

WESTERNO ONE EQUITY

WESTERNO ONE EQUITY INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

WESTERNO ONE EQUITY INCOME FUND

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

WESTERNO ONE EQUITY

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MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

January 31, 2008
"Darren Latoski"

Chief Executive Officer
WesternOne Equity Income Fund

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To the Unitholders of:

WesternOne Equity Income Fund:

We have audited the consolidated balance sheets of WesternOne Equity Income Fund as at December 31, 2007 and 2006 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the year ended December 31, 2007 and the period from June 14, 2006 to December 31, 2006. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the period from June 14, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Meyers Harris Penny LLP

Nanaimo, British Columbia

January 31, 2008

Chartered Accountants

WesternOne Equity Income Fund

CONSOLIDATED BALANCE SHEETS

	As at December 31, 2007	As at December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash	\$ 5,514,594	\$ 387,397
Cash in trust	2,015,000	-
Short term investments	2,173,062	1,224,942
Accounts receivable	3,112,105	2,417,748
Inventories	1,340,213	708,419
Deposits and prepaid expenses	247,480	285,798
	14,402,454	5,024,304
PROPERTY AND EQUIPMENT (Note 4)	19,758,705	13,520,808
DEFERRED FINANCING COSTS (Note 5)	-	1,207,906
INTANGIBLE ASSETS (Note 6)	13,510,782	13,451,499
GOODWILL (Note 7)	2,725,261	-
FUTURE INCOME TAXES (Note 10)	1,452,238	-
	\$ 51,849,440	\$ 33,204,517
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Operating loan (Note 8)	\$ 1,515,432	\$ 61,596
Accounts payable and accrued liabilities	996,144	550,359
Distributions payable	587,184	389,731
Equipment financing payable - Current (Note 9)	95,770	-
Capital loans (Note 8)	4,338,128	6,427,117
	7,532,658	7,428,803
EQUIPMENT FINANCING PAYABLE - NON-CURRENT (Note 9)	106,652	-
SERIES A DEBENTURES (Note 11)	8,238,358	8,964,209
	15,877,668	16,393,012
UNITHOLDERS' EQUITY	35,971,772	16,811,505
	\$ 51,849,440	\$ 33,204,517
COMMITMENTS (Note 14)		
SUBSEQUENT EVENTS (Note 20)		
APPROVED ON BEHALF OF THE BOARD OF TRUSTEES		
<u>"Darren Latoski"</u> Trustee	<u>"Douglas Scott"</u> Trustee	

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

For the periods ended December 31, 2006 and 2007

	Fund Units (note 12)	Equity component of convertible debentures (note 11)	Cumulative earnings	Cumulative distributions	Total	Units Outstanding
Balance, June 14, 2006	-				-	-
Issuance of units to founders on June 23, 2006	320,000				320,000	1,600,000
Issuance of units on initial public offering on August 15, 2006	16,000,000				16,000,000	4,571,429
Issuance costs of units on initial public offering on August 15, 2006	(1,696,531)				(1,696,531)	
Issuance of units on over-allotment on August 31, 2006	835,174				835,174	238,621
Issuance costs of units on over-allotment on August 31, 2006	(102,965)				(102,965)	
Fair value of Agents' Option (note 13)	129,111				129,111	
Equity component of Series A Debentures		1,116,250			1,116,250	
Net income for the period			1,528,372		1,528,372	
Distributions declared				(1,317,906)	(1,317,906)	
BALANCE, December 31, 2006	\$ 15,484,789	\$ 1,116,250	\$ 1,528,372	\$ (1,317,906)	\$ 16,811,505	6,410,050
Adjustment to Fund Units and Cumulative earnings under CICA Handbook sec 3855 (Note 3 (a) (i))	(129,111)		52,525		(76,586)	
BALANCE, January 1, 2007	\$ 15,355,678	\$ 1,116,250	\$ 1,580,897	\$ (1,317,906)	\$ 16,734,919	6,410,050
Issuance of units on June 1, 2007 public offering	18,000,000				18,000,000	4,500,000
Issuance costs of units on June 1, 2007 public offering	(1,536,502)				(1,536,502)	
Issuance of units to Old Country Rentals Ltd. on June 1, 2007	450,000				450,000	150,000
Issuance of units on over-allotment on June 14, 2007	2,700,000				2,700,000	675,000
Issuance costs of units on over-allotment on June 14, 2007	(230,475)				(230,475)	
Issuance of units upon exercise of agent options on July 4, 2007	30,187				30,187	8,625
Net income for the period			5,321,914		5,321,914	
Distributions declared				(5,498,271)	(5,498,271)	
BALANCE, December 31, 2007	\$ 34,768,888	\$ 1,116,250	\$ 6,902,811	\$ (6,816,177)	\$ 35,971,772	11,743,675

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year ended December 31, 2007	201-day period ended December 31, 2006
REVENUE		
Equipment rental	\$ 13,662,608	\$ 4,605,164
Equipment sales	5,698,556	1,143,741
Logistical support	1,364,481	545,286
Parts and service	1,562,274	353,314
Interest and Other Income	245,867	14,931
	<u>22,533,786</u>	<u>6,662,436</u>
COST OF SALES		
Equipment sold	4,772,182	935,732
Commission	866,658	291,813
Re-rental	451,758	216,399
Other	575,650	96,277
	<u>6,666,248</u>	<u>1,540,221</u>
GROSS INCOME	<u>15,867,538</u>	<u>5,122,215</u>
OPERATING EXPENSES		
General and administrative	2,518,372	576,034
Freight	1,765,605	633,974
Service	2,309,763	665,844
Sales	985,997	143,535
Interest on Series A Debentures	1,015,230	340,274
Interest on short term debt	29,028	1,187
Interest on long term debt	358,956	154,568
Amortization of property and equipment	1,395,445	401,668
Amortization of intangible assets	1,406,987	596,300
Accretion of Series A Debentures	212,477	80,459
	<u>11,997,860</u>	<u>3,593,843</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>3,869,678</u>	<u>1,528,372</u>
FUTURE INCOME TAXES/(RECOVERIES)	(1,452,236)	-
NET INCOME	<u>\$ 5,321,914</u>	<u>\$ 1,528,372</u>
OTHER COMPREHENSIVE INCOME	<u>\$ -</u>	<u>\$ -</u>
Basic weighted average income per unit	\$ 0.56	\$ 0.30
Diluted weighted average income per unit	0.53	0.25
Basic weighted average number of units outstanding	9,473,711	5,055,335
Diluted weighted average number of units outstanding	11,961,806	7,543,430

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2007	201-day period ended December 31, 2006
OPERATING ACTIVITIES		
Income	\$ 5,321,914	\$ 1,528,372
Items not affecting cash -		
Amortization of property and equipment	1,395,445	401,668
Amortization of intangible assets	1,406,987	596,300
Interest expense relating to amortization of transaction costs	156,084	-
Accretion of Series A Debentures	212,477	80,459
Future Income Taxes/(Recoveries)	(1,452,236)	-
Loss on write down of assets	-	16,721
Gain on sale of property and equipment	(328,544)	(74,746)
	<u>6,712,127</u>	<u>2,548,774</u>
Changes in non-cash working capital balances -		
Accounts receivable	45,533	12,757
Inventories	(193,439)	177,802
Deposits and prepaid expenses	62,103	(264,378)
Cash held in trust	(2,015,000)	-
Accounts payable and accrued liabilities	228,693	(629,822)
	<u>4,840,017</u>	<u>1,845,133</u>
INVESTING ACTIVITIES		
Purchase of short term investments	(948,119)	(1,224,942)
Purchase of property and equipment	(6,250,390)	(1,084,848)
Proceeds from the sale of property and equipment	2,382,130	301,550
Acquisition (Note 15)	(8,410,588)	(29,181,910)
	<u>(13,226,967)</u>	<u>(31,190,150)</u>
FINANCING ACTIVITIES		
Distributions paid	(5,300,818)	(928,175)
Units issued for cash (net of expenses)	19,413,210	-
Floor plan financing payable	-	-
Costs to obtain new credit facilities	-	(123,469)
Loans payable	(2,052,081)	6,427,117
Issuance of Fund Units to founders	-	320,000
Initial public offering of Fund Units, net of expenses	-	14,303,469
Over-allotment of Fund Units, net of expenses	-	732,208
Issuance of Series A Debentures	-	8,939,668
	<u>12,060,311</u>	<u>29,670,818</u>
NET CHANGE IN CASH DURING THE PERIOD	<u>3,673,361</u>	<u>325,801</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD (NET)	<u>325,801</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD (NET)	<u>\$ 3,999,162</u>	<u>\$ 325,801</u>
Cash	\$ 5,514,594	\$ 387,397
Operating Loan	(1,515,432)	(61,596)
Cash and cash equivalents, end of period (net)	<u>\$ 3,999,162</u>	<u>\$ 325,801</u>
Supplemental cash flow information:		
Interest received	\$ 180,175	\$ 14,931
Interest paid	1,218,102	496,030

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

1. ORGANIZATION AND NATURE OF OPERATIONS

(a) Organization

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

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

(b) Nature of operations

The Fund commenced operations on August 15, 2006, when it completed its initial public offering (the “Offering”) and its indirect subsidiary, WEQ Production Equipment LP (a limited partnership established under the laws of Manitoba on June 15, 2006), acquired the assets of Production Equipment Rentals Company (“PER”) (see note 15). PER specializes in renting, selling and servicing quality high reach and material handling equipment and providing logistical support to its customers in British Columbia.

On June 1, 2007, the Fund completed a new issue of units (see note 12), and its indirect subsidiary WEQ Old Country Rentals LP (a limited partnership established under the laws of Manitoba on April 20, 2007) acquired the assets of Old Country Rentals Ltd., an equipment rental company with two locations on Vancouver Island which specializes in renting, selling and servicing quality high reach, material handling and other general rental equipment. (see note 15).

Subsequent to the year ended December 31, 2007:

- i.* the Fund’s indirect subsidiary, WEQ C&N Rentals LP (a limited partnership established under the laws of Manitoba on August 27, 2007), acquired the assets of C&N Motors Ltd., an equipment rental, sales and services company located on central Vancouver Island (see note 20 – Subsequent Events).
- ii.* the Fund’s indirect subsidiary, WEQ Deerfoot Rentals LP (a limited partnership established under the laws of Manitoba on January 25, 2008), acquired the assets of Deerfoot Equipment Rental Inc., an equipment rental, sales and services company with two locations in Calgary and Lethbridge, Alberta, respectively (see note 20 – Subsequent Events).

2. BASIS OF PRESENTATION

The Fund has consolidated the assets, liabilities and equity of all subsidiaries after the elimination of inter-entity transactions and balances. The consolidated financial statements include the accounts of the Fund, and its wholly owned subsidiaries, WesternOne Equity GP Inc. and WesternOne Equity Operating

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Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

Trust. These two subsidiaries in turn include the accounts of their own wholly owned subsidiaries, WesternOne Equity LP, WEQ Production Equipment GP Inc., WEQ Production Equipment LP, WEQ Old Country Rentals GP Inc., and WEQ Old Country Rentals LP.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and accompanying notes (“Financial Statements”) have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

(a) Changes in Accounting Policies

As required by the CICA, on January 1, 2007, the Fund adopted CICA Handbook Section 1530, ‘Comprehensive Income’; Section 3251, ‘Equity’; Section 3855, ‘Financial Instruments – Recognition and Measurement’; Section 3861, ‘Financial Instruments – Disclosure and Presentation’; and Section 3865, ‘Hedges’. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in opening cumulative earnings and fund units. As required by the implementation of these new standards, the comparative consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are described below:

i. Section 3855 - Financial Instruments – Recognition and Measurement Section 3861 - Financial Instruments – Disclosure and Presentation

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

The following is a summary of the accounting model the Fund has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash	Held-for-trading
Cash held in trust	Held-for-trading
Short term investments	Held-for-trading
Accounts receivable	Loans and receivables
Operating loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Distributions payable	Other liabilities
Capital loans	Other liabilities
Series A debentures	Other liabilities

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For the Year Ended December 31, 2007

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

Under the EIM, interest income and expense is calculated and recorded using an effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the initial net carrying amount of the financial asset or liability so as to produce a constant rate of interest over that term.

As a result of adopting these standards the Fund recorded the following transition adjustments to opening balances at January 1, 2007:

- Cumulative earnings increased by \$52,525;
- Proceeds from issuing fund units decreased by \$129,111;
- Series A debentures decreased by \$1,053,557;
- Loans payable decreased by \$60,233;
- Property and equipment increased by \$17,529; and
- Deferred financing costs decreased by \$1,207,906.

If the accounting policy had not been implemented, in the consolidated statement of income and comprehensive income for the year ended December 31, 2007:

- Accretion of Series A Debentures would be increased by \$10,773;
- Interest expense would be decreased by \$156,084;
- Amortization of intangible assets and transaction costs would be increased by \$279,797; and
- Amortization of property and equipment would be decreased by \$3,790.

ii. Section 1530 - Comprehensive Income

This standard requires a new component of unitholders' equity, comprehensive income, to be included in the Fund's consolidated financial statements. In addition, the standard requires a statement of comprehensive income. The major components of the statement of comprehensive income may include items such as unrealized gains and losses on financial assets classified as available-for-sale, deferred gains and losses arising from the settlement of historic cash flow hedging transactions and changes in the fair value of the effective position of cash flow hedging instruments.

As there are currently no differences between net income and comprehensive income, or unitholders' equity and accumulated other comprehensive income, no statement has been included with these consolidated financial statements.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

iii. Section 3865 – Hedges

This standard describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statements of income and comprehensive income in the same period. The Fund does not have transactions that relate to hedging and hence this section is not applicable.

iv. Section 3251 – Equity

This standard establishes standards for the presentation of equity and changes in equity during the reporting period.

(b) Measurement uncertainty

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

Other areas requiring the use of management estimates include the allocation of accounts receivable for the calculation of the period end accruals, and the valuation of accounts receivable and service parts inventory.

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

(c) Revenue recognition

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

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

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

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Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

(d) *Cash and cash equivalents*

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

(e) *Cash held in trust*

Cash held in trust consists of cash paid into an escrow account, pursuant to the completion of the acquisition of the assets of C&N Motors Ltd. subsequent to December 31, 2007. (see note 20 - Subsequent Events)

(f) *Short term investments*

Short term investments consist of guaranteed investment certificates ("GICs") with stated maturity dates of between 90 days and one year at the period end. These amounts may be converted to cash at any time prior to maturity. However, if they are converted within 30 days of their initiation, any accrued interest will be forfeited.

(g) *Inventories*

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

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

(h) *Property and equipment*

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

Rental fleet*	10 years
Tractors and trailers	7 years
Furniture, fixtures and equipment	5 years
Computer equipment and software	5 years
Leasehold improvements	lesser of 5 years and the initial term of the lease

**net of 25% salvage value.*

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

Management reviews these assets for impairment periodically (at least annually) or whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

expected undiscounted future cash flows from their expected use and eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their estimated fair value. Any impairment is included in income for the period in which the impairment is recognized.

(i) *Intangible assets*

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

Customer relationships	10 years
Non-competition agreements	1 – 3 years
Brand name	nil
Supplier agreements	nil

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

(j) *Goodwill*

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

(k) *Foreign currency translation*

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

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

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For the Year Ended December 31, 2007

(l) Income taxes and future income taxes

As the Fund will allocate all of its taxable income and taxable capital gains to the Unitholders, the Fund itself will not be subject to income taxes.

In June 2007, the Government of Canada substantially enacted new legislation to tax distributions of publicly traded income trusts, commencing in 2011. As a result, the Fund is now required to recognize the future income tax assets and liabilities expected to arise when the tax on distributions becomes applicable.

Future income tax assets and liabilities are determined based on the temporary differences between the tax basis of the Fund's assets and liabilities and the amounts reported in the financial statements, to the extent that such temporary differences are expected to reverse on or after January 1, 2011. Future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Currently the enacted or substantively enacted tax rate is 29.5% for 2011 and 28.5% thereafter. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

(m) Income per unit

Basic income per unit of the Fund is calculated by dividing income by the weighted average number of units outstanding during the reporting period. Diluted income per Unit is calculated by dividing income by the sum of the weighted average number of units outstanding used in the basic income per Unit calculation and the number of units that would be issued assuming a dilutive effect of the conversion of the Series A Debentures (note 11) and/or the exercise of the Agents' Option (note 13). The impact of the conversion feature is calculated using the if-converted method, and the impact of the Agents' Option is calculated using the treasury stock method.

(n) Long-term incentive plan

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

For the year ended December 31, 2007, the Compensation Committee approved \$Nil of LTIP (2006 - \$100,000).

(o) Cash flows statements disclosure

Amendments to CICA Handbook Section 1540, Cash Flows Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. This disclosure requirement is effective for interim and annual financial statements for fiscal periods ending on or after March 31, 2007. The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and, until declared payable by the Board of

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Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

Trustees of the Fund, the Fund has no contractual requirement to pay cash distributions to Unitholders. For the year ended December 31, 2007, \$5.50 million in cash distributions were declared payable by the Board of Trustees of the Fund, and were subsequently paid to the Unitholders. (2006 - \$1.32 million)

(p) Fair value of financial instruments

The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial instruments measured at fair value that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. Financial instruments designated as held-for-trading are initially recorded at fair value and subsequently measured at fair value. Financial instruments designated as loans and receivables and other liabilities are initially recorded fair value, which approximates the original book value, and subsequently measured at amortized costs.

(q) Future accounting changes

There are three new accounting standards that are effective for the Fund's 2008 fiscal year – CICA Handbook Section 3031, 'Inventories'; Section 3862, 'Financial Instruments – Disclosure'; and Section 3863, 'Financial Instruments – Presentation'.

Section 3031 replaces the existing Section 3030, 'Inventories'. The new section provides more extensive guidance to facilitate CICA's move towards International Financial Reporting Standards ("IFRS"), and to reduce the number of alternatives for the measurement of inventories.

Sections 3862 and 3863 replace the existing Section 3861, 'Financial Instruments – Disclosure and Presentation'. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

These new sections will be effective for the Fund's first quarter of 2008. The Fund expects the impact from these accounting changes to be immaterial.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

4. PROPERTY AND EQUIPMENT

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 20,657,958	\$ 1,589,737	\$ 19,068,221
Tractors and trailers	497,457	53,248	444,209
Furniture, fixtures and equipment	79,403	13,767	65,636
Computer equipment and software	120,759	15,419	105,340
Leasehold improvements	97,071	21,772	75,299
	<u>\$ 21,452,648</u>	<u>\$ 1,693,943</u>	<u>\$ 19,758,705</u>

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 13,667,235	\$ 383,061	\$ 13,284,174
Tractors and trailers	119,535	6,530	113,005
Furniture, fixtures and equipment	30,681	2,311	28,370
Computer equipment and software	32,894	1,159	31,735
Leasehold improvements	68,301	4,777	63,524
	<u>\$ 13,918,646</u>	<u>\$ 397,838</u>	<u>\$ 13,520,808</u>

5. DEFERRED FINANCING COSTS

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Costs for issuance of Series A Debentures	\$ -	\$ -	\$ -
Fair value of Agents' Option	-	-	-
Costs to obtain new credit facilities	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Costs for issuance of Series A Debentures	\$ 1,060,332	\$ 79,525	\$ 980,807
Fair value of Agents' Option	129,111	16,139	112,972
Costs to obtain new credit facilities	123,469	9,342	114,127
	<u>\$ 1,312,912</u>	<u>\$ 105,006</u>	<u>\$ 1,207,906</u>

Effective January 1, 2007 the Fund adopted the accounting policy changes described in Note 3(a)(i) above and reclassified all the costs that were previously recorded as Deferred financing costs.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

6. INTANGIBLE ASSETS

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 13,994,697	\$ 1,847,726	\$ 12,146,971
Brand name	999,348	n/a	999,348
Non-competition agreements	118,595	50,555	68,040
Supplier agreements	296,423	n/a	296,423
	<u>\$ 15,409,063</u>	<u>\$ 1,898,281</u>	<u>\$ 13,510,782</u>

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 12,961,793	\$ 491,294	\$ 12,470,499
Brand name	713,000	n/a	713,000
Non-competition agreements	-	-	-
Supplier agreements	268,000	n/a	268,000
	<u>\$ 13,942,793</u>	<u>\$ 491,294</u>	<u>\$ 13,451,499</u>

7. GOODWILL

December 31, 2007			December 31, 2006		
Cost	Write down	Net Book Value	Cost	Write down	Net Book Value
\$ 2,725,261	nil	\$ 2,725,261	n/a	n/a	n/a

8. OPERATING LOAN AND CAPITAL LOANS

	Approved	December 31, 2007	December 31, 2006
Operating loan	\$ 2,000,000	\$ 1,515,432	\$ 61,596
Capital loans:			
Non-revolving	3,500,000	2,937,554 *	3,456,790
Revolving	4,000,000	1,400,574	2,970,327
	<u>7,500,000</u>	<u>4,338,128</u>	<u>6,427,117</u>
	<u>\$ 9,500,000</u>	<u>\$ 5,853,560</u>	<u>\$ 6,488,713</u>

* Inclusive of banker's acceptance of \$2,635,000 maturing on July 14, 2008.

A single Canadian chartered bank (the "Bank") has made the above operating loan and capital loans available to WEQ Production Equipment LP, which is indirectly owned by the Fund. A member of the Fund's board of trustees has been appointed as the guarantor of the loans.

The Bank has provided the operating loan, payable upon demand, on an interest only basis. 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

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Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

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. As at December 31, 2007 the Fund was in compliance with all bank covenants. The operating loan has no stated maturity date.

The capital loans are repayable on demand, and unless and until demanded are paid in monthly installments, 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. The capital loans, unless repaid on demand to the Bank, shall be repaid in full by August 31, 2011. The costs of obtaining the loans are being amortized over the terms of the loans, resulting in an effective interest rate of 7.06%. (2006 – 6.71%) 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. As at December 31, 2007 the Fund was in compliance with all bank covenants. The capital loans have a stated maturity date of August 31, 2011. Excluding the effect from the accounting treatment adopted by the Fund described in Note 3 (a)(i) above, the actual capital loan balance outstanding as at December 31, 2007 was \$4,381,250.

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

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 (excluding interest) are as follows:

2008	\$ 722,976
2009	722,976
2010	722,976
2011	2,212,322

9. EQUIPMENT FINANCING PAYABLE

The Fund, through its wholly-owned indirect subsidiary WEQ Old Country Rentals LP, assumed seven capital leases relating to rental equipment and operating assets, for a total of \$202,422 of equipment financing payable. The equipment financing payable amounts require monthly payments ranging from \$474 to \$2,267 (exclusive of taxes, insurance and surcharges), at interest rates ranging from 0% to 3.9% per annum, and have maturity dates ranging to October 14, 2011. The current and non-current portions of the total gross payments are as follows:

2008	\$ 95,772
2009	67,284
2010	35,576
2011	5,350
Total gross payment	\$ 203,982
Less: Imputed interest	(1,560)
	<u>202,422</u>
Less: Current portion	(95,770)
Non-current portion	<u>\$ 106,652</u>

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

A security agreement providing a charge over the equipment specifically relating to the financing above has been provided as collateral to the financing company.

As at December 31, 2007, the net book value of the rental equipment and operating assets under equipment financing was \$277,306.

10. FUTURE INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	For the year ended December 31, 2007	For the year ended December 31, 2006
Earnings before income taxes	\$ 3,869,678	\$ 1,528,372
Combined Canadian federal and provincial tax rates	34.12%	34.12%
Income tax expense at statutory rates	\$ 1,320,334	\$ 521,481
Increase/(Decrease) resulting from:		
Non-deductible expenses	14,571	-
Payment of tax deductible distributions	(1,334,905)	(521,481)
Effect of enacted future rates on temporary differences	(1,452,238)	-
Income tax expense/(recoveries)	\$ (1,452,238)	\$ -

The temporary differences comprising the future income tax asset/(liability) are estimated as follows:

	December 31, 2007	December 31, 2006
Future income tax asset/(liability):		
Issue Costs	\$ 423,249	\$ -
Intangible Assets	895,849	-
Property, Plant and Equipment	147,817	-
Others	(14,677)	-
	\$ 1,452,238	\$ -

11. SERIES A DEBENTURES

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

At 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 TSX Venture Exchange or Toronto Stock Exchange (collectively the “Exchange”).

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

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Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

to the conversion price in certain circumstances, including a subdivision, redivision, reduction, combination or consolidation of units. In order to convert the Series A Debentures, a holder of Series A Debentures must present the Series A Debentures to Computershare Trust Company of Canada in accordance with the terms of the Series A Debentures.

The Fund may not redeem the Series A Debentures at any time before August 16, 2008. At any time after August 15, 2008, providing not less than 30 days' notice and not more than 60 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 of the day preceding the date") on which notice of redemption is given is at least 125% of the conversion price.

As required by Canadian GAAP, the Fund separated the liability and equity component of the Series A Debentures. The Fund determined the fair value of the liability component of the Series A Debentures by calculating the present value of the associated cash flows, using a discount rate that reflects the Fund's underlying rate of borrowing. The Fund determined the fair value of the conversion feature at the issue date of the Series A debentures using the Black-Scholes pricing model, using the assumptions disclosed in note 13, except that the expected life is five years. The resulting pro-rata fair values of the liability component of the Series A Debentures and the conversion feature of the Series A Debentures, were \$8,883,750 and \$1,116,250 respectively. The liability component will be accreted to \$10,000,000 over the term of the Series A Debentures through the recording of an accretion expense using the effective interest method, until such date when the underlying Series A Debentures are converted into units.

Cash financing costs in the amount of \$1,060,332 were incurred in the issuance of the Series A Debentures. The financing costs were netted against the Series A Debentures and amortized using effective interest method. The effective interest rate for the year ended December 31, 2007 was 12.6% (2006 – 12.6%)

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2006 and December 30, 2007:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Issuance of Series A Debentures	\$ 10,000,000	\$ 8,883,750	\$ 1,116,250
Accretion expense, period ended Dec 31, 2006		80,459	
Balance as at December 31, 2006	\$ 10,000,000	\$ 8,964,209	\$ 1,116,250
Transaction costs relating to the debentures		(1,060,332)	
Adjustment to January 1, 2007 balance due to implementation of CICA Handbook Section 3855		6,775	
Amortization expense relating to transaction costs		115,229	
Accretion expense, for the year ended December 31, 2007		212,477	
Balance as at December 31, 2007	\$ 10,000,000	\$ 8,238,358	\$ 1,116,250

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 to senior security and permitted encumbrances.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

12. FUND UNITS

An unlimited number of units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of 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 at all meetings of voting Unitholders.

The units are redeemable at any time on demand by the holders thereof, subject to certain terms and conditions. The 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, provided that the Trustees of the Fund may, in their sole discretion, waive this limitation in respect of all units tendered for redemption in any calendar month.

(a) Founders Units and August 15, 2006 Initial Public Offering

Following the creation of the Fund, 1,600,000 units were issued to the founders of the Fund on June 23, 2006 at \$0.20 per Unit, for cash proceeds of \$320,000.

As part of the Offering, the Fund issued 4,571,429 units at \$3.50 per Unit for net proceeds of \$14,303,469, after deducting related expenses of \$1,696,531.

The Fund granted the agents of the Offering (the "Agents") the option to purchase additional units, exercisable for a period of 30 days from Closing (the "Over-Allotment"). Prior to the expiry of the Over-Allotment, the Agents purchased 238,621 additional units on August 31, 2006, for net proceeds of \$732,209, after deducting related expenses of \$102,965.

During the period from the creation of the Fund on June 14, 2006 to December 31, 2006, a total of 6,410,050 units were issued for \$17,155,174, excluding offering costs and Agents' Option (see note 13).

(b) June 1, 2007 New Issue

On May 25, 2007, the Fund filed a short form prospectus, and on June 1, 2007, the Fund closed a new issue of units under this short-form prospectus, whereby the Fund issued 4,500,000 units at \$4.00 per Unit for net proceeds of \$16,463,498, after deducting related expenses of \$1,536,502.

In addition, the Fund granted the agents of this new issue the option to purchase additional units, exercisable for a period of 30 days from closing (the "New Issue Over-Allotment"). Prior to the expiry of the New Issue Over-Allotment, the agents of the new issue purchased 675,000 additional units on June 14, 2007, for net proceeds of \$2,469,525, after deducting related expenses of \$230,475.

(c) June 1, 2007 Private Issue

On June 1, 2007, pursuant to the acquisition of the assets of Old Country Rentals Ltd. (see note 15), the Fund issued 150,000 units at \$3.00 per Unit for net proceeds of \$450,000.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

(d) *July 4, 2007 New Issue Pursuant to Exercise of Agent's Options*

On July 4, 2007, pursuant to the Agents' Option (described in note 13), the Agents performed a partial exercise of their Agents' Option, whereby 8,625 units were issued at \$3.50 per trust unit, for total net proceeds of \$30,187.

During the period from the creation of the Fund on June 14, 2006 to December 31, 2007, a total of 11,743,675 units were issued for \$38,335,361 excluding offering costs and Agents' Option (see note 13).

13. AGENTS' OPTION

At closing of the initial public offering, the Agents were granted an option to purchase, for additional consideration, that number of units and principal amount of Series A Debentures equal to 5% of the units and principal amount of Series A Debentures issued under the Offering at a price equal to the price under the Offering (\$3.50 per Unit and \$100.00 per Series A Debenture) (the "Agents' Option"). The Agents' Option will expire on August 14, 2009.

As required by Canadian GAAP, the Fund determined the fair value of the Agents' Option using the Black-Scholes pricing model. Prior to the changes in accounting policy adopted by the Fund as described in Note 3(a)(i) above, the fair value of the option to purchase Series A Debentures was included in deferred financing costs. Effective January 1, 2007, the fair value of the option was charged to opening Fund Units. The fair value of the option to purchase units of \$510,695 was not recorded as it would have had no impact on assets, liabilities, unitholders' equity or income. The following assumptions were used to estimate the fair value:

- Risk free interest rate of 4.3%
- Expected life of 3 years
- Expected volatility of 100%
- Expected distribution of \$0.49.

14. COMMITMENTS

(a) *Minimum operating lease commitments*

WEQ Production Equipment LP

The Fund has entered into 18 operating lease agreements for vehicles and trailers. The leases require monthly payments ranging from \$510 to \$2,657 (exclusive of taxes, insurance and surcharges) and have maturity dates ranging to July 27, 2012. The minimum operating lease commitments are as follows:

2008	\$ 284,339
2009	250,569
2010	214,225
2011	98,034
2012	35,765

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

WEQ Old Country Rentals LP

The Fund does not currently have any operating lease agreements under WEQ Old Country Rentals LP.

(b) Minimum rental commitments

WEQ Production Equipment LP

The current lease agreement was renegotiated on November 30, 2006 and covers the five year period commencing December 1, 2006 and ending November 30, 2011. The lease requires annual rental payments of \$168,000, payable in monthly instalments of \$14,000. The minimum rental commitments are as follows:

2008	\$ 168,000
2009	168,000
2010	168,000
2011	154,000

WEQ Old Country Rentals LP

The current lease agreement covers the two operating locations of the business, and is for the ten year period commencing June 1, 2007 and ending May 30, 2017, with two five year renewal options. The lease requires annual rental payments of \$188,008, payable in monthly instalments of \$15,667, with a 2% increase per annum in each year following the first year of the lease. The minimum rental commitments are as follows:

2008	\$ 190,202
2009	194,006
2010	197,886
2011	201,843
2012 and after.....	1,165,029

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

15. ACQUISITION

On August 15, 2006 the Fund used the net proceeds of the Offering, together with funds from new credit facilities, to acquire a 100% indirect interest in WEQ Production Equipment LP for \$29,181,910.

The purchase price was paid in cash, and the allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Allocation of purchase price:	
Accounts receivable, net	\$ 2,430,505
Inventories	886,221
Prepays	21,420
Accounts payable	(354,962)
Due to Vendors	(825,219)
Property and equipment	13,081,152
Intangible assets (note 6)	13,942,793
	<hr/>
	\$ 29,181,910

WesternOne Equity Income Fund

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For the Year Ended December 31, 2007

On January 29, 2007, the Fund announced that it had signed a letter of intent to purchase the assets of an equipment rental company with two locations on Vancouver Island.

On May 2, 2007 the Fund filed a Material Change Report with its regulatory authorities relating to the proposed acquisition.

On June 1, 2007, pursuant to an acquisition agreement dated April 25, 2007, WEQ Old Country Rentals LP, a limited partnership established under the laws of Manitoba on April 20, 2007, and an indirect subsidiary of the Fund, purchased the assets of Old Country Rentals Ltd. from the shareholders of Old Country Rentals Ltd. (the "Shareholders").

The purchase price was paid in cash and units, and the allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Allocation of purchase price:	
Accounts receivable, net	\$ 739,890
Inventories	438,355
Prepays	23,786
Accounts payable	(217,091)
Property and equipment	3,234,117
Intangible assets	1,466,270
Goodwill	2,725,261
	<hr/>
	\$ 8,410,588
Cash position at acquisition	1,200
	<hr/>
	\$ 8,411,788

Note - For the purposes of the Consolidated Statements of Cash Flows, the investment has been recorded as the net of the consideration of \$8,411,788 less the cash position at acquisition of \$1,200.

Consideration:	
Cash	\$ 7,795,240
Issuance of units (150,000 units @ \$3.00/Unit)	450,000
Assumption of equipment financing payable	166,548
	<hr/>
	\$ 8,411,788

16. FINANCIAL INSTRUMENTS

The fund, through its financial assets and liabilities is exposed various risks. The following analysis provides a measurement of risks as at balance sheet date, December 31, 2007.

(a) Comparison of fair value to carrying value

Financial instruments consist of cash, cash in trust, short term investments, accounts receivable, operating loan, accounts payable and accrued liabilities, distributions payable, capital loans and Series A Debentures. The carrying value of the capital loans is considered to approximate their fair market values as the interest rates flow with the prime rate. The carrying value of the financial instruments, except for the capital loans and Series A Debentures, are considered to approximate their fair values due to their short term nature. The fair value of Series A Debenture, as at December 31, 2007, was \$10,275,000 (2006 - \$9,500,000).

WesternOne Equity Income Fund

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For the Year Ended December 31, 2007

(b) Interest rate risk

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

The Fund's operating loan and capital loans payable bear interest at variable rates. The Fund has the option to enter into fixed rate interest arrangements in order to reduce its exposure to interest rate risk.

The Fund's Series A Debentures bear a fixed interest rate of 9% throughout the five-year term and thus are not exposed to any interest rate risk.

(c) Foreign exchange risk

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

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

As at December 31, 2007, the Fund's consolidated balance sheet included \$33,358 of accounts payable (2006 - \$38,013) and \$15,034 of operating loan (2006 - \$Nil) which were U.S. currency denominated. The Fund believes the amounts are immaterial for the Fund to be exposed to any substantial foreign exchange risks.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At December 31, 2007 there were no foreign exchange contracts outstanding.

(d) Credit risk

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

The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry due to its concentration of business in that sector. The Fund mitigates the risk by means of a wide customer base in the construction as well as other sectors, in which there was no single account receivable balance in excess of 10% of the Fund's consolidated accounts receivable balance as at December 31, 2007. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and historical losses have been within management's expectations.

The Fund is exposed to credit risk with respect to its short-term investments. The Fund mitigates the risk by only investing in money market securities (GICs and bankers' acceptances) with major financial institutions.

(e) Liquidity risk

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

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

The Fund believes that the liquidity risk is mitigated given its current cash reserve, together with future operating cash flow from existing operations.

17. RISK MANAGEMENT

As part of the Fund's risk management practices, the risks that are significant to the business are identified, monitored and controlled. The most significant risks include credit risk, foreign exchange risk and interest rate risk. The nature of these risks and how they are managed is described in detail in the MD&A.

18. SEGMENTED INFORMATION

Through its indirect ownership of WEQ Production Equipment LP and WEQ Old Country Rentals LP, the Fund currently operates in one industry segment: the renting, selling and servicing of quality equipment and the provision of logistical support to its customers in British Columbia.

19. RELATED PARTY TRANSACTIONS

The Fund purchased equipment from a company in which a board member has a controlling interest, for \$120,259 during the year ended December 31, 2007. These transactions arose during the normal course of business and have been recorded at exchange amount agreed upon by the two parties.

20. SUBSEQUENT EVENTS

(a) Business acquisition

On January 1, 2008, the Fund announced that it had completed the purchase of the assets and business of C&N Motors Ltd. ("C&N") for \$2,015,000, with an additional provision of up to \$300,000 based on future earnings of C&N. C&N is located in Comox in central Vancouver Island, British Columbia and has been a major equipment rentals, sales and repair business in that region for over 25 years.

Subsequent to December 31, 2007, the Fund completed the purchase of the assets and business of Deerfoot Equipment Rental Inc. for \$13,000,000, which consisted of a combination of cash, debt financing, and the issuance of 125,000 exchangeable units convertible to public units of the Fund on a one-for-one basis. Deerfoot is located in Calgary, Alberta and is a major provider of rented heaters, generators, and compact construction equipment to homebuilders and commercial builders in that region.

(b) Credit facility agreement

On January 10, 2008, the Fund entered into a credit facility agreement with the same Canadian chartered bank in Note 8 above. Subject to conditions precedent to the bank's obligation to make the

WesternOne Equity Income Fund

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For the Year Ended December 31, 2007

credit facilities available to the Fund and the Fund's compliance with certain covenants and conditions, the credit facility agreement provides the following credit facilities in addition to the existing facilities summarized in Note 8 above:

- A \$14,000,000 demand non-revolving loan ("Acquisition Loan") to assist in financing future acquisitions. The loan bears an annual interest at the bank's prime rate plus 0.65% or 1.70% over bankers' acceptance rate. Unless repaid on demand by the bank, the facility is to be fully repaid by February 28, 2013; and
- A \$2,000,000 increase from the existing demand revolving capital loan, from \$4,000,000 to \$6,000,000. Interest rate and repayment terms remain unchanged at the bank's prime rate plus 0.65% or 1.60% over bankers' acceptance rate, and fully repaid by August 31, 2011.

(c) Agents' Option

Pursuant to the Agents' Option (described in note 13), on January 16, 2008, the Agents performed a partial exercise of their Agents' Option, whereby 2,500 trust units were issued at \$3.50 per trust unit, for total net proceeds of \$8,750.