all distributions paid on Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of a pro rata number of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of Trust

Units in exchange for Trust Notes, or as a result of the distribution of Trust Notes to the Unitholder on the redemption of such Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Trust Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Trust Notes and they may be subject to resale restrictions under applicable securities laws. Trust Notes so distributed may not be qualified investments for Funds governed by Plans depending upon the circumstances at the time.

### **Repurchase of Units**

The Fund will be allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

### **Meetings of Voting Unitholders**

The Fund Declaration of Trust provides that meetings of Voting Unitholders will be called and held annually for the election of Trustees and the appointment of auditors of the Fund. The Fund Declaration of Trust provides that the Voting Unitholders will be entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of Trustees;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under “WesternOne Equity Income Fund — Amendments to the Fund Declaration of Trust”);
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of the Trust, WesternOne Equity LP and WesternOne Equity GP held by the Fund or any of their respective subsidiaries that are directly or indirectly owned or controlled subsidiaries of WesternOne Equity LP, WesternOne Equity GP or the Trust (see “WesternOne Equity Income Fund — Exercise of Certain Voting Rights Attached to Securities of the Trust, WesternOne Equity GP and WesternOne Equity LP”);
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, incentive Unit option plan or other Unit compensation plans contemplated by the Fund Declaration of Trust requiring Voting Unitholder approval;
- the dissolution of the Fund prior to the end of its term; and
- any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Voting Unitholders for their approval,

provided that the Voting Unitholders shall not pass any resolution that would cause the Fund, the Trust, WesternOne Equity GP, WesternOne Equity LP or their respective subsidiaries to breach the terms of the Partnership Agreement or that would result in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act.

No other action taken by Voting Unitholders or any other resolution of the Voting Unitholders at any meeting will in any way bind the Trustees, except as may be provided in the Fund Declaration of Trust.

A resolution removing nominees of the Fund to serve as Trustees or with respect to the exercise of certain voting rights attached to the securities of the Trust, WesternOne Equity GP, WesternOne Equity LP or any of their respective subsidiaries that are directly or indirectly owned or controlled by the Fund, a resolution required by securities law, stock exchange rules or other laws or regulations requiring a simple majority of Voting Unitholders,

and a resolution removing Trustees appointed by the Voting Unitholders, or removing the auditors of the Fund must be passed by an Ordinary Resolution. The balance of the foregoing matters must be passed by a Special Resolution.

Subject to the foregoing limitations, a meeting of Voting Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a person appointed as a proxy for a Voting Unitholder need not be a Voting Unitholder. Two persons present in person or represented by proxy and representing in total at least 10% of the votes attached to all outstanding Voting Units will constitute a quorum for the transaction of business at all meetings.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

### **Limitation on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act and, pursuant to certain proposed amendments to the Tax Act, not more than 50% of the aggregate fair market value of the Units may be held by non-residents of Canada and/or partnerships (other than Canadian partnerships as defined in the Tax Act). Accordingly, the Fund Declaration of Trust provides that at no time may non-residents of Canada and partnerships other than Canadian partnerships be the beneficial owners of more than 49% of the Units and Special Voting Units (on both a non-diluted and fully diluted basis for these purposes). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or as to their status as Canadian partnerships.

If the Trustees become aware that the beneficial owners of 40% of the Units and/or Special Voting Units then outstanding are or may be non-residents and/or partnerships other than Canadian partnerships or that such a situation is imminent, the Trustees may direct the transfer agent and registrar to make a public announcement thereof and will not accept a subscription for Units from, or issue or register a transfer of Units to, any person unless the person provides a declaration that he or she is not a non-resident or a partnership other than a Canadian partnership. If, notwithstanding the foregoing, the Trustees determine that more than 45% of the Units are held by non-residents and/or partnerships other than Canadian partnerships, they may direct the transfer agent of the Units to send a notice to such holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period determined by the Trustees. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents or a partnership other than a Canadian partnership within such period, the Trustees may direct the transfer agent to sell such Units on behalf of such Unitholders, and in the interim, the voting and distribution rights attached to such Units will be suspended. Upon such sale, the affected holders will cease to be holders of the Units and their rights will be limited to receiving the net proceeds of such sale.

On September 16, 2004, the Minister of Finance (Canada) (the "Minister") released draft amendments to the Tax Act relating to the circumstances under which the ownership of Units of a Fund by non-resident persons and partnerships other than Canadian partnership would cause the Fund to list its status as a mutual fund trust. Under the draft amendments, a fund would lose its status as a mutual fund trust if the aggregate fair market value of all Units issued by the Fund held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the Units issued by the Fund. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status such that if, at any time, the Fund were to lose its mutual fund trust status as a result of the application of the draft amendments, the Fund would permanently cease to be a mutual fund trust. On December 6, 2004, the Minister tabled a Notice of Ways and Means Motion which did not include these proposed amendments, and the Minister announced, both at that time, and in the 2006 Federal Budget, that further discussions will take place with the private sector before a decision is made concerning whether the proposed amendments will be enacted. Depending on the final form of the draft amendments as enacted,

it may be necessary to amend the Fund Declaration of Trust to take into account these new restrictions. This amendment may be made without Unitholder approval.

### **Amendments to the Fund Declaration of Trust**

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Voting Unitholders by a Special Resolution.

The Trustees, at their discretion and without the approval of the Voting Unitholders, are entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- (a) which are required for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund, including ensuring that the Fund continues to qualify as a “mutual fund trust” within the meaning of the Tax Act;
- (b) which provide additional protection or added benefits for the Voting Unitholders;
- (c) to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are necessary or desirable and not prejudicial to the Voting Unitholders; and
- (d) which are necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdiction over the Fund.

Notwithstanding the previous sentence, the Trustees may not amend the Fund Declaration of Trust in a manner which would result in the Fund failing to qualify as a “mutual fund trust” under the Tax Act.

### **Term of the Fund**

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 14, 2006. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate, on the expiration of the term. At any time prior to the expiry of the term of the Fund, the Voting Unitholders may by Special Resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

The Fund Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustees will give notice thereof to the Voting Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustees shall proceed to wind-up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money Trust Units and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining proceeds of the sale of the Trust Units and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any of the Trust Units or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units or other assets in specie directly to the Unitholders in accordance with their pro rata interests subject to obtaining all required regulatory approvals.

## **Take-over Bids**

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (excluding Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid. The Fund Declaration of Trust does not provide a mechanism for Unitholders who do not tender their Units to a take-over bid to apply to a court to fix the fair value of their Units.

The Partnership Agreement provides that if a non-exempt take-over bid from a person acting at arm's length to holders of LP Units (or any associate or affiliate thereof) is made for the Units and a contemporaneous identical offer is not made for LP Units held by persons other than the Fund (in terms of price, timing, proportion of securities sought to be acquired and conditions, provided that the offer for LP Units may be conditional on Units being taken up and paid for under the take-over bid), then, provided that: (i) not less than 25% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the non-exempt bid from and after the date of first take-up of Units under the said take-over bid in excess of the foregoing threshold; and (ii) the take-over bid is not for any and all Units tendered or is not structured such that holders of LP Units can exchange into Units conditional on take-up, LP Units held by persons other than the Fund will be exchangeable at an exchange ratio equal to 110% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of LP Units will receive 1.1 Units for each Unit that the holder would otherwise have received. The distribution rights attaching to LP Units will also not be adjusted until the exchange right is actually exercised.

## **Exercise of Certain Voting Rights Attached to Securities of the Trust, WesternOne Equity GP and WesternOne Equity LP**

The Fund Declaration of Trust provides that the Trustees must not, without the approval of the Voting Unitholders by a Special Resolution, vote any securities of any subsidiary, including the Trust or WesternOne Equity GP held by the Trust, nor permit any subsidiary, including the Trust to vote any securities of any subsidiary, including WesternOne Equity LP to authorize:

- any sale, lease or other disposition of all or substantially all of the direct or indirect assets of any subsidiary, including the Trust, WesternOne Equity GP, WesternOne Equity LP except (i) in conjunction with an internal reorganization or, (ii) pursuant to a good faith charge, pledge, mortgage, lien, security interest or other encumbrance granted by any of them over their respective property in the ordinary course of their respective business, or (iii) any charge, pledge, mortgage, lien, security interest or other encumbrance, granted by the Trust over any of the Trust Assets as contemplated by the Fund Declaration of Trust pursuant to any guarantee or as financial assistance in respect of any obligation of any of them;
- any amalgamation, arrangement, merger or capital reorganization of any subsidiary, including the Trust, WesternOne Equity GP, WesternOne Equity LP or any other affiliate of the Trust with any other entity, except in conjunction with an internal reorganization;
- the winding-up or dissolution of any subsidiary, including the Trust, WesternOne Equity GP, WesternOne Equity LP, or any other affiliate of the Trust prior to the end of the term of the Trust, except in conjunction with an internal reorganization;
- any material amendment to the Trust Note Indenture other than in contemplation of a further issue of Trust Notes or in conjunction with an internal reorganization; or
- any material amendment to the constating documents of the Trust, WesternOne Equity GP, WesternOne Equity LP or any other affiliate of the Trust to change the authorized units, share capital or partnership interests, as applicable, in any manner that may be prejudicial to the Trust or the Unitholders.

## Information and Reports

The Fund furnishes to Voting Unitholders, in accordance with applicable securities laws, all financial statements of the Fund (including quarterly and annual financial statements and certifications) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Voting Unitholder's tax returns under the Tax Act and equivalent provincial legislation.

Each Voting Unitholder has the right to obtain, on demand and without fee, from the head office of the Fund a copy of the Fund Declaration of Trust and any amendments thereto, and is entitled to examine a list of Voting Unitholders, subject to providing an affidavit to the Fund similar to the affidavit required under the CBCA for a Unitholder to obtain a list of shareholders.

Prior to each meeting of Voting Unitholders, the Trustees will provide to the Voting Unitholders (along with notice of the meeting) all information, together with such certifications, as are required by applicable law and by the Fund Declaration of Trust to be provided to Voting Unitholders.

In addition, WesternOne Equity LP has undertaken to the securities regulatory authorities in each of the provinces of Canada where the Fund is a reporting issuer and to the Fund that for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- to the extent the Fund does not do so, issue a press release and deliver to the Fund for filing a material change report in respect of any material change in WesternOne Equity LP's affairs;
- provide to the Fund the information that would be required to be included in an annual information form or any other report or document required to be filed with the securities regulatory authorities as if WesternOne Equity LP was a reporting issuer in each of the provinces of Canada; and
- to the extent that the Fund does not prepare financial statements including WesternOne Equity LP's results of operations, deliver to the Fund quarterly unaudited and annual audited financial statements for filing with the securities regulatory authorities in those provinces of Canada where the Fund is a reporting issuer and delivery to the Fund's registered and beneficial Unitholders in accordance with applicable securities laws.

Such releases, forms, reports and statements, in each case, shall be in the form and content that WesternOne Equity LP would be required to file with the British Columbia Securities Commission if it were a reporting issuer under British Columbia securities law. The annual information form and other reports of WesternOne Equity LP will be delivered by the Fund to its Unitholders concurrently with the annual information form or other report of the Fund for the corresponding period. The quarterly unaudited and annual audited financial statements of WesternOne Equity LP will be delivered by the Fund to its Unitholders concurrently with the financial statements of the Fund for the corresponding period. WesternOne Equity LP will provide certifications (or back-up certifications) of such materials to the Trustees as reasonably required by the Trustees as if WesternOne Equity LP were a reporting issuer and will provide to the Trustees (and their agents) the certifications required by applicable law.

In future interim and annual filings, the Fund will include relevant information and discussions comparing WEQ Production Equipment LP's ownership of Production Equipment to when it was still controlled by the Partners. The Fund believes that comparative financial information relating to sales, cost of sales and general and administrative expenses are appropriate to include in the operating results of the Fund. The information will be provided on a comparative basis in future interim and annual management discussion and analysis.

The chief executive officer and chief financial officer of WesternOne Equity LP perform functions similar to a chief executive officer and chief financial officer in respect of the Fund. As such the chief executive officer and chief financial officer of WesternOne Equity LP execute the certificates required to be filed pursuant to Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings".

The Trustees, the Trust's Trustees, the directors and senior officers of subsidiaries of the Fund and the Principal Unitholder are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units, and LP Units.

In addition, the Fund has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces of Canada where the Fund is a reporting issuer that, for so long as the Fund is a reporting issuer under applicable securities laws, it will undertake to:

- treat WesternOne Equity LP as a subsidiary of the Fund; however, if GAAP prohibits the consolidation of financial information of WesternOne Equity LP and the Fund, for as long as WesternOne Equity LP and any of its significant business interests represent significant assets of the Fund, the Fund will provide Unitholders with separate consolidated financial statements for WesternOne Equity LP and its significant business interests;
- take appropriate measures to require each person who would be an insider of WesternOne Equity LP or WesternOne Equity GP if WesternOne Equity LP or WesternOne Equity GP, as the case may be, were a reporting issuer to (a) file insider reports about trades in Units (including securities which are exchangeable for Units), and (b) comply with statutory prohibitions against insider trading; and
- annually certify that it has complied with this undertaking, and file this certification on the System for Electronic Document Analysis and Retrieval (SEDAR) concurrently with the filing of its annual financial statements.

### **Book-Entry Only System**

#### ***Book-Entry Form Depository Service***

Except as otherwise provided below, the Units and the Series A Debentures are issued in “book-entry only” form and must be purchased or transferred through participants (“Participants”) in the depository service of The Canadian Depository for Securities Limited or a successor (collectively, “CDS”), which include securities brokers and dealers, banks and trust companies. Except as described below, no Unitholder or holder of Series A Debentures is entitled to a certificate or other instrument from the Fund or CDS evidencing ownership, and no Unitholder or holder of Series A Debentures is shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such holder. Holders will receive a customer confirmation of purchase from the registered dealer from which the Units or Series A Debentures purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Units or Series A Debentures.

The Fund has the option to terminate registration of the Units or Series A Debentures through the Book-Entry System in which case certificates for the Units or Series A Debentures in fully registered form would be issued to beneficial owners of such Units or Series A Debentures or their nominees.

#### ***Transfer of Units***

For so long as the Book-Entry System is maintained, transfers of ownership in the Units or Series A Debentures held by CDS or its nominee will be effected only through records maintained by CDS or its nominee for such Units or Series A Debentures with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants.

#### ***Payments of Distributions and Interest***

Payments of distributions on each Unit or interest on the Series A Debentures will be made by the Fund to CDS or its nominee, as the case may be, as the registered owner of the Units and Series A Debentures and the Fund understands that such payments will be forwarded by CDS or its nominee, as the case may be, to Participants. As long as CDS or its nominee is the registered owner of the Units and the Series A Debentures, CDS or its nominee, as

the case may be, will be considered the sole owner of the Units and the Series A Debentures for the purpose of making payment of any distribution or interest in respect of the Units and Series A Debentures to CDS or its nominee.

#### ***Ability to Pledge Units and Series A Debentures***

The ability to pledge a Unit or Series A Debenture or otherwise take action with respect to such interest (other than through a Participant) may be limited due to the lack of a physical certificate.

#### **Conflicts of Interest Restrictions and Provisions**

The Fund Declaration of Trust contains “conflict of interest” provisions that serve to protect Voting Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions similar to those contained in the CBCA that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. A Trustee who is required to make disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to: (i) his or her remuneration as a Trustee or officer of the Fund, as applicable; (ii) insurance or indemnity; or (iii) a contract or transaction with an affiliate.

#### **Rights of Unitholders**

The rights of the Unitholders were established by the Fund Declaration of Trust following the Offering. Although the Fund Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the CBCA, significant differences exist.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Fund Declaration of Trust. For example, Voting Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and appoint auditors. The Fund Declaration of Trust also includes provisions modelled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Voting Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Voting Unitholders to participate in the decision making process where certain fundamental actions are proposed to be undertaken. Unlike shareholders of a CBCA corporation, Unitholders do not have a comparable right to of a shareholder to make a proposal at a general meeting of the Fund. The matters in respect of which Voting Unitholder approval is required under the Fund Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund’s subsidiary entities, as described under “WesternOne Equity Income Fund — Exercise of Certain Voting Rights Attached to Securities of the Trust, WesternOne Equity GP and WesternOne Equity LP”. These Voting Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or listed on the Exchange or TSX.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting: (i) the business or businesses that the corporation can carry on; or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to receive, subject to certain conditions and limitations, their pro rata share of the Fund’s net assets through the exercise of the redemption rights provided by the Fund Declaration of Trust, as described under “WesternOne Equity Income Fund — Redemption at the Option of Unitholders”. Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregarding the interests of securityholders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders may rely only on the general provisions of the Fund Declaration of Trust which permit the winding up of the Fund by a Special Resolution. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Fund Declaration of Trust allows Voting Unitholders to pass resolutions appointing an inspector to investigate the Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight or assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Fund Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

### **Financial Year End**

The fiscal year end of the Fund is December 31.

### **Administration of the Fund and the Trust**

WesternOne Equity LP acts as the administrator of the Fund and the Trust pursuant to the terms of the Administration Agreement.

Under the Administration Agreement, WesternOne Equity LP provides certain management, administrative and support services to the Fund and the Trust. The duties of WesternOne Equity LP as administrator include: (i) ensuring compliance with continuous disclosure obligations under applicable securities legislation and stock exchange rules; (ii) providing or causing to be provided accounting and financial services; (iii) providing office space and premises; (iv) providing or causing to be provided investor relations services; (v) providing or causing to be provided to Unitholders all customary information with respect to applicable reporting obligations for Canadian federal income tax purposes; (vi) calling and holding meetings of Voting Unitholders and distributing required materials, including notices of meetings and information circulars, in respect of all such meetings; (vii) assisting in calculating distributions to Unitholders; (viii) attending to all administrative and other matters arising in connection with any redemption of Units or securities of the Fund; and (ix) ensuring compliance with the Fund's limitations on non-resident ownership.

The Administration Agreement has an initial term of ten years and will automatically renew for successive five year terms unless terminated by any of the parties at least 12 months prior to the expiry of the initial or any renewal term. The Administration Agreement may be terminated by any of the parties in the event of the insolvency or receivership of another party or may be terminated by any of the parties in the event of the insolvency or receivership of another party or in the case of default by one of the other parties in the performance of a material obligation under the Administration Agreement, as the case may be, (other than as a result of the occurrence of a force majeure event) which is not remedied within 30 days after written notice thereof has been delivered.

Under the Administration Agreement, the Fund and the Trust bear their own administration costs and expenses and reimburse WesternOne Equity LP for all costs and expenses incurred by WesternOne Equity LP relating to the management, administrative and support services provided to the Fund and the Trust, respectively. No fees are charged by WesternOne Equity LP in providing these services.

### **WESTERNONE EQUITY OPERATING TRUST**

The Trust Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust. The principal differences between the Trust Declaration of Trust and the Fund Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the full text of the Trust Declaration of Trust and the Fund Declaration of Trust. See "Material Contracts".

## **General**

The Trust is an unincorporated, open-ended trust governed by the laws of the Province of British Columbia and the Trust Declaration of Trust. Its activities are restricted essentially to holding investments in WesternOne Equity LP and such other investments as the Trust's Trustees may determine, including all activities ancillary or incidental thereto.

## **Trustees**

Under the Fund Declaration of Trust, each Trustee also serves as one of the Trust's Trustees. See "WesternOne Equity Income Fund — Trustees".

## **Restrictions on Trust's Trustees Powers**

The Trust Declaration of Trust provides that the Trust's Trustees may not, without a resolution passed by a majority of the votes cast at a meeting of the holders of Trust Units:

- (a) take any action upon any matter which, under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules, would require a resolution passed by a majority of the votes cast at a meeting of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading; and
- (b) subject to certain exceptions, appoint or change the auditors of the Trust.

Furthermore, the Trust Declaration of Trust provides that the Trust's Trustees may not, without a resolution passed by at least 66<sup>2</sup>/<sub>3</sub>% of the votes cast at a meeting of the holders of Trust Units:

- (a) take any action upon any matter which, under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules, would require a resolution passed by at least 66<sup>2</sup>/<sub>3</sub>% of the votes cast at a meeting of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading;
- (b) amend the Trust Declaration of Trust except in certain limited circumstances similar to those under which the Fund Declaration of Trust may be amended without consent of Voting Unitholders;
- (c) amend the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes;
- (d) sell, lease or exchange all or substantially all of the property of the Trust other than in the ordinary course of business or in connection with an internal reorganization;
- (e) authorize the termination, liquidation or winding-up of the Trust, other than at the end of the term of the Trust; or
- (f) authorize the combination, merger or similar transaction of the Trust with any other person, except in conjunction with an internal reorganization.

## **Redemption Right**

The Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed notice requiring the Trust to redeem the Trust Units, in a form reasonably

acceptable to the Trust's Trustees, together with the certificates representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender of Trust Units by a holder thereof for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units other than the right to receive the redemption price for such Trust Units. The redemption price for each Trust Unit tendered for redemption will be equal to:

$$\frac{(A \times B) - C + D}{E}$$

Where:

- (i) A is the cash redemption price per Unit calculated as of the close of business on the date Trust Units were so tendered for redemption by a holder of Trust Units;
- (ii) B is the aggregate number of Units outstanding as of the close of business on the date Trust Units were so tendered for redemption by a holder of Trust Units;
- (iii) C is the aggregate of any indebtedness held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than Trust Units) as of the close of business on the date Trust Units were so tendered for redemption by a holder of Trust Units;
- (iv) D is the aggregate unpaid liabilities of the Fund (prior to the redemption of Units on such date) as at the close of business on the date the Trust Units were so tendered for redemption; and
- (v) E is the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date Trust Units were so tendered for redemption by a holder of Trust Units.

The Trust's Trustees are entitled to call for redemption, from time to time and at any time, all or part of the outstanding Trust Units registered in the name of the holders thereof (other than the Fund) at the same redemption price as described above for each Trust Unit called for redemption, calculated with reference to the date the Trust's Trustees approved the redemption of Trust Units.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of the Trust's Trustees, (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose Trust Units are to be redeemed of such amount of Trust Notes as the Trust's Trustees shall determine in their discretion as are equal in the aggregate amount to the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest \$100, with the balance of any such aggregate redemption price not paid in Trust Notes to be paid in immediately available funds by cheque; or (iii) by any combination of funds and Trust Notes as the Trust's Trustees shall determine in their discretion, in each such case payable or issuable on the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$100. To the extent that all or a portion of the redemption price is to be paid by the delivery of the Trust Notes, 20% of the aggregate principal amount thereto shall be Series 1 Trust Notes and the balance shall be Series 2 Trust Notes.

## **Distributions**

The Trust intends to continue to make monthly cash distributions of its cash available for distribution. The amount of cash to be distributed monthly per Trust Unit to the holders of Trust Units will be equal to a pro rata share of distributions on or in respect of LP Units owned by the Trust and all other amounts, if any, from any other investments from time to time held by the Trust received in such period, less amounts which are paid, payable, incurred or provided for in such period in connection with: (i) administrative expenses and other obligations of the Trust; (ii) amounts that may be paid by the Trust in connection with any cash redemptions or repurchases of Trust

Units or repayments of the Trust Notes; (iii) satisfaction of its debt service obligations (principal and interest) on Trust Notes and other indebtedness, if any; and (iv) any amount that the Trust's Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Trust, that have been or are reasonably expected to be incurred in the activities and operations of the Trust (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the cash available for distribution of the Trust).

Such distributions will be payable to holders of record of Trust Units on the last business day of each month and will be paid within 15 days following each month end. The cash distributions payable by the Trust are intended to be received by the Fund prior to its related cash distribution to Unitholders.

The distribution declared by the Trust's Trustees in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Trust for such year as is necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year and may be paid by the distribution of additional Trust Units.

Any income of the Trust which is unavailable for cash distribution will, to the extent necessary to ensure that the Trust does not have any income tax liability under Part I of the Tax Act, be distributed to the holders of Trust Units in the form of additional Trust Units. The value of each Trust Unit so issued will be equal to the redemption price thereof. The Trust Declaration of Trust provides that immediately after any pro rata distribution of Trust Units in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each holder of Trust Units will hold after consolidation the same number of Trust Units as the holder held before the non-cash distribution.

### **Trust Notes**

The following is a summary of the material attributes and characteristics of Trust Notes, which may be issued by the Trust under the Trust Note Indenture. This summary is qualified in its entirety by reference to the provisions of the Trust Note Indenture, which contains a complete statement of those attributes and characteristics. See "Material Contracts".

Trust Notes will be issuable in Canadian currency. Trust Notes are issuable in denominations of \$100 and integral multiples of \$100. No Trust Notes in integral multiples of less than \$100 will be distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number.

Trust Notes will be reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price of Trust Units.

Computershare Trust Company of Canada serves as the trustee under the Trust Note Indenture. It also serves as the Indenture Trustee with respect to the Series A Debentures. In the event that Trust Notes are issued by the Trust, Computershare Trust Company of Canada may be in a position of conflict with respect to its duties as the trustee under the Trust Note Indenture and as the Indenture Trustee.

### ***Interest and Maturity***

Each Series 1 Trust Note will bear interest at a market rate to be determined by the Trust Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 1 Trust Note is outstanding and will mature on a date which is no later than the first anniversary of the date of issuance thereof. Each Series 2 Trust Note will bear interest at a market rate to be determined by the Trust Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 2 Trust Note is outstanding and will mature on the 25th anniversary of the date of issue of the Trust Units being redeemed.

### ***Payment upon Maturity***

On maturity, the Trust will repay the Trust Notes by paying to the trustee under the Trust Note Indenture, in cash, an amount equal to the principal amount of the outstanding Trust Notes that have then matured, together with accrued and unpaid interest, if any, thereon.

### ***Redemption***

The Trust Notes will be redeemable at the option of the Trust prior to maturity, in whole or in part, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest if any, thereon, payable in cash.

### ***Ranking and Subordination***

The Trust Notes are direct unsecured obligations of the Trust, ranking pari passu with other unsecured liabilities of the Trust.

Payment of the principal amount and interest on the Trust Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which will be defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Trust Note Indenture. The Trust Note Indenture provides that upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

### ***Default***

The Trust Note Indenture provides that any of the following shall constitute an event of default:

- (a) default in payment of the principal amount of the Trust Notes when the same becomes due and payable and the continuation of such default for a period of 90 days;
- (b) default in payment of any interest due on any Trust Notes and continuation of such default for a period of 90 days;
- (c) default in the observance or performance of any other covenant or condition of the Trust Note Indenture and continuance of such default for a period of 90 days after notice in writing has been given to the Trust's Trustees specifying such default and requiring the Trust to rectify the same; and
- (d) certain events of dissolution, bankruptcy, insolvency, liquidation, reorganization or other similar proceedings relative to the Trust.

The provisions governing an event of default under the Trust Note Indenture and remedies available thereunder do not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public.

### ***Trust Unit Certificates***

As Trust Units are not intended to be issued or held by any person other than the Fund, registration of interests in, and transfers of, the Trust Units will not be made through the Book-Entry System. Rather, holders of Trust Units will be entitled to receive certificates therefor.

## **Meetings of Unitholders**

An annual meeting of holders of Trust Units may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust's Trustees may determine or as may properly be brought before the meeting.

## **WESTERNOE EQUITY LP**

The following is a summary of the material attributes and characteristics of WesternOne Equity LP and the LP Units that are issued under the Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Partnership Agreement, which contains a complete statement of those attributes and characteristics. See "Material Contracts".

### **General**

WesternOne Equity LP is a limited partnership established under the laws of the Province of Manitoba to carry on the business of indirectly investing in and owing platform businesses, as well as activities ancillary thereto.

### **General Partners**

WesternOne Equity GP is the general partner of WesternOne Equity LP. See "WesternOne Equity GP — General".

WesternOne Equity GP has exclusive authority to manage the business and affairs of WesternOne Equity LP, to make all decisions regarding the business of WesternOne Equity LP and to bind WesternOne Equity LP. WesternOne Equity GP is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of WesternOne Equity LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in WesternOne Equity GP to manage the business and affairs of WesternOne Equity LP includes all authority necessary or incidental to carry out the objects, purposes and business of WesternOne Equity LP, including without limitation, the ability to engage agents to assist WesternOne Equity GP to carry out its management obligations or substantially administrative functions. WesternOne Equity GP cannot dissolve WesternOne Equity LP or wind-up WesternOne Equity LP's affairs except in accordance with the provisions of the Partnership Agreement.

### **Withdrawal or Removal of WesternOne Equity GP**

WesternOne Equity GP may resign on not less than 180 days' written notice to the limited partners of WesternOne Equity LP, provided that WesternOne Equity GP will not resign if the effect would be to dissolve WesternOne Equity LP.

WesternOne Equity GP may not be removed as general partner of WesternOne Equity LP unless: (i) WesternOne Equity GP has committed a material breach of the Partnership Agreement, which breach has continued for 30 days after notice, and that removal is also approved by a resolution of holders of at least 66⅔% of the LP Units voted on such resolution; or (ii) the shareholders or directors of WesternOne Equity GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of WesternOne Equity GP, or WesternOne Equity GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the Partnership Agreement.

### **Capitalization**

WesternOne Equity LP may issue an unlimited number of LP Units to any person. The Partnership Agreement authorizes WesternOne Equity GP to cause WesternOne Equity LP to issue additional LP Units for any consideration and on any terms and conditions as are established by WesternOne Equity GP.

As at December 31, 2006, WesternOne Equity LP has issued and outstanding partnership interests consisting of 2,683,519 LP Units to the Trust and a general partner interest held by WesternOne Equity GP.

### **Ranking**

Advances and distributions on the LP Units are made, subject to the general partner's aggregate 0.005% interest in the following order: firstly, on the LP Units in the amount equal to the outlays and expenses made or incurred by the Fund and the Trust in the administration and management of the Fund and the Trust (including audit costs and costs of reporting to Unitholders) (the "Fund Priority Distribution") and thereafter on the LP Units in an equal amount per unit.

### **Distributions**

WesternOne Equity GP, as general partner of WesternOne Equity LP, intends to cause WesternOne Equity LP to distribute to its partners, including its partners (of record) holding LP Units on the last day of each month, their pro rata portions of a substantial portion of its available cash as set out below. Distributions or advances will be made on or about the 15th day following the end of each month. Distributions on LP Units are intended to be received by the Trust in time to make its related distribution to the Fund prior to its related distributions to Unitholders. WesternOne Equity LP may, in addition, make a distribution at any other time.

Available cash will represent, in general, all of WesternOne Equity LP's cash, after satisfaction of:

- general and administrative expenses and other expense obligations;
- debt service obligations on indebtedness of WesternOne Equity LP;
- obligations under WesternOne Equity LP's incentive plans; and
- any other amounts that WesternOne Equity GP, as general partner of WesternOne Equity LP, may consider reasonably necessary for:
  - the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities or operations of WesternOne Equity LP, for reasonable reserves (including amounts on account of working capital and capital expenditures and to stabilize distributions); and
  - investment in the growth of the business of WesternOne Equity LP.

The amount advanced or distributed from time to time by WesternOne Equity LP on interests in WesternOne Equity LP, including the LP Units is determined by the board of directors of WesternOne Equity GP as the general partner of WesternOne Equity LP.

### **Allocation of Net Income and Losses**

The income of WesternOne Equity LP for each fiscal year is allocated first as to the holders of LP Units in an amount equal to the Fund Priority Distribution and the remained as to 0.005% thereof to the partner holding general partnership interests and as to 99.995% thereof, to partners holding LP Units.

The income for tax purposes of WesternOne Equity LP for a particular taxation year that will be allocated to the partners holding LP Units will be first allocated to the holders of LP Units in the amount of the Fund Priority Distribution (if any). Thereafter, any remaining income will be allocated to each partner by multiplying the total remaining income to be allocated to the partners by a fraction, the numerator of which is the total sum of the cash distributions in excess of the Fund Priority Distribution received by that partner with respect to that taxation year and the denominator of which is the total amount of the cash distributions in excess of the Fund Priority Distribution made by WesternOne Equity LP to all partners with respect to that taxation year. The amount of income for tax purposes allocated to a partner in a taxation year may exceed or be less than the amount of cash distributed by WesternOne Equity LP to that partner in such a taxation year.

If, with respect to a taxation year, no cash distribution is made by WesternOne Equity LP to its partners (other than the Fund Priority Distribution), or WesternOne Equity LP has a loss for tax purposes, one-twelfth of the

income remaining after allocation of an amount of the Fund Priority Distribution to holders of LP Units or the loss for tax purposes of WesternOne Equity LP for that taxation period, as the case may be, will be allocated to its general partners and to its partners holding LP Units at the end of each month ending in that taxation year, as to 0.005% and 99.995%, respectively, and the amount allocated to the holders of the LP Units shall be allocated, after taking into account the amount of the Fund Priority Distribution (if any), in the proportion that the number of LP Units held at each of those dates by that partner, respectively, is of the total number of LP Units, respectively, issued and outstanding at each of those dates (for such purposes treating all classes of partners as one).

Income and loss of WesternOne Equity LP for accounting purposes is allocated to each partner in the same manner as income or loss is allocated for tax purposes.

The fiscal year end of WesternOne Equity LP is December 31.

### **Limited Liability**

WesternOne Equity LP is operated in a manner as to ensure to the greatest extent possible the limited liability of the Trust as a limited partner. Under the *Partnership Act* (Manitoba), the Trust, as a limited partner of WesternOne Equity LP, may lose its limited liability if it takes an active part in the business of the partnership and is liable as if it were a general partner, to any person with whom it deals on behalf of the partnership and who does not know that it is a limited partner, for all debts of the partnership and in certain other circumstances. If limited liability is lost by reason of the negligence of WesternOne Equity GP in performing its duties and obligations under the Partnership Agreement, WesternOne Equity GP has agreed to indemnify the Trust against all claims arising from assertions that its liability is not limited as intended by the Partnership Agreement. However, since WesternOne Equity GP has no significant assets or financial resources, this indemnity may be of nominal value.

### **Transfer of LP Units**

The LP Units are only transferable, subject to compliance with applicable securities restrictions, provided that non-residents of Canada (and partnerships that are not Canadian partnerships within the meaning of the Tax Act) may not acquire or hold an LP Unit. An LP Unit is not transferable in part, and no transfer of an LP Unit will be accepted by WesternOne Equity GP unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of WesternOne Equity LP. A transferee of an LP Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the Partnership Agreement on the date on which the transfer is recorded.

### **Amendment**

The Partnership Agreement may be amended with the prior consent of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the LP Units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding more than 66<sup>2</sup>/<sub>3</sub>% of the LP Units entitled to vote at a duly constituted meeting, except for certain amendments, which require unanimous approval of holders of LP Units, including amendments that: (i) alter the ability of the limited partners to remove WesternOne Equity GP as general partner involuntarily; (ii) change the liability of any limited partner; (iii) change the right of a holder of LP Units to vote at any meeting; or (iv) change WesternOne Equity LP from a limited partnership to a general partnership.

Notwithstanding the foregoing,

- no amendment which would adversely affect the interests, rights and obligations of WesternOne Equity GP, as general partner, may be made without its consent;
- no amendment which would adversely affect the interests, rights and obligations of any particular partner without similarly affecting the interests, rights and obligations of all other partners may be made without the consent of that partner; and
- WesternOne Equity GP may make amendments to the Partnership Agreement to reflect: (i) a change in the name of WesternOne Equity LP or the location of the principal place of business of WesternOne Equity LP or the registered office of WesternOne Equity LP; (ii) a change in the

governing law of WesternOne Equity LP to any other province of Canada; (iii) the admission, substitution, withdrawal or removal of limited partners in accordance with the Partnership Agreement; (iv) a change that, as determined by WesternOne Equity GP, is reasonable and necessary or appropriate to qualify or continue the qualification of WesternOne Equity LP as a limited partnership in which the limited partners have limited liability under applicable laws; (v) a change that, as determined by WesternOne Equity GP, is reasonable and necessary or appropriate to enable WesternOne Equity LP to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; or (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Partnership Agreement which may be defective or inconsistent with any other provision contained in the Partnership Agreement or which should be made to make the Partnership Agreement consistent with the disclosure set out in the Prospectus.

### **Meetings**

WesternOne Equity GP may call meetings of partners and will be required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% of the outstanding LP Units.

### **BUSINESS LPS**

Each platform business owned by WesternOne Equity LP will be held by a separate Business LP. WEQ Production Equipment LP was formed to acquire, and now owns, Production Equipment.

### **General Partner**

A wholly owned subsidiary of WesternOne Equity GP will be a general partner of each Business LP. WEQ Production Equipment GP Inc. is the general partner for WEQ Production Equipment LP.

As general partner of the Business LPs, each such subsidiary has exclusive authority to manage the business and affairs of the Business LPs, to make all decisions regarding the business of the Business LPs and to bind Business LPs. The authority and power vested in each such subsidiary to manage the business and affairs of the Business LPs includes all authority necessary or incidental to carry out the objects, purposes and business of the Business LPs. WesternOne Equity GP will nominate the directors of the general partner for each Business LP, which may include at least one manager from the underlying platform business.

### **Capitalization**

All of the limited partnership interests in each Business LP will be held, directly or indirectly, by WesternOne Equity LP, except in those circumstances when a minority interest in the Business LP may be held by a selling business owner or a senior employee responsible for that business. For example, in connection with the acquisition of a platform business, WesternOne Equity LP may negotiate arrangements with the selling business owner whereby the selling business owner retains an indirect interest in the platform business for a period of time following the acquisition. Under these circumstances, the selling business owner would be issued Partnership Units of the Business LP that would entitle the selling business owner to receive a portion of the Business LP's income. The Fund expects that the terms of these arrangements would contemplate that the right of the selling business owner to receive the selling business owner's share of the Business LPs' income would be subordinated to the right of WesternOne Equity LP to receive the Business LPs' income unless certain income distribution levels were satisfied by the Business LP, and that following a certain period of time and/or upon certain aggregate distribution thresholds being satisfied, the selling business owner would be entitled to cause the selling business owner's Partnership Units of the Business LP to be exchanged for Units of the Fund.

### **Distributions**

The general partners of the Business LPs intend to cause the Business LPs to distribute to WesternOne Equity LP a substantial portion of their respective available cash as set out below. Distributions will be made on or

about the 15th day following the end of each month. Distributions to WesternOne Equity LP are intended to be received by WesternOne Equity LP in time for WesternOne Equity LP to make its related distributions on the Partnership Units. The general partners of the Business LPs may, in addition, cause any of the Business LPs to make a distribution at any other time.

Available cash of a Business LP will consist, in general, of all of the Business LP's cash, after satisfaction of:

- general and administrative expenses and other expense obligations;
- debt service obligations on indebtedness of the Business LP;
- working capital requirements of the Business LP; and
- any other amounts that WesternOne Equity GP may consider reasonably necessary for the payment of any liability or expense that has been or is reasonably expected to be incurred in the activities or operations of the Business LP, for reasonable reserves (including amounts on account of working capital and capital expenditures and to stabilize distributions).

The amount distributed from time to time by any Business LP is determined by the board of directors of its general partner.

### **Allocation of Net Income and Losses**

The income and loss of the Business LPs for each fiscal year, including income or loss for tax purposes will be allocated, as to 0.005% thereof, to the general partner thereof and, as to 99.995% thereof, to the partners holding Partnership Units.

The fiscal year end of the Business LPs will be December 31.

### **Limited Liability**

Each Business LP will operate in a manner as to ensure to the greatest extent possible the limited liability of all limited partners. Under the *Partnership Act* (Manitoba), a limited partner of a Business LP may lose its limited liability if it takes an active part in the business of the Business LP and is liable as if it were a general partner, to any person with whom it deals on behalf of the Business LP and who does not know that it is a limited partner, for all debts of the Business LP and in certain other circumstances. If limited liability is lost by reason of the negligence of the general partner in performing its duties and obligations under the partnership agreement of the Business LP, the general partner will agree to indemnify each limited partner against all claims arising from assertions that its liability is not limited as intended by the partnership agreement. However, since the general partner is not likely to have any significant assets or financial resources, this indemnity may be of nominal value.

## **WESTERNOE EQUITY GP**

### **General**

WesternOne Equity GP is a corporation incorporated under the CBCA and acts as general partner of WesternOne Equity LP and holder the shares of the general partner of each Business LP. The Fund owns all of the outstanding common shares of WesternOne Equity GP.

The interest of WesternOne Equity GP in WesternOne Equity LP is 0.005%. It is not expected that WesternOne Equity GP will acquire any assets or properties other than its interest in WesternOne Equity LP and the shares of the general partners of the Business LPs and, accordingly, it is not expected to have any material income or assets.

## **Directors**

The Trustees will elect the directors of WesternOne Equity GP. WesternOne Equity GP will appoint the directors of the general partners of the Business LPs.

## **Share Capital**

WesternOne Equity GP is authorized to issue an unlimited number of common shares. A holder of a common share is entitled to one vote for each share held by such holder, to receive dividends as and when declared by the directors of WesternOne Equity GP in an equal amount per common share and to share equally in the assets and properties of WesternOne Equity GP on a per share basis distributed to shareholders of WesternOne Equity GP on the liquidation or winding up of WesternOne Equity GP.

## **Functions and Power of WesternOne Equity GP**

WesternOne Equity GP has exclusive authority to manage the business and affairs of WesternOne Equity LP, to make all decisions regarding the business of WesternOne Equity LP and to bind WesternOne Equity LP. WesternOne Equity GP is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of WesternOne Equity LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in WesternOne Equity GP to manage the business and affairs of WesternOne Equity LP includes all authority necessary or incidental to carry out the objects, purposes and business of WesternOne Equity LP, including without limitation, the ability to engage agents to assist WesternOne Equity GP to carry out its management obligations or substantially administration functions. WesternOne Equity GP cannot dissolve WesternOne Equity LP or wind-up WesternOne Equity LP's affairs except in accordance with the provisions of the Partnership Agreement.

## **Withdrawal or Removal of WesternOne Equity GP**

WesternOne Equity GP may resign on not less than 180 days' written notice to the limited partners of WesternOne Equity LP, provided that WesternOne Equity GP will not resign if the effect would be to dissolve WesternOne Equity LP.

WesternOne Equity GP may not be removed as general partner of WesternOne Equity LP unless: (i) WesternOne Equity GP has committed a material breach of the Partnership Agreement, which breach has continued for 30 days after notice, the removal is approved by a resolution of holders of at least 66<sup>2</sup>/<sub>3</sub>% of the LP Units voted on such resolution, and such resolution also admits a new general partner as a replacement to the WesternOne Equity GP; or (ii) the shareholders or directors of WesternOne Equity GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of WesternOne Equity GP, or WesternOne Equity GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the Partnership Agreement.

## **RISK FACTORS**

**The following are certain factors relating to WesternOne Equity's business that investors should carefully consider before deciding whether to purchase Units. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing throughout in this AIF. Additional risks and uncertainties not presently known to WesternOne Equity, or that Production Equipment or WesternOne Equity currently deem immaterial may also impair WesternOne Equity's operations. If any such risks actually occur, WesternOne Equity's business, financial condition, liquidity and results of operations could be materially adversely affected and its ability to make distributions on the Units could be materially adversely affected.**

## **Risks Related Generally to WesternOne Equity**

### ***Reliance on Key Personnel***

The success of WesternOne Equity depends on the abilities, experience, efforts and industry knowledge of their respective senior management and other key employees, including its ability to retain and attract skilled management and employees. The loss of the services of key personnel could have a material adverse effect on WesternOne Equity's business, financial condition, results of operations or future prospects, particularly since it does not typically enter into non-competition arrangements with senior management and other key employees. In addition, the growth plans described in this AIF may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. WesternOne Equity may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance WesternOne Equity will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on its business, financial condition, results of operations and future prospects.

### ***Financial Health of Business LPs and Cashflows***

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

The Fund will initially be entirely dependent on the operations and assets of Production Equipment through the Fund's indirect ownership of this business. Accordingly, the Fund's ability to make cash available for distribution to Unitholders will initially be entirely dependent upon the financial performance of Production Equipment. See "Risk Factors - Risks Related to Production Equipment".

### ***Failure to Realize Anticipated Benefits of Acquisitions***

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

WesternOne Equity may not adequately anticipate all the demands that its growth will impose on its personnel, procedures and structures, including its financial and reporting control systems, data processing systems and management structure. Moreover, WesternOne Equity's failure to retain qualified management personnel at any acquired businesses may increase the risk associated with integrating the businesses. If WesternOne Equity cannot adequately anticipate and respond to these demands, it may fail to realize acquisition synergies and its resources will be focused on incorporating new operations into its structure rather than on areas that may be more profitable. In addition, although WesternOne Equity conducts what it believes to be a prudent level of investigation regarding the operating condition of the businesses it purchases, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until WesternOne Equity actually assumes operating control of such business assets, it may not be able to ascertain the actual value of the acquired entity.

### ***Regulation***

WesternOne Equity is subject to a variety of federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on WesternOne Equity's business, financial condition, results of operations and cash flows. Although such expenditures historically have not been material, such laws and regulations are subject to change. Accordingly, it is impossible for WesternOne Equity to predict the cost or impact of such laws and regulations on their respective future operations.

### ***General Economic Conditions***

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

### ***Growth Initiatives***

WesternOne Equity's ability to successfully grow through add-on acquisitions will be dependent on a number of factors, including: the identification of suitable acquisition targets in both new and existing markets; the negotiation of purchase agreements on satisfactory terms and prices; securing attractive financing arrangements; and the integration of newly acquired operations into the existing business. Any acquisition will involve a number of risks, including: the inability to integrate the operations, personnel and information systems of the acquired business; the potential acquisition of previously undisclosed liabilities; and the potential disruption of WesternOne Equity's ongoing business and the diversion of management's attention from its day-to-day operations. An unsuccessful acquisition could have a material adverse impact on WesternOne Equity, its results of operations and financial condition. For greater certainty, no Unitholder approvals will be required for subsequent investments. Unitholders are totally dependant upon management, directors and Trustees in making investment decisions. The Trustees have a fiduciary duty to ensure that all investments are made in the best interests of Unitholders.

### ***Competition***

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

### **Risks Related to Production Equipment**

#### ***Sensitivity to General Economic Conditions and Levels of Economic Activity***

The equipment rental and sales industries in Canada have historically been subject to cyclical variations in the general economy regarding future economic prospects. Production Equipment's revenue is impacted by the health of the economy in Canada as a whole and in the regional markets in which it operates. A decline in the general economic conditions in Canada or in the regions in which Production Equipment operates could adversely affect the overall demand for equipment and therefore impact it and result in a decrease in revenue, a decline in operating results and a deterioration in financial condition.

As Production Equipment's rentals and sales of its equipment are primarily with the contractor/construction and film industries, demand for its products is particularly dependent upon the level of activity in these market segments. The level of activity in both of these segments depends on many factors, including levels of

unemployment, shifting demographic trends, gross domestic product growth, available financing, consumer confidence and other general economic conditions. A decline in economic activity may lead to a decrease in the demand for the equipment rented or sold by Production Equipment and/or the rental rates that it can charge to its customers. Any such decrease could adversely affect Production Equipment's business, financial condition, liquidity and operating results.

### ***The Loss of Tax Credit Incentives for the Film Industry***

The federal government, the British Columbia provincial government and other provincial governments have established refundable tax credit incentive programs for production entities. Production Equipment expects that film and television productions will incorporate such refundable tax credit incentives as elements of production financing. If such productions do not ultimately qualify for the refundable tax credit incentives, or if the refundable tax credit incentives are reduced or removed by applicable government authorities, film and television production may decrease and the need for Production Equipment services may be impacted. The foregoing could have a material adverse effect on Production Equipment's business, results of operations and financial condition.

### ***Labour Shortages***

Production Equipment's operations depend on its ability to attract, develop and retain knowledgeable and skilled personnel. In addition, as Production Equipment continues to pursue its growth strategies, its future performance will depend, in part, on its ability to attract, develop and retain highly qualified employees in all areas of its business. Competition for highly skilled management, sales, and technical personnel is intense, particularly in certain geographic areas where Production Equipment operates. Although Production Equipment has historically succeeded in attracting and retaining skilled employees and actively manages its human resource risks, there can be no assurance that Production Equipment will continue to be successful in its efforts. Any failure by Production Equipment to attract or retain qualified employees could have a material adverse effect on Production Equipment's business, financial condition and results of operations.

### ***Employee Relations***

Some of Production Equipment's employees are unionized and new or modified collective bargaining agreements were recently concluded. No strikes or lock-outs may lawfully occur until after the agreement expires on June 30, 2007. However, there can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in Production Equipment's operations. Any labour disruption or work stoppage could adversely affect the ability of Production Equipment to conduct its operations and have a material adverse effect on its ability to carry out its obligations on its business, results from operations and financial condition.

### ***Competition***

The equipment rental and sales industries in British Columbia are highly fragmented and highly competitive. In the contractor/construction, film, service and maintenance, government and special event segments, Production Equipment competes with larger companies with operations across Canada, the United States and overseas. These companies specialize in commercial equipment rentals and sales, and may have greater financial resources than Production Equipment does and may rent and sell many of the same products carried by Production Equipment. Certain competitors in the equipment rental and sales segments are directly affiliated with original equipment manufacturers, which provides them with discounted equipment pricing and co-branding privileges. Other large competitors may enjoy lower equipment acquisition costs than Production Equipment as a result of volume purchase discounts.

In connection with the rental of equipment, Production Equipment also faces competition from smaller companies that operate with few locations, however, typically such competitors are located within a particular region where Production Equipment does not operate. In Vancouver and surrounding areas, Production Equipment faces competition in the contractor/construction industry from diversified companies such as United Rentals Inc., Reliable Rentals Inc., CAT the Rental Store (a division of Finning International Inc.), and Hertz Equipment Rentals

Corp., each of which have strong purchasing power, financial resources, marketing capabilities and strong brand recognition.

Production Equipment may in the future encounter increased competition from existing competitors or new entrants into the markets in which Production Equipment currently operates. Competitive pressures could adversely affect revenue and operating results by decreasing rental and sales volumes, depressing the prices that can be charged to customers or negatively impacting Production Equipment's market share. Competitors with greater financial resources may have a competitive advantage by being able to sustain reduced rental rates and competitive pricing for longer periods and by being able to offer a broader range of rental equipment.

Management believes that price is one of the primary competitive factors in the equipment rental and sales industries. From time to time, Production Equipment or its competitors may attempt to compete aggressively by lowering rates. To the extent that Production Equipment lowers rates in an attempt to increase or retain market share, operating margins may be adversely impacted. In some cases, Production Equipment may not be able to match larger competitors' rate reductions because of their greater financial resources. If Production Equipment does not match competitors' rate reductions, it may lose market share, resulting in decreased revenue and cash flow.

Existing or future competitors may also compete with Production Equipment for new locations or acquisition candidates, which may increase acquisition prices and reduce the number of suitable expansion locations or acquisition candidates. If Production Equipment is not able to compete effectively in this regard, its future growth may be negatively impacted.

### ***Growth Initiatives***

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

In addition, the ability of Production Equipment to successfully expand through opening new branches will be dependent upon many factors, including its ability to: negotiate acceptable lease terms for additional sites in both new and existing markets; effectively hire, train, manage and retain qualified personnel; create brand awareness in new markets; and successfully enter and compete in new geographic markets in which it has no previous experience.

### ***Seasonality***

Production Equipment's revenue and operating results have historically varied somewhat throughout the year. Demand for equipment is generally lower during the winter from December through March when adverse weather conditions negatively impact construction activity in particular. From April through July the demand for equipment increases and is strongest from August through November. While certain of Production Equipment'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 Production Equipment's quarterly results of operations may require that it relies on lines of credit for working capital financing at certain times of the year. There can be no assurance that such financing will be available to Production Equipment when required or on commercially favourable or otherwise satisfactory terms.

### ***Resale of Rental Equipment***

Production Equipment disposes of its used rental equipment in the ordinary course of business. If prices for such equipment decline or new products and technologies emerge, it may not realize the level of proceeds upon the

sale of such equipment as was anticipated, which could negatively impact Production Equipment's results of operations and cash flow. A significant reduction in cash flow could impact Production Equipment's ability to purchase new rental fleet and thus put it at a competitive disadvantage. In addition, if it is necessary for Production Equipment to retain pieces of equipment for longer periods of time, such equipment will likely require additional repair and maintenance, and therefore be available for rent for shorter periods of time, thus negatively impacting the rental rates and revenue of such equipment, and negatively impacting its cash flow.

### ***Interest Rates***

Production Equipment finances purchases of new and, to a lesser extent, used equipment inventory under a floor plan borrowing arrangement under which it is charged interest at floating rates. Production Equipment obtains capital for acquisitions and for some working capital purposes under a similar arrangement. As a result, Production Equipment's debt service expenses may rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of Production Equipment's business, particularly new and used equipment sales, because many of its customers finance their equipment purchases. As a result, rising interest rates may have the effect of simultaneously increasing Production Equipment's costs and reducing its revenues.

### ***Equipment Availability***

Production Equipment relies on a stable supply of equipment to carry out its operations. It sources products from various suppliers on an ongoing basis at negotiated prices and does not enter into long-term contracts that guarantee availability or price. Significant increases in the purchase price of the equipment rented by it, the unavailability of such equipment or increases in lead times for the procurement of such equipment resulting from increased demand, natural disasters, delays in suppliers obtaining raw production materials, plant shutdowns or labour disputes could have a material adverse effect on its business, financial condition and results of operations.

### ***Environmental Regulation and Health and Safety Matters***

Production Equipment is subject to federal, provincial and local laws and regulations governing occupational health and safety and environmental protection. These laws regulate matters such as wastewater, stormwater, solid and hazardous waste and materials, and air quality. Under these laws, Production Equipment may be liable for, among other things, the costs of investigating and remediating contamination at Production Equipment's sites, adjacent sites as well as sites to which Production Equipment sent hazardous waste for disposal or treatment, regardless of fault, and fines and penalties for non-compliance.

Production Equipment dispenses petroleum products from above-ground storage tanks located at certain of its rental locations. Although Production Equipment maintains an environmental compliance program (which includes the implementation of required technical and operational activities designed to minimize the potential for leaks and spills, maintenance of records and the regular testing and monitoring of tank systems for tightness), there can be no assurance that these tank systems have been or will at all times remain free from leaks, or that the use of these tanks has not or will not result in spills or other releases.

Production Equipment uses hazardous materials such as solvents to clean and maintain its inventory of rental equipment, and generates and disposes of waste products such as used motor oil, radiator fluid and solvents. Production Equipment may be liable under federal, provincial and local laws for environmental contamination at facilities where such waste is or has been disposed. Management believes that Production Equipment currently conducts its operations in material compliance with all applicable laws and regulations. Production Equipment's compliance with applicable environmental laws has not had a material adverse effect on Production Equipment's business, financial condition or results of operations to date.

Environmental and safety requirements may become more stringent or be interpreted and applied more stringently in the future. Any such changes or interpretations, or the identification of currently unknown adverse environmental conditions, could cause Production Equipment to incur substantial additional and unanticipated environmental compliance or remediation costs or penalties related to violations of these laws and regulations, and

thus adversely impact Production Equipment's operating results and financial condition. See "Our Business – Government Regulations" and "– Environmental Matters".

### ***Import Product Restrictions and Foreign Trade Risks***

A significant portion of Production Equipment's business involves the rental or sale of equipment, parts or equipment composed of parts that are manufactured outside Canada. As a result, Production Equipment's operations will be subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. Canada, or the countries from which Production Equipment's products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect its operations and its ability to purchase imported equipment and/or parts at reasonable prices.

### ***Financing Constraints***

The indebtedness represented by the operating loan, floor plan financing, credit facility for equipment purchases and capital leases that Production Equipment uses to finance its new equipment inventories and rental fleet acquisitions could limit the future availability of debt financing to fund acquisitions. See "Financing". A line of credit for acquisition purposes may not be available to Production Equipment on favourable terms from its current or other lenders. Production Equipment may be required to use available cash or other sources of debt or equity financing. Using cash to complete acquisitions may substantially limit Production Equipment's operating or financial flexibility. If Production Equipment is unable to obtain financing on acceptable terms, it may be required to reduce the scope of its presently anticipated expansion, which may materially and adversely affect its growth strategy.

The Credit Facility contains numerous restrictive covenants that limit the discretion of the Production Equipment's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Production Equipment to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facility contains a number of financial covenants that require Production Equipment to meet certain financial ratios and financial condition tests. A failure by Production Equipment to comply with the obligations in the Credit Facility could result in acceleration of the relevant indebtedness. See "Financing".

### ***Insurance Coverage***

Production Equipment maintains insurance coverage in respect of its potential liabilities, including theft and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as Production Equipment considers appropriate, taking into account all relevant factors. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable. Production Equipment will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets and the business at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of Production Equipment's lost investment. Certain factors also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds Production Equipment would receive might not be adequate to recover its economic position with respect to such property. There are no assurances that Production Equipment's insurance coverage will continue to be available to it on reasonable terms, including reasonable premium, deductible and co-insurance requirements, or that Production Equipment's insurer will not disclaim coverage of any future claim. Production Equipment's business, financial condition, liquidity and results of operations could be materially adversely affected if any of the foregoing developments were to occur.

### ***Dependence on One Site***

Production Equipment currently maintains one site in Port Coquitlam, British Columbia to store and service its equipment. A fire or any other destructive event would materially and adversely affect the business as equipment off-site during such an event would not have a site to return to for servicing or subsequent rental. Furthermore, any event which would restrict access to the Production Equipment site, including, without limitation, a work stoppage, would have a similar effect. Production Equipment is currently seeking additional facilities for growth purposes.

### ***Dependence on Information Systems and Technology***

Information systems are an important part of Production Equipment's business processes, including marketing the products and services offered by Production Equipment, managing inventory, co-ordinating logistical support, and managing finance functions. In addition, management relies on information systems to analyze Production Equipment's operating performance on an ongoing basis and to aid in the preparation of budgets and forecasts. Any disruptions in these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect Production Equipment's business, financial condition and results of operations.

### **Risks Related to Structure of the Fund**

#### ***Dependence upon WesternOne Equity LP to Fund Cash Distributions***

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

#### ***Cash Distributions are Not Guaranteed and Will Fluctuate with Business Performance***

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

#### ***Distributions are Discretionary***

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

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

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

### ***Limited Liability***

The Fund Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the Fund. In addition, under the *Income Trust Liability Act* (British Columbia), Unitholders are not liable, as beneficiaries of a Fund, for any act, default, obligation or liability of the Trustees. This statute has not yet been judicially considered and it is possible that reliance on the statute by a Unitholder could be successfully challenged on jurisdictional or other grounds. In addition, Unitholders who are resident in jurisdictions which have not enacted legislation similar to the British Columbia legislation may not be entitled to the protection of the British Columbia legislation.

### ***Unpredictability and Volatility of Unit Prices***

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

### ***Attributes of Securities Distributed on Redemption of Units or Termination of the Fund***

Upon termination of the Fund, the Trustees may distribute the Trust Units and Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. Upon redemption of Units, the Trustees may distribute Trust Notes directly to Unitholders, subject to obtaining all required regulatory approvals and complying with the terms of such approvals. There is currently no market for the Trust Units and Trust Notes. In addition, Trust Units and Trust Notes are not freely tradable or listed on any stock exchange and no established market is expected to develop for the Trust Units and Trust Notes. See "WesternOne Equity Income Fund — Term of the Fund" and "— Redemption at the Option of Unitholders". Securities so distributed may not be qualified investments for Funds governed by Plans, depending on the circumstances at the time.

### ***Dilution***

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. In addition, WesternOne Equity LP is permitted to issue additional LP Units for any consideration and on any terms and conditions.

### ***Leverage and Restrictive Covenants***

The ability of WesternOne Equity LP to make advances and distributions to the Trust and ultimately to the Fund to enable the Fund to make distributions to Unitholders or to make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of WesternOne Equity (including the Series A Debentures and the Credit Facility). The degree to which WesternOne Equity LP is leveraged could have important consequences to the Unitholders including:

- WesternOne Equity LP's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- a significant portion of WesternOne Equity LP's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations;
- certain borrowings will be at variable rates of interest, which exposes WesternOne Equity LP to the risk of increased interest rates; and

- WesternOne Equity LP may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures.

These factors may increase the sensitivity of cash available for distribution to interest rate variations, and could have a negative impact on the Fund's ability to make distributions to its Unitholders.

### ***Substantial Interest of the Principal Unitholder***

The Principal Unitholder owns 13.2% of the Fund's outstanding Units on a fully-diluted basis. As a result, the Principal Unitholder has a substantial influence over the Fund's affairs and business.

This concentration of ownership could have the effect of discouraging, delaying or preventing a change in control of the Fund or unsolicited acquisition proposals that a Unitholder might consider favourable. These provisions include ownership requirements and limits and approval rights with respect to the composition of the board of directors of the general partners of certain Business LPs. Thus, the concentration of ownership and such provisions may materially and adversely impact the value of the Fund's Units.

### ***Investment Eligibility***

There can be no assurance that the provisions of the Tax Act with respect to the eligibility of the Units for Plans will not change, or that the Units and Series A Debentures will continue to be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

### ***Income Tax Matters***

#### *Changes in Legislation*

On October 31, 2006, the Minister announced new tax proposals concerning the taxation of income trusts and other flow-through entities and tabled a Notice of Ways and Means Motion to amend the Income Tax Act in that regard (the "October Proposal"). The October Proposal was followed on December 21, 2006 by the release of draft legislation by the Department of Finance (Canada) (the "draft legislation" and, together with the October Proposal, the "2006 Proposed Amendments") concerning the distribution tax on publicly traded income trusts and partnerships. The 2006 Proposed Amendments, if enacted as currently drafted, will subject the Fund to trust level taxation as of January 1, 2011, which will reduce the amount of cash available for distributions to unitholders. Based on the proposed rate of such tax, the Fund estimates that the enactment of the 2006 Proposed Amendments will, commencing on January 1, 2011, reduce the amount of cash available to the Fund for distribution to its unitholders by an amount equal to 31.5% multiplied by the amount of pre-tax income (other than taxable dividends) distributed by the Fund and there can be no assurance that the Fund will be able to maintain the level of distributions commencing in 2011. There can be no assurance that the Fund will be able to retain the benefit of the deferred application of the new tax regime until 2011. If the Fund is deemed to have undergone "undue expansion", as described in the Guidelines on Normal Growth issued by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), during the period from and including November 1, 2006 to December 31, 2010, the 2006 Proposed Amendments would become effective on a date earlier than January 1, 2011. Loss of the benefit of the deferred application of the new tax regime until 2011 could have a material and adverse effect on the value of units.

On March 26, 2007 the Department of Finance (Canada) released draft legislation that refers to the Normal Growth Guidelines. The Department of Finance (Canada) indicated that an income trust or other flow-through entity will not lose the benefit of the deferred application of the new tax regime to 2011 if the aggregate amount of new equity (which will include units and debt that is convertible into units and potentially other substitutes for such equity) issued by it before 2008 does not exceed the greater of \$50.0 million and an objective "safe harbour" amount equal to 40% of the trust's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of a trust's issued and outstanding publicly-traded units (not including debt, options or other interests that were convertible into units of the trust)) ("October 31, 2006 Market Capitalization").

The “safe harbour” for the intervening years up to 2011 will be 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
2008	Greater of \$50 million or 20% of October 31, 2006 Market Capitalization
2009	Greater of \$50 million or 20% of October 31, 2006 Market Capitalization
2010	Greater of \$50 million or 20% of October 31, 2006 Market Capitalization

As the above-noted table illustrates, in the aggregate, a publicly traded income trust or other flow-through entity can incrementally increase its equity capital by the greater of \$200 million or 100% of its October 31, 2006 Market Capitalization. The Fund’s October 31, 2006 Market Capitalization was approximately \$22.44 million.

#### *Taxation of the Fund and Partnership*

Expenses incurred by the Fund, the Trust, WesternOne Equity LP and the Business LPs are deductible only to the extent they are reasonable. There can be no assurance that the taxation authorities will not seek to challenge the reasonableness of certain expenses. If a challenge were to succeed against the Fund, it could materially and adversely affect the amount of cash available for distribution to Unitholders. Management believes that the expenses inherent in the structure of the Fund and its subsidiaries are supportable and reasonable in the circumstances. The Fund Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund’s taxable income. Where in a particular year the Fund has insufficient available cash to distribute the full amount of the taxable income of the Fund to Unitholders, the Fund Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the amount of such taxable income in their taxable income, in circumstances when they do not directly receive a cash distribution.

#### *Nature of Distributions*

Unlike interest payments on an interest-bearing security, distributions by income trusts on trust units (including those of the Fund) are, for Canadian tax purposes, composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable “returns of capital”). The composition for tax purposes of those cash distributions may change over time, thus affecting the after-tax return to Unitholders. Therefore, a Unitholder’s rate of return over a defined period may not be comparable to the rate of return on a fixed-income security that provides a return on capital over the same period. This is because a Unitholder may receive distributions that constitute a return of capital (rather than a return on capital) to some extent during the relevant period. Returns on capital are generally taxed as ordinary income, dividends or taxable capital gains in the hands of a Unitholder while returns of capital are generally non-taxable to a Unitholder (but reduce a Unitholder’s adjusted cost base in the Unit for tax purposes). Unitholders are advised to consult their own tax advisors with respect to the implications of the distinction discussed above in their own circumstances.

Trust Notes received as a result of the redemption of Units will not be qualified investments for Funds governed by Plans and their acquisition may give rise to adverse consequences to a Plan and/or an annuitant under the Plan.

#### ***Limitations on Future Growth and Cash Flow***

The payout by WesternOne Equity of substantially all of WesternOne Equity’s operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit WesternOne Equity’s future growth and cash flow.

### ***Restrictions on the Ownership of Units by Non-Residents of Canada***

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning either more than 49% of the Units (on a non-diluted and a fully-diluted basis). If the Trustees become aware that non-resident Unitholders beneficially own more than 40% of the Units, the Fund may impose restrictions that may limit (or inhibit the exercise of) the rights of certain non-residents of Canada, including U.S. persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and adversely affect the liquidity and market value of the Units held by the public.

### ***Indemnities Under the Acquisition Agreement***

In connection with acquisition of Production Equipment by WEQ Production Equipment LP, WEQ Production Equipment LP obtained certain representations and warranties from the Partners, among others, respecting the business and assets. If such representations and warranties were incorrect in any material respect, WEQ Production Equipment LP would be required to make a claim under the indemnities received from the Partners. There is no assurance that WEQ Production Equipment LP would be successful in pursuing any such claim. The discovery of any material liabilities for which indemnities were not obtained from the Partners could have an adverse effect on the Fund's results of operation, financial condition or future prospects.

Pursuant to the Acquisition Agreement, the Partners agreed to indemnify WEQ Production Equipment LP in respect of the inaccuracy of representations and warranties of the Partners contained in that agreement, subject to the limitations contained in the agreement. There is no restriction on the use of the cash proceeds received directly or indirectly by the Partners pursuant to the Acquisition Agreement or on the ability of the Partners or their shareholders to dispose of their assets which may limit the recourse available to WEQ Production Equipment LP against the Partners. As such, there can be no assurance that WEQ Production Equipment LP will be able to obtain any amount of any claim for indemnification made by it against the Partners. Furthermore, there can be no assurance as to the sufficiency of the assets of the Partners to satisfy any judgements obtained against them in connection with a claim for indemnification under the Acquisition Agreement.

### ***Unitholders are not afforded Certain Statutory Rights***

Purchasers of Units are cautioned that, although the Fund is a legal entity, it is not regulated by established corporate law and Unitholders' rights are governed by the specific provisions of the Fund Declaration of Trust, which addresses such items as the nature of the Units, the entitlement of Unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of Unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Trustees to Unitholders. 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 or rights of dissent. See "WesternOne Equity Income Fund — Rights of Unitholders". As well, under certain existing legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors Arrangement Act* (Canada), the Fund is not a legally recognized entity within the definitions of these statutes. In the event of insolvency or restructuring of the Fund, the rights of Unitholders will be different from those of shareholders of an insolvent or restructuring corporation.

## **DISTRIBUTIONS**

### **Distribution Policy**

We have made, and intend to continue to make, distributions of our available cash to the maximum extent possible to Unitholders. We intend to make equal monthly cash distributions to Unitholders of record on the last business day of each month, less amounts we estimate will be required for expenses, cash redemptions or repurchases of Units, any tax liability, other of our obligations and any reasonable reserves established by us. The distributions will be paid on or about the 15<sup>th</sup> day following the end of each month. We may make additional distributions in excess of the monthly distributions during the year, as we see fit, in our sole discretion. See "WesternOne Equity Income Fund — Distributions".

We announced on March 7, 2007 a 10.2% increase in cash distributions, increasing the monthly distribution from \$0.0408 to \$0.045 per Unit effective March 1, 2007 (equivalent to \$0.54 per Unit on an annualized basis).

### Historical Distributions

We have declared payable the following cash distributions for the period ended December 31, 2006 to Unitholders:

<b>Period</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Amount</b>
August 2006	August 31, 2006	September 15, 2006	\$0.0224	\$143,585
September 2006	September 30, 2006	October 16, 2006	\$0.0408	\$261,530
October 2006	October 31, 2006	November 15, 2006	\$0.0408	\$261,530
November 2006	November 30, 2006	December 15, 2006	\$0.0408	\$261,530
December 2006	December 29, 2006	January 15, 2007	\$0.0608 <sup>(1)</sup>	\$389,731
<b>Total</b>			<b>\$0.2056</b>	<b>\$1,317,906</b>

(1) Includes a special cash distribution of \$0.02 per Unit announced on December 19, 2006.

## MARKET FOR SECURITIES

### Trading Price and Volume

#### *Units*

The Units are listed and posted for trading on the Exchange under the symbol WEQ.UN. The first day of trading was August 15, 2006. The following table sets forth certain trading information for the Units on the Exchange for the most recently completed financial year:

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Volume</b>
2006 August	3.85	3.50	3.75	44,064
September	3.60	3.40	3.45	70,549
October	3.65	3.30	3.50	46,079
November	3.40	2.65	2.85	97,180
December	3.10	2.70	2.75	65,592

#### *Debentures*

The Debentures are listed and posted for trading on the Exchange under the symbol WEQ.DB. The first day of trading was August 15, 2006. The following table sets forth certain trading information for the Debentures on the Exchange for the most recently completed financial year:

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Volume</b>
2006 August	105	100	105	700
September	101	100	100	2,485
October	100	100	100	1,370
November	100	98.50	100	91
December	100	95	95	720

## TRUSTEES, DIRECTORS AND MANAGEMENT

The following table sets forth the name, province or state and country of residence, position with us, principal occupation during the five preceding years and period of service for each of our Trustees and directors and executive officers:

Name and Province or State and Country of Residence	Position	Principal Occupation
Robert W. King <sup>(1) (3) (4) (5) (6) (7) (8)</sup> British Columbia, Canada	Trustee and Director	President, King Pacific Capital Corporation
Darren T. Latoski <sup>(1) (2) (4) (5)</sup> British Columbia, Canada	Trustee, Director and Chief Executive Officer	Chief Executive Officer, WesternOne Equity; President, Sunstone Realty Advisors Inc.
Douglas R. Scott <sup>(1) (4) (5)</sup> British Columbia, Canada	Trustee	Consultant
Stephen J. Evans <sup>(3)</sup> British Columbia, Canada	Director	Managing Director, Sunstone Realty Advisors Inc.
Jon A. Gordon <sup>(3) (6)</sup> New York, U.S.A.	Director	Co-Managing Partner, Palladian Capital Partners, LLC
T. Richard Turner <sup>(3) (6)</sup> British Columbia, Canada	Director	President and Chief Executive Officer, TitanStar Capital Corp.
Robert J. Hibberd British Columbia, Canada	Chief Financial Officer and Secretary	Chief Financial Officer, WesternOne Equity; Consultant; Assistant Vice President, PricewaterhouseCoopers Corporate Finance Inc.

(1) Trustee since June 14, 2006.

(2) Director since June 8, 2006.

(3) Director since June 15, 2006.

(4) Member of the audit committee of the Fund.

(5) Member of the nominating and governance committee of the Fund.

(6) Member of the compensation committee of WesternOne Equity LP.

(7) Robert King served as a director of Redekop Properties Inc. ("Redekop") from March 1997 to June 2001. Redekop was formerly listed on the TSX. On December 4, 2000, Redekop and certain affiliated companies applied for and were granted a protective order under the *Companies' Creditors Arrangement Act* (Canada). On February 9, 2001, Redekop and an affiliated company applied for, and received, a stay order under the *Companies' Creditors Arrangement Act* (Canada). A monitor was appointed to monitor the business and financial affairs of Redekop while the stay order remained in effect. On March 2, 2001, the British Columbia Supreme Court dismissed an application by Redekop and its affiliates for an order entitling Redekop to file a plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada). In dismissing the application, the Court withdrew the protective order previously granted to Redekop and its affiliates. On or about March 5, 2001, Montreal Trust Company of Canada filed a Notice of Intention to Enforce Security against Redekop under the *Bankruptcy and Insolvency Act* (Canada). Mr. King resigned from the board of directors of Redekop prior to the commencement of proceedings under the *Bankruptcy and Insolvency Act* (Canada).

(8) Robert King held common shares in the capital of Prescient Neuropharma Inc. at the time he became a director of that company in December 2002. Through inadvertence, Mr. King did not file an insider report disclosing such shareholdings. Accordingly, Mr. King was sanctioned by the British Columbia Securities Commission and received a \$100 fine, which has been paid.

The following are brief profiles of our Trustees, directors and executive officers:

*Darren T. Latoski, Chief Executive Officer, Trustee & Director.* Mr. Latoski is also the President of Sunstone Realty Advisors Inc. ("Sunstone"). Sunstone has raised in excess of \$140 million in its private equity real estate funds and acquired more than \$300 million in assets since 2002. Sunstone achieved annual returns of 23.5% and 35% for its initial two funds which have been fully wound-up. From 1997 to 2001, Mr. Latoski was the Vice-President of Macluan Capital Corporation, a Vancouver based private equity firm. He held primary responsibility for relationship management of intermediaries and other professionals along with co-ordination of due diligence and post transaction monitoring. During the years 1990 through 1997 he was a principal of a group of private businesses in connection with the identification, refurbishment and sale of 15 condominium projects located in British Columbia and Alberta, representing 2,073 residential units, for total gross sale proceeds of \$199.5 million. From 1995 to present, Mr. Latoski has been a strategic advisor to high net worth individuals. Mr. Latoski holds an MBA from Simon Fraser University.

*Robert J. Hibberd, Vice-President and Chief Financial Officer.* From 2004 to 2006, Mr. Hibberd was an independent financial consultant, specializing in corporate finance advisory and public company transactions. Prior to this, Mr. Hibberd was an Assistant Vice President – Corporate Finance & Investment Banking with PricewaterhouseCoopers Corporate Finance Inc. His experience included working with public companies and private businesses to identify and manage suitable potential purchasers, sellers, investors and related opportunities, with a strong emphasis on income fund transactions. Mr. Hibberd is a CA (British Columbia), a Certified Public Accountant (Illinois), a Certified Management Consultant (Honour Roll) with the Canadian Association of Management Consultants, and is qualified as a General Securities Principal with the National Association of Securities Dealers (NASD). He also holds a Bachelor of Arts with Honours from the University of Toronto.

*Robert W. King, Trustee and Director.* Since 1995, Mr. King has been the President of King Pacific Capital Corporation, a private financial services firm actively involved in corporate finance, venture capital and real estate investments. Mr. King has as been a principal since 1995 of Westbridge Capital Group, a full service commercial mortgage brokerage firm. Mr. King sits on the boards of several private companies and the boards of TSX listed Wall Financial Corp. and NASDAQ listed Planetout Inc. Mr. King holds an MBA from Dalhousie University and a Bachelor of Arts from the University of British Columbia.

*Douglas R. Scott, Trustee.* Mr. Scott is currently a financial consultant. Previously, he was the Chief Financial Officer of First Majestic Resources Corp. and First Silver Reserve Inc. Mr. Scott has a Bachelor of Commerce Degree with Distinction from the University of Alberta and is a CA (Alberta) with more than 30 years of professional experience. Mr. Scott was Vice President and Chief Financial Officer of Coast Wholesale Appliances Income Fund and its predecessor from 2003 to 2005, and was instrumental in its 2005 initial public offering. In addition, Mr. Scott was a partner with FinancExec Associates, working primarily in the roles of director and chief financial officer for a number of large to medium-sized public and private companies.

*Stephen J. Evans, Director.* Mr. Evans is currently the Managing Director and co-founder of Sunstone Realty Advisors Inc. and its related companies. From 1987 to 2001, Mr. Evans was the Vice President of England Securities Ltd., a real estate investment, development and management company. In his capacity as Vice President, Mr. Evans actively participated in the negotiation, acquisition and management by England Securities Ltd. of a number of real estate assets, throughout Canada and the United States, with an aggregate value in excess of \$280 million.

*Jon A. Gordon, Director.* Mr. Gordon has over 19 years of experience in investment banking. He is currently the founder and co-managing partner of Palladian Capital Partners, LLC, a private equity investment firm. From 1999 to 2002, Mr. Gordon was Managing Director of Lehman Brothers' Transaction Development Group. During his tenure, he initiated several mergers and acquisitions ("M&A") assignments with financial sponsors and executed transactions totalling over \$2 billion. Prior to Lehman Brothers, from 1997 to 1999, Mr. Gordon was a Director in the M&A department at Credit Suisse First Boston ("CSFB") where he provided M&A coverage for financial sponsors. At CSFB he executed over \$3 billion of M&A transaction. Previously, Mr. Gordon was also a Vice President at Lehman Brothers in 1996, a Director in investment banking at Furman Selz Inc. from 1989 to 1996, where he provided a broad range of corporate finance services to mid-market companies. Mr. Gordon is a graduate of Harvard College where he received an AB magna cum laude and an MBA with distinction from Harvard Business School.

*T. Richard Turner, Director.* Since 1995, Mr. Turner has served as the President and Chief Executive Officer of TitanStar Investment Group Inc., a private company engaged in the provision of private equity capital to mid-market businesses and capital for real estate developments and acquisitions. His current board positions include trustee of Sunrise Senior Living REIT; trustee of Sun Gro Horticultural Income Fund and Board Chair and Director of its operating subsidiary Sun Gro Horticultural Canada Inc.; Director of Sora Group Wealth Advisors Inc.; and Board Chair and Director of the Insurance Corporation of British Columbia. Mr. Turner is also a Director of the Organizing Committee of the Vancouver 2010 Olympic and Paralympic Winter Games; Honourary Consul Hashemite Kingdom of Jordan; Governor of the BC Business Council; and a past Chair and Governor of the Vancouver Board of Trade. From 1988 to 2005, Mr. Turner served as a Director, President and Chief Executive Officer of the operating subsidiary of IAT Air Cargo Facilities Income Fund, a business which is involved in the development and management of real estate at airports. Mr. Turner also served as Board Chair and Director of the British Columbia Lottery Corporation from 2001 until 2005. In 2003, Mr. Turner received H.R.H. Queen

Elizabeth's Golden Jubilee Award for public service in Canada. Mr. Turner holds a Bachelor of Commerce in Finance from the University of British Columbia.

Each of the Trustees of the Fund holds office for a term expiring at the close of the next annual meeting of Unitholders or until their successors are appointed, unless his or her office is earlier vacated in accordance with the Fund Declaration of Trust. Each of the directors of WesternOne Equity GP holds office for a term expiring not later than the close of the next annual meeting of the shareholders.

#### **Security Holdings of the Trustees, Directors and Officers**

As of March 9, 2006, as a group, the Trustees and the directors and executive officers of the Fund own, directly or indirectly, or exercise control or direction over, a total of 1,661,228 Units, representing 25.9% of the then issued and outstanding Units.

#### **Corporate Cease Trade Orders or Bankruptcies**

To the knowledge of the Trustees, no Trustee, director or officer of the Fund, or Unitholder holding a sufficient number of securities of the Fund to affect materially the control of the Fund, is, or within the ten years prior to the date hereof, has been, a trustee, director or officer of any other issuer that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to; or (iii) instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

#### **Penalties or Sanctions**

Unless otherwise disclosed in this AIF, to the knowledge of the Trustees, no Trustee and no director or officer of the Fund has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

#### **Personal Bankruptcies**

To the knowledge of the Trustees, no Trustee, director or officer of the Fund, or Unitholder holding a sufficient number of Units of the Fund to affect materially the control of the Fund, or a personal holding company of any such persons has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such persons assets.

#### **Conflicts of Interest**

Other than disclosed herein, to the knowledge of the Trustees, there are no existing or potential material conflicts of interest among us and a Trustee or a director or officer of the Fund.

### **PROMOTERS**

Darren Financial Group Inc. may be considered to be a promoter of the Fund by reason of its initiative in organizing the business and affairs of the Fund. It owns 1,150,900 Units, being 13.2% of the Fund's outstanding Units on a fully-diluted basis.

## ESCROWED SECURITIES

The following table sets out the escrowed securities:

<b>Designation of Class</b>	<b>Number of Securities Held in Escrow</b>	<b>Percentage of Class</b>
Units issued and outstanding	1,600,000 <sup>(1)</sup>	25.0%

(1) All of these Units are held in escrow in accordance with Exchange policies, which permits releases to occur as follows: (i) one quarter available for release as at August 14, 2006; (ii) one third of the remaining Units in escrow available for release as at six months thereafter; (iii) one half of the remaining Units in escrow available for release as at 12 months thereafter; and (iv) all of the remaining Units in escrow available for release as at 18 months thereafter. Each holder of escrowed securities has entered into an escrow agreement with the escrow agent, Computershare Investor Services Inc., in a form prescribed by the Exchange.

## LEGAL PROCEEDINGS

We are not aware of any legal proceedings to which we are a party, or by which any of our property is subject, which would be material to us. Nor are we aware of any such proceedings being contemplated.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units is Computershare Investor Services Inc., and the transfer agent and registrar for the Series A Debentures is Computershare Trust Company of Canada, at their principal offices in Vancouver, British Columbia and Toronto, Ontario.

## MATERIAL CONTRACTS

The only contracts entered into, other than in the ordinary course of business, that are material and that were entered into within the most recently completed financial year, or before the most recently completed financial year but are still in effect are as follows:

- (a) the credit agreements governing the Credit Facility described under “Financing”;
- (b) the Acquisition Agreement, described under “Our Business – Acquisition of Production Equipment”;
- (c) the Investment Agreement, described under “General Development of Our Business – Acquisition of Our Initial Business”;
- (d) the Fund Declaration of Trust, described under “WesternOne Equity Income Fund”;
- (e) the Series A Trust Indenture, described under “Capital Structure”;
- (f) the Administration Agreement, described under “WesternOne Equity Income Fund - Administration of the Fund and the Trust”;
- (g) the Trust Declaration of Trust, described under “WesternOne Equity Operating Trust”;
- (h) the Trust Note Indenture, described under “WesternOne Equity Operating Trust”;
- (i) the Partnership Agreement, described under “WesternOne Equity LP”;
- (j) the limited partnership agreement of WEQ Production Equipment LP;

- (k) the WesternOne Equity Option Plan; and
- (l) the Agency Agreement.

Copies of the foregoing documents are available at [www.sedar.com](http://www.sedar.com).

### **INTERESTS OF EXPERTS**

The auditors of the Fund are Meyers Norris & Penny LLP, 96 Wallace Street, Nanaimo, British Columbia, V9R 5L5. As of February 14, 2007, the date of Meyers Norris & Penny LLP auditors' report on the Fund's audited consolidated financial statements for the period ended December 31, 2006, the partners did not own any of our outstanding Units.

### **AUDIT COMMITTEE INFORMATION**

#### **Charter of the Audit Committee**

The terms of reference of the audit committee of the Fund are attached as Schedule A to this AIF.

#### **Composition of the Audit Committee**

The audit committee of the Fund currently consists of Douglas R. Scott (Chair), Robert W. King and Darren T. Latoski.

Each member of the audit committee of the Fund is independent and financially literate, as such terms are defined in *Multilateral Instrument 52-110-Audit Committees*.

#### **Relevant Education and Experience**

See the biographies of the Fund's Trustees for each member of the audit committee in "Trustees, Directors and Management" for a description of the experience that is relevant to the performance of their responsibilities as audit committee members.

#### **Prior Approval Policies and Procedures**

The audit committee of the Fund must pre-approve all non-audit services to be provided to the Fund or its subsidiaries by the Fund's external auditor, other than non-audit services where:

- (a) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Fund and its subsidiaries to the Fund's external auditor during the fiscal year in which the services are provided;
- (b) the Fund or its subsidiary, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the audit committee of the Fund and approved, prior to the completion of the audit, by the audit committee of the Fund or by one or more of its members to whom authority to grant such approvals had been delegated by the audit committee of the Fund.

### External Auditor Service Fees

The following table sets forth, by category, the fees billed by Meyers Norris & Penny LLP, the Fund's auditors, for the period ended December 31, 2006:

<u>Fee category</u>	<u>2006</u>
Audit fees, December 31 audit	\$57,750
Audit-related fees, Offering	67,988
Tax fees	13,283
Total	<u>\$139,283</u>

“**Audit fees**” and “**Audit-related fees**” include all fees paid to Meyers Norris & Penny LLP for the audit of the annual consolidated financial statements and other services in connection with regulatory filings.

“**Tax fees**” include all fees for tax compliance, tax advice and tax planning, and advisory services.

### ADDITIONAL INFORMATION

Additional information relating to us may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including trustees', directors', and officers' remuneration and indebtedness, principal holders of our securities, and securities authorized for issuance under equity compensation plans, as applicable, will be contained in our information circular for our annual meeting of Unitholders that involves the election of Trustees scheduled for April 12, 2007. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis for our most recently completed financial year.

## SCHEDULE A

### TERMS OF REFERENCE AUDIT COMMITTEE WESTERNOE EQUITY INCOME FUND (the "Fund")

#### A. PURPOSE

The trustees shall appoint an audit committee (the "Committee") of the Fund to assist the trustees in fulfilling their responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures of the Fund, WesternOne Equity Operating Trust, WesternOne Equity GP Inc., WesternOne Equity LP and any other subsidiaries (collectively, the "WesternOne Equity Entities"), the adequacy of internal accounting controls and procedures, and the quality and integrity of the financial statements of the WesternOne Equity Entities. In addition, the Committee is responsible for directing the auditors' examination of specific areas, for the selection of the independent auditors of the WesternOne Equity Entities and for the approval of all non-audit services for which the auditors of the WesternOne Equity Entities may be engaged.

#### B. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three members, each of whom shall be a trustee of the Fund and a majority of whom shall be "independent" within the meaning of Multilateral Instrument 52-110 – *Audit Committees* ("MI 52-110").

Each member of the Committee shall satisfy the "financial literacy" requirement of MI 52-110, by having the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the financial statements of the Fund.

The members of the Committee shall be annually appointed by the trustees and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the trustees.

#### C. CHAIR OF THE COMMITTEE

Unless the trustees elect a Chair of the Committee, the members of the Committee shall designate a Chair by the majority vote of the full Committee membership.

The Chair of the Committee shall:

- (i) Call and conduct the meetings of the Committee;
- (ii) Be entitled to vote to resolve any ties;
- (iii) Prepare and forward to members of the Committee the agenda for each meeting of the Committee, and include, in the agenda, any items proposed for inclusion in the agenda by any member of the Committee;
- (iv) Review with the Chief Financial Officer ("CFO") and the auditors for the Fund any matters referred to the Chair by the CFO or the auditors of the Fund;
- (v) Appoint a secretary, who need not be a member of the Committee, to take minutes of the meetings of the Committee; and

- (vi) Act in a manner so that the Committee meetings are conducted in an efficient, effective and focused manner.

#### **D. MEETINGS**

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. The Committee may meet privately with outside counsel of its choosing and the CFO, as necessary. In addition, the Committee shall meet with the external auditors and management quarterly to review the Fund's financial statements in a manner consistent with that outlined in these Terms.

The Committee may invite to its meetings any trustees, directors of WesternOne Equity GP Inc., management of WesternOne Equity LP and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, shall constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

The Committee shall maintain minutes or other records of meetings and activities of the Committee.

Notice of the time and place of every meeting shall be given in writing or electronic communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting, provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

#### **E. RESPONSIBILITIES, DUTIES, AUTHORITY**

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in these Terms. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the trustees from time to time related to the purposes of this Committee.

The Committee in discharging its oversight role is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention. In addition, the Committee shall have the authority to communicate directly with external and internal auditors of the Fund.

The Committee shall be given full access to the trustees, management of WesternOne Equity LP, employees of WesternOne Equity LP directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the trustees.

The Committee shall be responsible for assessing the range of risks that the trustees shall focus on, and shall make recommendations to the trustees about how appropriate responsibilities for continuing to identify, monitor and manage these risks are to be delegated.

In addition, the Committee shall encourage continuous improvement of, and foster adherence to, the Fund's financial policies, procedures and practices at all levels in the organization, and provide an avenue of communication among the independent auditors, management and the trustees.

Absent actual knowledge to the contrary (which shall promptly reported to the Board), each member of the Committee shall be entitled to rely on: (i) the integrity of those persons or organizations within and outside the Fund from which it receives information; (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations; and (iii) representations made by management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to WesternOne Equity Entities.

## **F. SPECIFIC RESPONSIBILITIES AND ACTIVITIES**

### **1. Document Reports/Reviews**

- (a) *Annual Financial Statements.* The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination:
- (i) the annual audited consolidated financial statements;
  - (ii) the external auditor's review of the annual consolidated financial statements and their report;
  - (iii) any significant changes that were required in the external audit plan;
  - (iv) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and
  - (v) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Fund.

Following completion of the matters contemplated above, the Committee shall make a recommendation to the trustees with respect to the approval of the annual financial statements with such changes contemplated and further recommended, as the Committee considers necessary.

- (b) *Interim Financial Statements.* The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination, the interim unaudited consolidated financial statements of the Fund, including a discussion with the external auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Fund.
- (c) *Management's Discussion and Analysis.* The Committee shall review with management and the external auditors, both together and separately prior to public dissemination, the annual and interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").
- (d) *Approval of Annual MD&A, Interim Financial Statements and Interim MD&A.* The Committee shall make a recommendation to the trustees with respect to the approval of the annual MD&A with such changes contemplated and further recommended by the Committee as the Committee considers necessary. In addition, the Committee shall approve the interim financial statements and interim MD&A of the Fund, if the trustees have delegated such function to the Committee. If the Committee has not been delegated this function, the Committee shall make a recommendation to the trustees with respect to the approval of the interim financial statements and interim MD&A with such changes contemplated and further recommended as the Committee considers necessary.

- (e) *Press Releases.* With respect to press releases by the Fund:
  - (i) The Committee shall review the Fund's financial statements, MD&A and annual and interim earnings press releases before the Fund publicly discloses this information.
  - (ii) The Committee shall review with management, prior to public dissemination, the annual and interim earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted non-GAAP" information) as well as financial information and earnings guidance provided to analysts and rating agencies.
- (f) *Reports and Regulatory Returns.* The Committee shall review and discuss with management, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the Fund as may be specified by law.
- (g) *Other Financial Information.* The Committee shall review the financial information included in any prospectus, annual information form or information circular with the management and the external auditors, both together and separately, prior to public dissemination, and shall make a recommendation to the trustees with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary.

## 2. **Financial Reporting Processes**

- (a) *Establishment and Assessment of Procedures.* The Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the Fund and assess the adequacy of these procedures annually.
- (b) *Application of GAAP.* The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgements made by management, and their selection of accounting principles reflect an appropriate application of generally accepted accounting principles.
- (c) *Practices and Policies.* The Committee shall review with management and the external auditors, together and separately, the principal accounting practices and policies of the Fund.

## 3. **External Auditors**

- (a) *Oversight and Responsibility.* In respect of the external auditors of the Fund:
  - (i) The Committee shall recommend to the trustees the external auditors nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund; and the compensation of the external auditors.
  - (ii) The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- (b) *Reporting.* The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.
- (c) *Performance and Review.* The Committee shall annually review the performance of the external auditors and recommend to the trustees the appointment of the external auditors or approve any

discharge of the external auditors when circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund.

- (d) *Annual Audit Plan.* The Committee shall review with the external auditors and management, together and separately, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit.
- (e) *Non-Audit Services*
  - (i) "Non-audit services" means all services performed by the external auditors other than audit services. The Committee shall pre-approve all non-audit services to be provided to the WesternOne Equity Entities by the Fund's external auditor and permit all non-audit services, other than non-audit services where:
    - (A) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five percent of the total amount of fees paid by the WesternOne Equity Entities to the Fund's external auditor during the fiscal year in which the services are provided;
    - (B) the WesternOne Equity Entities did not recognize the services as non-audit services at the time of the engagement; and
    - (C) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals had been delegated by the Committee.
  - (ii) The Committee may delegate to one or members of the Committee the authority to grant such pre-approvals for non-audited services. The decisions of such member(s) regarding approval of non-audit services shall be reported by such member(s) to the full Committee at its first scheduled meeting following such pre-approval.
  - (iii) The Committee shall adopt specific policies and procedures for the engagement of the non-audit services if:
    - (A) the pre-approval policies and procedures are detailed as to the particular services;
    - (B) the Committee is informed of each non-audit service; and
    - (C) the procedures do not include delegation of the Committee's responsibilities to management.
- (f) *Independence Review.* The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the Fund. At least annually, the Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the Fund and, if necessary, recommend that the trustees take appropriate action to satisfy themselves of the external auditors' independence and accountability to the Committee.

#### **4. Reports to Board of Trustees**

- (a) *Reports.* In addition to such specific reports contemplated elsewhere in these Terms, the Committee shall report regularly to the trustees regarding such matters, including:

- (i) with respect to any issues that arise with respect to the quality or integrity of the financial statements of the Fund, compliance with legal or regulatory requirements by the Fund, or the performance and independence of the external auditors of the Fund;
  - (ii) following meetings of the Committee; and
  - (iii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.
- (b) *Recommendations.* In addition to such specific recommendations contemplated elsewhere in these Terms, the Committee shall provide such recommendations as the Committee may deem appropriate. The report to the trustees may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report.

**5. Whistle-Blowing**

- (a) *Procedures.* The Committee shall establish procedures for:
- (i) the receipt, retention and treatment of complaints received by the Fund regarding questionable accounting, internal accounting controls, or auditing matters; and
  - (ii) the confidential, anonymous submission by employees and of concerns regarding questionable accounting or auditing matters.
- (b) *Notice to Employees.*
- (i) To comply with the above, the Committee shall ensure each of the WesternOne Equity Entities advises all employees, by way of a written code of business conduct and ethics (the "Code"), or if such Code has not yet been adopted by the respective board, by way of a written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have been employed by the WesternOne Equity Entities, or their external auditors is strongly encouraged to report such concerns by way of communication directly to the Chair. Matters referred may be done so anonymously and in confidence.
  - (ii) None of the WesternOne Equity Entities shall take or allow any reprisal against any employee for, in good faith, reporting questionable accounting, internal accounting, or auditing matters. Any such reprisal shall itself be considered a very serious breach of this policy.
  - (iii) All reported violations shall be investigated by the Committee following rules of procedure and process as shall be recommended by outside counsel.

**6. General**

- (a) *Access to Counsel.* The Committee shall periodically review with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements, the Fund's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
- (b) *Hiring of Partners and Employees of External Auditors.* The Committee shall annually review and approve the Fund's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Fund.

- (c) *General.* The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the trustees, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

**G. ANNUAL PERFORMANCE REVIEW**

**2. Evaluation**

- (a) The Committee shall perform a review and evaluation, annually, of the performance of the Committee and its members, including a review of the compliance of the Committee with these Terms. In addition, the Committee shall evaluate, annually, the adequacy of these Terms and recommend any proposed changes to the trustees.
- (b) The Committee shall annually review transactions involving directors and officers, including a review of travel expenses and entertainment expenses, related party transactions and any conflicts of interests.
- (c) Management shall be required to provide the Committee, at least annually, a report on internal controls, including reasonable assurance that such controls are adequate to facilitate reliable and timely financial information. The Committee shall also review and follow-up on any areas of internal control weakness identified by the external auditors with the auditors and management.

**H. AGENDA**

Attached to these Terms is the forward agenda for the Audit Committee.

## WESTERNO ONE EQUITY INCOME FUND

## Audit Committee Forward Agenda

Meeting Timing	February	April	July	October
<i>Agenda Item</i>				
<b>A. Financial Reporting Control Systems</b>				
(i) Review reports from senior officers outlining changes in financial risks.	X	X	X	X
(ii) Review management letter of external auditor and the WesternOne Equity Entities' responses to suggestions made.	X			
(iii) Review any new appointments to senior positions with financial reporting responsibilities.	X	X	X	X
(iv) Obtain assurance from both internal and external auditors regarding the overall control environment and the adequacy of accounting system controls.	X	X	X	X
(v) Review financial statement certification process and disclosure controls and procedures.			X	
(vi) Review procedures for receipt and treatment of complaints regarding accounting controls or auditing matters and confidential, anonymous submission of concerns regarding accounting or auditing matters.			X	
(vii) Receive and review external auditors' report on critical accounting policies.	X			
<b>B. Interim Financial Statements</b>				
(i) Review interim financial statements prior to their release and recommend their approval to the trustees.	X	X	X	X
(ii) Review management's discussion and analysis and associated press releases, accompanying interim financial statements.	X	X	X	X

<b>Meeting Timing</b>	<b>February</b>	<b>April</b>	<b>July</b>	<b>October</b>
<b>Agenda Item</b>				
<b>C. Annual Financial Statements and Other Financial Information</b>				
(i) Review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements.	X	X	X	X
(ii) Obtain summaries of significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration.	X	X	X	X
(iii) Obtain draft annual financial statements in advance of the committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers.	X			
(iv) Review summary of the status of any material pending or threatened litigation, claims and assessments.	X	X	X	X
(v) Discuss the annual financial statements and the auditors' report thereon in detail with officers and the auditors.	X			
(vi) Review critical accounting policies, alternative treatments of financial information and material communication between management and external auditors.	X	X	X	X
(vii) Review the annual report and other annual public information documents, including management's discussion and analysis and earnings press release.	X			
(viii) Provide to the trustees a recommendation as to whether the annual financial statements should be approved.	X			
(ix) Review risk management plans and insurance programs.		X		
(x) Review hedging programs and policies.		X		
(xi) Assess adequacy of disclosure controls and procedures.				X

<b>Meeting Timing</b>	<b>February</b>	<b>April</b>	<b>July</b>	<b>October</b>
<b>Agenda Item</b>				
<b>D. External Audit Terms of Reference, Reports, Planning and Appointment.</b>				
(i) Review the audit plan with the external auditors.				X
(ii) Discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters.	X	X	X	X
(iii) Recommend the retention or replacement of the external auditors. If there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition.	X			
(iv) Assess independence of external auditors. Ensure rotation of lead or coordinating audit partner having primary responsibility for the audit as required by law.	X			
(v) Review and approve engagement of external auditors for non-audit services.	X	X	X	X
(vi) Review and recommend for approval to the trustees the terms of engagement and the remuneration of the external auditor.	X			
(vii) Review hiring policies regarding employees of external auditor.				X
<b>E. Internal Audit Reports and Planning</b>				
(i) Review the summary report of the internal audit function for the past year.	X			
(ii) Review planned activities and resources of the internal audit function for the coming year.		X		
<b>F. Governance Matters</b>				
(i) Review Audit Committee terms of reference.				X
(ii) Review key accounting and finance policies.				X
<b>G. Material Disclosure Documents</b>				
(i) Review the contents of any material disclosure document prior to their release and recommend their approval to the trustees.	X	X	X	X