

WESTERNO ONE EQUITY

WESTERNO ONE EQUITY INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 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 recommending to the Board of Trustees to approve 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.

KPMG 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.

March 13, 2009
"Darren Latoski"

Chief Executive Officer
WesternOne Equity Income Fund

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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheet of WesternOne Equity Income Fund as at December 31, 2008 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the year then ended. 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 audit 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2007 were audited by another firm of chartered accountants, who expressed an opinion without reservation on these statements in their report dated January 31, 2008.

Chartered Accountants

Vancouver, Canada

February 27, 2009

WesternOne Equity Income Fund

CONSOLIDATED BALANCE SHEETS

	As at December 31, 2008	As at December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,014,494	\$ 5,514,594
Cash in trust	-	2,015,000
Short term investments	-	2,173,062
Accounts receivable	8,234,528	3,112,105
Inventories	1,701,980	1,340,213
Deposits and prepaid expenses	352,654	247,480
	12,303,656	14,402,454
PROPERTY AND EQUIPMENT (Note 4)	35,495,003	19,758,705
INTANGIBLE ASSETS (Note 5)	28,224,196	13,510,782
GOODWILL (Note 6)	8,430,418	2,725,261
FUTURE INCOME TAXES (Note 10)	3,202,004	1,452,238
	\$ 87,655,277	\$ 51,849,440
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Operating loans (Note 7)	\$ 1,978,657	\$ 1,515,432
Accounts payable and accrued liabilities	4,189,305	996,144
Distributions payable	660,843	587,184
Current portion of equipment financing payable (Note 8)	92,031	95,770
Current portion of capital leases payable (Note 14)	169,483	-
Current portion of mortgage payable (Note 9)	15,760	-
Unearned revenue	119,645	-
Capital and acquisition loans (Note 7)	35,747,115	4,338,128
	42,972,839	7,532,658
EQUIPMENT FINANCING PAYABLE - NON-CURRENT (Note 8)	95,429	106,652
CAPITAL LEASES PAYABLE (Note 14)	84,775	-
TERM MORTGAGE - NON-CURRENT (Note 9)	335,929	-
FINANCIAL DERIVATIVES (Note 7)	525,079	-
SERIES A DEBENTURES (Note 11)	8,343,855	8,238,358
	52,357,906	15,877,668
UNITHOLDERS' EQUITY	35,297,371	35,971,772
	\$ 87,655,277	\$ 51,849,440

COMMITMENTS (Note 13)

SUBSEQUENT EVENT (Note 21)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

"Darren Latoski"

Trustee

"Douglas Scott"

Trustee

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

	Fund Units (Note 12)	Contributed Surplus	Equity component of convertible debentures (Note 11)	Retained earnings/(deficit)	Total Unitholders' Equity
BALANCE, December 31, 2006	15,484,789	-	1,116,250	210,466	16,811,505
Adjustment to Fund Units and Cumulative earnings under CICA Handbook sec 3855	(129,111)			52,525	(76,586)
Issuance of Units (net of issuance costs)	19,413,210				19,413,210
Net and Comprehensive 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	86,634	35,971,772
Issuance of Units (net of issuance costs)	5,053,816		(6,139)		5,047,677
Employee unit-based compensation for the period		24,926			24,926
Equity portion relating to issuance of Series A Debentures			(17,541)		(17,541)
Net and Comprehensive income for the period				1,479,365	1,479,365
Distributions declared				(7,208,828)	(7,208,828)
BALANCE, December 31, 2008	39,822,704	24,926	1,092,570	(5,642,829)	35,297,371

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year ended December 31, 2008	Year ended December 31, 2007
REVENUE		
Equipment rental	\$ 21,145,057	\$ 13,662,608
Equipment sales	5,449,160	5,698,556
Fuel wholesale and distribution	3,584,227	-
Logistical support	1,783,879	1,364,481
Parts and service	5,382,466	1,562,274
Interest and other income	235,646	245,867
	<u>37,580,435</u>	<u>22,533,786</u>
COST OF SALES		
Equipment sold	4,652,025	4,772,182
Fuel wholesale and distribution	1,678,075	-
Commission	878,335	866,658
Re-rental	1,243,603	451,758
Parts and service	3,069,622	575,650
	<u>11,521,660</u>	<u>6,666,248</u>
GROSS PROFIT	<u>26,058,775</u>	<u>15,867,538</u>
OPERATING EXPENSES		
General and administrative	6,081,809	2,518,372
Freight	2,882,510	1,765,605
Service	3,141,005	2,309,763
Sales	2,407,455	985,997
Interest	2,392,914	1,403,214
Amortization and depreciation	5,064,549	2,802,432
Accretion of Series A Debentures	217,526	212,477
	<u>22,187,768</u>	<u>11,997,860</u>
OTHER EXPENSES		
Loss on derivatives (Note 7)	575,355	-
Impairment of equipment	237,205	-
Impairment of intangible assets	1,593,693	-
Impairment of goodwill	1,735,155	-
	<u>4,141,408</u>	<u>-</u>
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(270,401)	3,869,678
FUTURE INCOME TAXES/(RECOVERIES)	(1,749,766)	(1,452,236)
NET AND COMPREHENSIVE INCOME	<u>\$ 1,479,365</u>	<u>\$ 5,321,914</u>
Basic weighted average income per unit	\$ 0.12	\$ 0.56
Diluted weighted average income per unit	0.12	0.53
Basic weighted average number of units outstanding	11,925,725	9,473,711
Diluted weighted average number of units outstanding	11,925,725	11,961,806

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008	Year ended December 31, 2007
OPERATING ACTIVITIES		
Net Income	\$ 1,479,365	\$ 5,321,914
Items not affecting cash -		
Amortization of property and equipment	2,568,327	1,395,445
Amortization of intangible assets	2,496,222	1,406,987
Interest expense relating to amortization of transaction costs	213,221	156,084
Accretion of Series A Debentures	217,526	212,477
Future income taxes/(recoveries)	(1,749,766)	(1,452,236)
Loss on derivatives	525,079	-
Unit-based compensation	24,926	-
Writedown of fixed assets	237,205	-
Writedown of intangible assets	1,593,693	-
Writedown of goodwill	1,735,155	-
Gain on sale of property and equipment	(172,646)	(328,544)
	<u>9,168,307</u>	<u>6,712,127</u>
Changes in non-cash working capital balances -		
Accounts receivable	(1,825,900)	45,533
Inventories	268,007	(193,439)
Deposits and prepaid expenses	17,744	62,103
Cash held in trust	2,015,000	(2,015,000)
Accounts payable and accrued liabilities	1,651,400	228,693
Unearned Revenue	119,645	-
	<u>11,414,203</u>	<u>4,840,017</u>
INVESTING ACTIVITIES		
Sale/(Purchase) of short term investments	2,173,062	(948,119)
Purchase of property and equipment	(9,522,429)	(6,250,390)
Proceeds from the sale of property and equipment	1,780,933	2,382,130
Acquisitions (Note 15)	(38,639,487)	(8,410,588)
	<u>(44,207,921)</u>	<u>(13,226,967)</u>
FINANCING ACTIVITIES		
Distributions paid	(7,135,169)	(5,300,818)
Units issued for cash (net of expenses)	4,139,816	19,413,210
Debentures issued for cash (net of expenses)	115,900	-
Proceeds from term mortgage payable	349,902	-
Proceeds from/(repayment of) loans payable	31,823,169	(598,245)
	<u>29,293,618</u>	<u>13,514,147</u>
NET CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	<u>(3,500,100)</u>	<u>5,127,197</u>
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>5,514,594</u>	<u>387,397</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>2,014,494</u>	<u>\$ 5,514,594</u>
Supplemental cash flow information:		
Interest received	\$ 131,941	\$ 180,175
Interest paid	2,229,968	1,218,102
Conversion of convertible debentures into fund units	414,000	-
Exchangeable Units issued upon acquisition	500,000	-
Fund Units issued upon acquisition	-	450,000
Assets under capital lease	254,258	-

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2008

1. ORGANIZATION AND NATURE OF OPERATIONS

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 ("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. The Fund commenced operations on August 15, 2006 when it completed its initial public offering (the "Offering").

Through its indirectly owned subsidiaries, the Fund operates equipment rental, sale and service, and fuel wholesale and distribution businesses in British Columbia and Alberta.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the Fund adopted the following accounting standards:

a) *CICA HB Section 1400 – Going Concern*

In June 2007, Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual periods beginning on or after January 1, 2008. As at December 31, 2008 the principal lender of the Fund (the "Bank") advanced \$35,747,115 of capital and acquisition loans to the Fund to continue its strategic growth initiatives through business acquisitions and expansion of rental fleet. The capital and acquisition loans, as described in detail in note 7, are repayable on demand by the Bank. While management believes the acquisitions and capital expenditures will continue to generate significant revenue and earnings growth as the Fund benefits from Western Canada's construction and infrastructure sectors, the success of the Fund depends on the ongoing financial support from the Bank, by allowing the Fund to service its debt obligations based on existing repayment schedules. As at December 31, 2008, the Fund was in compliance with all bank covenants.

The accompanying consolidated financial statements have been prepared assuming the Fund will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

b) *CICA HB Section 1535 – Capital Disclosures*

Effective January 1, 2008, the Fund adopted the recommendation of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 that specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any established capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance. The disclosures are provided in note 16.

c) *CICA HB Section 3031 - Inventories*

This section requires inventory to be measured at the lower of cost and net realizable value. This standard provides additional guidance on the types of costs that can be capitalized and requires the

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Notes to the Consolidated Financial Statements

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reversal and disclosure of previous inventory write-downs if economic circumstances have changed to support higher inventory values. The adoption of this standard did not have any impact on the Fund's consolidated financial statements.

d) *CICA HB Section 3862 and 3863 – Financial Instruments – Disclosures and Presentation*

The Fund has also adopted CICA Handbook Sections 3862 and 3863, which replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation," revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages these risks. The disclosures are provided in note 17.

e) *Future accounting changes*

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

In February 2008, the Accounting Standards Board confirmed the date of changeover from GAAP to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund is currently developing its IFRS conversion plan and evaluating the effect of the new standards on its consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared under Canadian generally accepted accounting principles and are stated in Canadian dollars. The Fund has consolidated the assets, liabilities and equity of all subsidiaries after the elimination of inter-entity transactions and balances. The consolidated financial statements include the accounts of the Fund, and its wholly owned subsidiaries, WesternOne Equity GP Inc. and WesternOne Equity Operating Trust. These two subsidiaries in turn include the accounts of their subsidiaries, WesternOne Equity LP, WEQ Production Equipment GP Inc., WEQ Production Equipment LP, WEQ Old Country Rentals GP Inc., WEQ Old Country Rentals LP, WEQ C&N Rentals GP Inc., WEQ C&N Rentals LP, WEQ Deerfoot Rentals GP Inc., WEQ Deerfoot Rentals LP, WEQ Heat & Propane GP Inc., and WEQ Heat & Propane LP.

Certain comparative figures have been reclassified to conform with presentation adopted in the current year.

(a) *Financial Instruments*

The Fund's financial assets and financial liabilities are initially recognized at their fair value and their subsequent measurement is dependent on their classification or designation as described below. Their classification or designation depends on the purpose for which the financial instruments were acquired or issued and their characteristics. Financial instruments classified or designated as 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 other

WesternOne Equity Income Fund

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December 31, 2008

comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost.

The following is a summary of each significant category of financial instruments outstanding as at December 31, 2008:

Cash and cash equivalents.....	Held-for-trading
Short term investments	Held-for-trading
Financial derivatives*	Held-for-trading
Accounts receivable	Loans and receivables
Operating loans	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Distributions payable	Other liabilities
Capital and acquisition loans	Other liabilities
Equipment financing payable.....	Other liabilities
Mortgage payable	Other liabilities
Series A debentures	Other liabilities

** These derivative instruments have not been designated as hedges for accounting purposes and are fair valued on a quarterly basis*

Transaction costs that 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.

(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, goodwill and property and equipment, valuation of future income taxes, and fair values of financial instruments. 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 accrual of unbilled revenue at year end, 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.

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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 fuel wholesale and distribution is recognized at the time when the fuel is 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.

(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. Short term investments in this category are valued at market value at the year 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. on January 1, 2008. (see note 15 - Acquisitions)

(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 year end. These amounts may be converted to cash at any time prior to maturity.

(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 weighted-average basis. Parts inventory write-downs are included in cost of sales.

(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 estimated salvage value.*

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Notes to the Consolidated Financial Statements

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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 whenever changes in circumstances 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 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 intangible assets with indeterminable lives. The Fund amortizes its intangible assets with determinable lives over their estimated useful lives on a straight-line basis:

Customer relationships	10 years
Non-competition agreements	3 years
Franchise Agreements.....	12 years
Brand name	nil
Supplier agreements.....	nil

Management reviews intangible assets with definite lives for impairment whenever changes in circumstances indicate the carrying amount of an asset may not be recoverable from expected undiscounted future cash flows from their expected use and eventual disposition. Management reviews intangible assets with definite lives for impairment at least annually. 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 write-downs 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 year are translated into Canadian dollars at the rate prevailing at the year-end.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2008

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.

(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 current 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 27.0% for 2011 and 25.5% 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' Options (note 12). The impact of the conversion feature is calculated using the if-converted method, and the impact of the Agents' Options 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, 2008, the Compensation Committee approved \$Nil of LTIP (2007 - \$Nil).

(o) CICA HB Section 3870 – Unit-based Compensation and Other Unit-based Payments

The Fund grants Unit options to directors, trustees and employees pursuant to a Unit-based compensation plan described in Note 19. Compensation expense is recorded for Unit options issued to

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2008

employees using the fair value method with a corresponding increase in contributed surplus. Any consideration received on exercise of options or the purchase of Units is credited to fund units.

Under the fair value based method, Unit based payments made to employees are measured at the grant date and amortized on a straight-line basis over the vesting period of the options.

4. PROPERTY AND EQUIPMENT

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 35,501,921	\$ 3,618,163	\$ 31,883,758
Building	126,888	6,149	120,739
Land	481,133	-	481,133
Tractors and trailers	1,707,350	181,306	1,526,044
Furniture, fixtures and equipment	1,093,185	99,146	994,039
Computer equipment and software	311,871	63,491	248,380
Leasehold improvements	311,167	70,257	240,910
	<u>\$ 39,533,515</u>	<u>\$ 4,038,512</u>	<u>\$ 35,495,003</u>

	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>

At December 31, 2008 the Fund performed an impairment test of its property and equipment. As a result of these tests, \$237,205 of rental fleet was deemed to be impaired.

5. INTANGIBLE ASSETS

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 27,517,223	\$ 3,828,494	\$ 23,688,729
Brand name	782,017	-	782,017
Franchise Agreements	1,164,448	84,908	1,079,540
Non-competition agreements	3,064,417	390,507	2,673,910
	<u>\$ 32,528,105</u>	<u>\$ 4,303,909</u>	<u>\$ 28,224,196</u>

WesternOne Equity Income Fund

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December 31, 2008

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

At December 31, 2008 the Fund performed an impairment test of its intangible assets. As a result of these tests, \$225,887 of customer relationships, \$999,348 of brand name, \$72,035 of non-competition agreements and \$296,423 of supplier agreements were deemed to be impaired and the cost amounts have been written down to nil.

The circumstance that led to the impairment of brand names is the fact that the Fund has stopped using certain brand names which were acquired in the past. The circumstances that led to the impairment of customer relationships, non-competition agreements, and supplier agreements are similar to those which led to the impairment of Goodwill as described in Note 6, below.

6. GOODWILL

December 31, 2008			December 31, 2007		
Cost	Write down	Net Book Value	Cost	Write down	Net Book Value
\$ 10,165,573	\$ 1,735,155	\$ 8,430,418	\$ 2,725,261	\$Nil	\$ 2,725,261

The additions to Goodwill between December 31, 2008 and December 31, 2007 represent the addition of further costs associated with the acquisition of businesses (see note 15).

At December 31, 2008 the Fund performed an impairment test of intangible assets and goodwill to compare its carrying value to fair value, using the discounted cash flow approach. The test required the fair value to be allocated to each individual asset and liability, as it would be in a business combination for each business that the Fund had previously acquired. After performing this allocation the fair value of each individual asset and liability was compared to the respective carrying value, and accordingly the difference of \$1,735,155 of goodwill was deemed to be impaired.

The circumstance that led to the impairment of goodwill is the current economic slowdown. The contributing factor is the reduced pace of growth in the construction industry in Western Canada, which is expected to put pressure on cash flow from future equipment rental and related revenues.

In determining fair value management relied on a number of factors including forecasted operating results, business plans, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment.

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7. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	December 31, 2008		December 31, 2007
	Approved	Outstanding	Outstanding
Operating loans	\$ 4,750,000	\$ 1,978,657	\$ 1,515,432
Capital loans:			
Non-revolving	2,519,830	2,519,830	2,937,554
Revolving:	9,000,000		
Loan #1		1,244,185	1,400,574
Loan #2		510,144	-
Loan #3		766,327	-
Loan #4		1,440,668	-
Loan #5		740,794	-
Loan #6		1,880,233	-
Other Loans		878,411	-
	11,519,830	9,980,592	4,338,128
Acquisition loans:	25,766,523		
Loan #1		8,614,683	-
Loan #2		12,551,840	-
Loan #3		4,600,000	-
	25,766,523	25,766,523	-
Capital and Acquisition loans	37,286,353	35,747,115	4,338,128
Total Credit Facilities	\$ 42,036,353	\$ 37,725,772	\$ 5,853,560

The following table illustrates the funding dates, maturity dates and interest rates as at December 31, 2008 for the Capital and Acquisition Loans described above:

Loan	Funding Date	Maturity Date	Interest Rate at Dec. 31, 2008
Non-Revolving	August 14, 2006	August 13, 2011	4.70%
Revolving:			
Loan #1	August 14, 2006	August 13, 2011	4.70%
Loan #2	April 9, 2008	April 8, 2013	4.70%
Loan #3	May 27, 2008	May 26, 2013	4.70%
Loan #4	July 18, 2008	July 17, 2013	4.70%
Loan #5	September 26, 2008	September 25, 2013	4.70%
Loan #6	October 22, 2008	October 21, 2013	4.70%
Acquisition Loans:			
Loan #1	February 15, 2008	February 14, 2013	5.00%
Loan #2	October 1, 2008	September 30, 2013	5.00%
Loan #3	December 31, 2008	December 30, 2010	5.00%

A single Canadian chartered bank (the "Bank") has made the above credit facilities, available to various entities indirectly owned by the Fund to finance day-to-day operations, capital expenditures, and acquisitions.

The Bank has provided the operating loans payable upon demand. The operating loans are at the Bank's prime rate plus 1% and are secured by 50% of inventory and 75% of acceptable (as defined in the

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operating loan agreement) accounts receivable, minus priority claims. The operating loan has no stated maturity date.

The capital and acquisition loans are repayable on demand, and unless and until demanded in monthly installments with interest, at the Fund's option, at the Bank's prime rate plus a range of 1.2% to 1.5%, or a stamping fee with a range of 2.7% to 3.0% above the Bank's banker's acceptance rate. The non-revolving capital loan, unless repaid on demand to the Bank, shall be repaid in full by August 13, 2011. The revolving capital and acquisition loans, unless repaid on demand to the Bank, shall be repaid in full on the fifth anniversary of the date of such advance made. The costs of obtaining the capital and acquisition loans are being amortized over the terms of the respective loan, resulting in an effective interest rate at December 31, 2008 of 4.97% (2007 – 7.06%) for the capital loans and 5.30% (2007 - nil) for the acquisition loans.

On July 2, 2008, the Fund entered into an interest rate swap with the Bank. The swap has a three-year term, a notional value of \$9,312,000 at the commencement of the swap, and a fixed rate of 4.08% plus a stamping fee of 3.0% as at December 31, 2008. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$525,079 at December 31, 2008. The Fund marks the value of this derivative to market every quarter, and any resulting gains/losses are recorded in net income.

On December 31, 2008 the Fund amended its credit facilities with the Bank. Under the amended terms the capital and acquisition loans entailed interest, at the Fund's option, at the Bank's prime rate plus a range of 1.2% to 1.5%, or a stamping fee with a range of 2.7% to 3.0% above the Bank's banker's acceptance rate. The covenants were also amended to exclude the ratio of debt to tangible net worth, set the minimum current ratio of 1.25 to 1.0 for periods subsequent to the year ended December 31, 2008, restrict distribution to Unitholders and future acquisitions without the prior written consent of the Bank, and repay \$4,600,000 in full by December 30, 2010.

The fair value of debt was determined using the discounted cash flow forecast ("DCF"), at an appropriate market discount rate as at December 31, 2008. The fair value of the interest rate swap was determined by discounting the future expected net cash flows of the fixed and variable interest payments using observable market data.

The credit facilities have covenants specifying a minimum current ratio of 1.15 to 1.0 for the year ended December 31, 2008 and 1.25 to 1.0 thereafter, a maximum funded debt to earnings (as defined in the credit agreement) ratio of 3.0 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0, and a restriction on distributions to Unitholders and future acquisitions without the prior written consent of the Bank. For purposes of calculating the current ratio, 25% of the capital and acquisition loans that are due within one year are included in current liabilities. As at December 31, 2008 the Fund was in compliance with all bank covenants.

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

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

2009	\$ 4,792,299
2010	8,519,014
2011	6,584,321
2012	4,236,610
2013	<u>11,873,061</u>
	36,005,305
Balance of transaction costs to amortize	<u>(258,190)</u>
	<u>\$ 35,747,115</u>

8. EQUIPMENT FINANCING PAYABLE

The Fund, through its wholly-owned indirect subsidiaries, arranged for equipment financing relating to rental equipment and operating assets. The equipment financing payable amounts require monthly payments, at interest rates of up to 3.9% per annum, and have maturity dates ranging to December, 2011. The current and non-current portions of the total gross payments are as follows:

2009	\$ 92,031
2010	67,896
2011	<u>27,864</u>
Total gross payment	187,791
Less: Imputed interest	<u>(331)</u>
	187,460
Less: Current Portion	<u>(92,031)</u>
Non-current portion	<u>\$ 95,429</u>

The fair value of equipment financing payable is not materially different from its carrying value.

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, 2008, the net book value of the rental equipment and operating assets under equipment financing was \$250,708.

9. TERM MORTGAGE

The Fund has obtained, through a wholly-owned indirect subsidiary, a term mortgage, during 2008. The initial term of this mortgage is 4 years, and is being amortized over a period of 15 years. The fixed nominal interest rate of the mortgage is 6.5%, and the effective interest rate, including the amortization of transaction costs is 7.37%. This mortgage consists of blended principal and interest payments. At the end of the initial four-year term (April 11, 2012), a principal amount of \$303,349 will remain outstanding. A general security agreement providing a charge over all assets of the Fund has been

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provided as collateral to the lending institution. The minimum principal payments of the initial term of this mortgage are as illustrated:

2009	\$ 15,760
2010	16,815
2011	17,941
2012	<u>309,574</u>
	360,090
Balance of transaction costs to amortize	<u>(8,401)</u>
	351,689
Less current portion	<u>(15,760)</u>
	<u>\$ 335,929</u>

As at December 31, 2008 the market rate of the mortgage payable was 6.5%, the same as the nominal rate. Therefore, the fair value of the mortgage payable is the same as the carrying value.

10. FUTURE INCOME TAXES

The reconciliation to statutory tax rate is as follows:

	December 31, 2008	December 31, 2007
Earnings/(loss) before taxes	\$ (270,401)	\$ 3,869,678
Statutory tax rate	30.25%	34.12%
Expected tax expense/(recovery)	\$ (81,796)	\$ 1,320,334
Current year's loss/(income) not deductible/taxable for tax purposes	81,796	(1,320,334)
Impact of rate changes on future income taxes	145,000	-
Increase in future income tax recovery resulting from a change during the period in temporary differences expected to reverse after 2010	(1,894,766)	(1,452,238)
Future income tax recovery	(1,749,766)	(1,452,238)

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

	December 31, 2008	December 31, 2007
Future income tax asset/(liability):		
Issue costs	\$ (1,845)	\$ 423,249
Intangible assets	2,156,169	895,849
Property, plant and equipment	1,065,778	147,817
Others	(18,098)	(14,677)
	<u>\$ 3,202,004</u>	<u>\$ 1,452,238</u>

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.

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Notes to the Consolidated Financial Statements

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At maturity the Fund shall repay the outstanding principal amount of the Series A Debentures, along with any accrued or unpaid interest. At any time after August 15, 2008, 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.

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, subject to anti-dilution provisions.

As required by Canadian GAAP, the Fund separated the liability and equity component of the Series A Debentures. Proceeds from the issuance of the Series A Debentures were allocated to the equity and liability components of the Debentures using the residual method. The fair value of the equity component was determined using the Black-Scholes pricing model. The difference between the proceeds received and the fair value of the equity component calculated at the date of issuance was allocated as the liability component. The liability component will be accreted through the term of the Series A Debentures through the recording of an accretion expense using the effective interest method, until such date if or when all 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 the effective interest method. The effective interest rate as at December 31, 2008 was 15.0% (2007 – 15.0%).

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2007 and December 31, 2008:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2007	\$ 10,000,000	\$ 8,238,358	\$ 1,116,250
Conversion to Units on May 30, 2008	(20,000)	(17,767)	(2,233)
Conversion to Units on July 11, 2008	(15,000)	(13,325)	(1,675)
Conversion to Units on July 22, 2008	(20,000)	(17,767)	(2,233)
Exercise of Agents' Options on July 30, 2008	115,900	93,367	22,533
Conversion to Units on October 30, 2008	(159,000)	(141,252)	(17,748)
Conversion to Units on November 26, 2008	(200,000)	(177,676)	(22,324)
Amortization and Accretion		379,917	
Balance as at December 31, 2008	\$ 9,701,900	\$ 8,343,855	\$ 1,092,570

At closing of the Offering, the Fund granted the agents an option to purchase a certain principal number of Series A Debentures equal to 5% of the principal amount of Series A Debentures under the Offering. The price to purchase the Series A Debentures under the Agents' Options was equal to the price under the Offering, which was \$100 per Series A Debenture. The Agents' Options will expire on August 14, 2009. As at December 31, 2008, the Fund had 3,841 of such Agents' Options unexercised.

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.

The fair value of Series A Debentures, which was determined using the closing price at the Toronto Stock Exchange as at December 31, 2008, was \$7,955,558 (2007 – \$10,275,000 for all outstanding debentures).

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12. FUND UNITS

An unlimited number of Units may be created and issued by the Fund pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund. The Units are not subject to future calls or assessments, and entitle the Unitholders thereof to one vote at all meetings of voting Unitholders. The Units are redeemable at any time on demand by the holders thereof, subject to certain terms and conditions.

The following summarizes changes to the Fund's Units for the year ended December 31, 2007 and 2008:

	Fund Units*	Fund Units Outstanding	Exchangeable Units Outstanding
Balance as at December 31, 2006	\$ 15,484,789	6,410,050	-
Adjustment to Fund Units under CICA HB Sec. 3855	(129,111)	-	
Issuance of Units from offering	19,383,023	5,325,000	
Issuance of Units from exercise of Agents' Options	30,187	8,625	
Balance as at December 31, 2007	\$ 34,768,888	11,743,675	-
Issuance of Units from offering	3,955,274	1,322,500	
Issuance of Units from exercise of Agents' Options	171,780	49,080	
Issuance of Units from conversion of Series A Debentures	426,762	101,610	
Issuance of exchangeable units†	500,000	-	125,000
Balance as at December 31, 2008	\$ 39,822,704	13,216,865	125,000

* Amounts are net of transaction costs where applicable.

† On February 15, 2008, pursuant to the acquisition of the assets of Deerfoot (see note 15), Deerfoot LP, an indirect subsidiary of the Fund, issued 125,000 exchangeable units ("Exchangeable LP Units") at \$4.00 per unit for net proceeds of \$500,000. Under the terms of the exchange agreement dated February 15, 2008, the Exchangeable LP Units are convertible to Units of the Fund on a one-for-one basis at the option of the holder. The Exchangeable LP Units do not have voting rights, but have economic rights equivalent to the Fund's Units.

During the period from the creation of the Fund on June 14, 2006 to December 31, 2008, a total of 13,216,865 Units and 125,000 Exchangeable LP Units were issued for \$44,062,653 excluding offering costs.

On December 23, 2008, the Fund issued 1,322,500 Units, including the exercise of an over-allotment option of 172,500 Units, for net proceeds of \$3,955,274 after deducting expenses of \$673,476. At closing of the Offering, the Fund granted the agents an option ("Agents' Options") to purchase a certain number of Units equal to 5% of the Units issued under the Offering. The price to purchase the Units was equal to the price under the Offering, which was \$3.50 per Unit. The Agents' Options will expire on August 14, 2009. As at December 31, 2008, the fund had 170,866 of such Agents' Options unexercised.

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13. COMMITMENTS

(a) Minimum operating lease commitments

The Fund, through its indirectly owned subsidiaries, has entered into operating lease agreements for its operating assets. The leases require monthly payments, and have maturity dates ranging from June, 2009 to August, 2014. The minimum operating lease commitments, over the next five years, are as follows:

2009	\$ 632,816
2010	542,761
2011	343,502
2012	208,575
2013	76,113
Thereafter	25,751

(b) Minimum rental commitments

The Fund, through its indirectly owned subsidiaries, has the following minimum rental commitments for premises over the next five years:

2009	\$ 1,308,195
2010	1,295,956
2011	1,243,735
2012	1,112,298
2013	900,693
Thereafter	3,703,422

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

14. CAPITAL LEASES

The Fund, through one of its indirectly owned subsidiaries, has entered into a capital lease agreement for assets that are part of the rental fleet. The lease will conclude with the final payment in June 2010, at which point the option exists to acquire the assets for a sum of \$250. The assets are being amortized consistent with the fund's amortization policy (see note 3). Minimum lease payments for the lease are \$169,483 in 2009 and \$84,775 thereafter. As of December 31, 2008, the assets had a book value of \$254,258, and accumulated amortization of \$1,589.

15. ACQUISITIONS

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.

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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:	
Customer relationships	1,032,904
Brand name	286,348
Distributorship agreement	28,423
Non-compete agreements	118,595
Goodwill	2,725,261
	\$ 8,410,588
Cash position at acquisition	1,200
	\$ 8,411,788
Consideration:	
Cash	\$ 7,635,241
Issuance of units (150,000 units @ \$3.00/Unit)	450,000
Assumption of equipment financing payable	166,548
Direct acquisition costs	159,999
	\$ 8,411,788

On January 1, 2008, pursuant to an acquisition agreement dated December 21, 2007, WEQ C&N Rentals LP ("C&N LP"), a limited partnership established under the laws of Manitoba on August 27, 2007, and an indirect subsidiary of the Fund, purchased the assets of C&N Motors Ltd. ("C&N") from the shareholders of C&N.

The purchase price was paid in cash, and the acquisition was accounted for using the purchase method. The allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Allocation of purchase price:	
Accounts receivable, net	\$ 219,403
Inventories	203,284
Prepays	16,941
Accounts payable	(125,401)
Property and equipment	1,097,002
Intangible assets:	
Customer relationships	263,974
Non-compete agreements	99,676
Goodwill	560,922
	\$ 2,335,801
Cash position at acquisition	600
	\$ 2,336,401
Consideration:	
Cash	\$ 2,216,430
Direct acquisition costs	119,971
	\$ 2,336,401

Note - For the purposes of the Consolidated Statements of Cash Flows, the investment has been recorded as the net of the consideration of \$2,336,401 less the cash position at acquisition of \$600.

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Pursuant to the acquisition agreement dated December 21, 2007, an additional \$300,000 (the "Earnout Provision") may be paid out to the shareholders of C&N, subject to completion of financial statements for C&N LP for the years ended December 31, 2008 and December 31, 2009 with earnings achieved above a certain threshold that was agreed upon by both parties. No earnout provision has been recognized in the purchase price above, or in the Fund's consolidated financial statements for the year ended December 31, 2008.

On February 15, 2008, pursuant to the acquisition agreement dated February 14, 2008, WEQ Deerfoot Rentals LP ("Deerfoot LP"), a limited partnership established under the laws of Manitoba on January 25, 2008, and an indirect subsidiary of the Fund, purchased the assets of Deerfoot Equipment Rental Inc. ("Deerfoot") from the shareholders of Deerfoot.

The purchase price was paid in a combination of cash and through issuance of 125,000 Exchangeable LP Units (see note 12). The acquisition was accounted for using the purchase method. The allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Allocation of purchase price:	
Accounts receivable, net	\$ 1,933,503
Inventories	28,424
Prepays	13,554
Accounts payable	(1,225,852)
Property and equipment	5,407,830
Intangible assets:	
Customer relationships	3,574,994
Franchise Agreement	1,164,448
Non-compete agreement	426,882
Goodwill	1,941,340
	<hr/>
	\$ 13,265,123
Consideration:	
Cash	\$ 12,669,780
Issuance of Exchangeable LP Units (125,000 units @ \$4.00/unit)	500,000
Direct acquisition costs	95,343
	<hr/>
	\$ 13,265,123

On July 1, 2008, pursuant to an acquisition agreement dated June 30, 2008, WEQ Production Equipment LP, an indirect subsidiary of the fund, purchased the assets of a private and independent equipment rental company, of Vancouver, British Columbia.

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The purchase price was paid in cash, and the acquisition was accounted for using the purchase method. The allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Allocation of purchase price		
Property and equipment	\$	80,000
Intangible assets:		
Customer relationships		237,776
Non-compete agreements		80,039
Goodwill		17,024
	\$	414,839
<hr/>		
Consideration:		
Cash	\$	400,000
Direct acquisition costs		14,839
	\$	414,839

On October 1, 2008, pursuant to the acquisition agreement dated September 12, 2008, WEQ Heat & Propane LP (“H&P LP”), a limited partnership established under the laws of Manitoba on August 26, 2008, and an indirect subsidiary of the Fund, purchased the assets of Sure-Fire Propane Ltd and Davis Heater Service Ltd. (collectively “Davis Sure-Fire”) from the shareholders of Davis Sure-Fire.

The purchase price was paid in cash, and the acquisition was accounted for using the purchase method. The allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Allocation of purchase price:		
Accounts receivable, net	\$	1,143,617
Inventories		398,065
Prepays		92,422
Accounts payable		(190,508)
Property and equipment		3,785,660
Intangible assets:		
Customer relationships		9,683,558
Non-compete agreements		2,489,965
Brand names		782,017
Goodwill		4,938,926
	\$	23,123,722
<hr/>		
Consideration:		
Cash	\$	22,952,022
Direct acquisition costs		171,700
	\$	23,123,722

The purchase price above includes a \$2,000,000 contingent consideration that may be paid out to the shareholders of Davis Sure-Fire, subject to completion of financial statements for H&P LP for the twelve months ended September 30, 2009 with earnings achieving above a certain threshold that was agreed upon by both parties. The contingent consideration has been included in the Fund’s financial statements for the year ended December 31, 2008 as part of the consideration of the acquisition.

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16. CAPITAL DISCLOSURES

The Fund's capital currently consists of cash and cash equivalents, credit facilities (including capital and acquisition loans), debentures and issued unit capital.

The Fund's objective when managing capital is to maximize long-term Unitholder value by:

- Maintaining a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations; and
- Providing a return to Unitholders by delivering monthly cash distributions.

In managing its capital structure, the Fund monitors performance throughout the year to ensure anticipated cash distributions, working capital requirements and maintenance capital expenditures are funded from operations, available cash on deposit and where applicable, bank borrowings. The Fund will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the Fund may adjust the amount of cash distributions to Unitholders, borrow funds and/or issue new Units.

The Fund's credit facilities have restrictive covenants relating to debt incurrence and distributions to Unitholders. Furthermore, the credit facilities contain financial covenants, as described in note 7 above, that also form the basis for the Fund to monitor its capital. The Fund closely monitors the business performance to evaluate compliance with the covenants. As at December 31, 2008, the Fund is in compliance with all such covenants.

17. FINANCIAL INSTRUMENTS

(a) Comparison of fair value to carrying value

Financial instruments consist of cash and cash equivalents, accounts receivable, operating loans, accounts payable and accrued liabilities, distributions payable, capital and acquisition loans, mortgage payable, equipment financing payable, and Series A Debentures. The carrying values of the financial instruments, except for the capital and acquisition loans, mortgage payable, equipment financing payable, and Series A Debentures, are considered to approximate their fair values due to their short term nature. The carrying values of the capital and acquisition loans approximate their fair values as the related interest rates were at market at year-end due to the recent amendment to the credit facilities. The Fund has considered credit risk in making this determination and concluded no material adjustments would be required. The fair value of the mortgage payable and equipment financing payable are based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions.

(b) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

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The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry in British Columbia and Alberta due to its concentration of business in that sector. The Fund mitigates the risk by means of a diverse customer base in the construction (industrial, commercial, infrastructure, and residential) 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, 2008. 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.

Aging of receivables is as follows:

	December 31, 2008	December 31, 2007
Trade receivables, gross		
Outstanding 1-30 days	\$ 4,841,772	\$ 1,481,236
Outstanding 30-60 days	1,907,026	812,877
Outstanding over 60 days	1,059,835	486,207
	7,808,633	2,780,320
Allowance for doubtful accounts	(239,552)	(81,648)
Trade receivables, net	7,569,081	2,698,672
Sales tax and other receivables	665,447	413,433
Accounts Receivable	\$ 8,234,528	\$ 3,112,105

(c) Liquidity risk

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

The Fund manages its liquidity risk through cash and debt management. As at December 31, 2008, the Fund had available unused approved credit facilities of \$4,310,581. The Fund also has accounts receivable of \$8,234,528, and cash and cash equivalents totalling \$2,014,494.

The timing of cash outflows relating to financial liabilities and capital lease obligations are outlined in the table below:

	1 year	2-3 years	4-5 years	beyond 5 years	Total	Carrying Value
Accounts payable and accrued liabilities	\$ 4,189,305				\$ 4,189,305	\$ 4,189,305
Distributions payable	660,843				660,843	660,843
Equipment financing payable	92,031	95,429			187,460	187,460
Capital Leases	169,483	84,775			254,258	254,258
Term mortgage	15,760	34,756	309,574		360,090	351,689
Interest Rate Swap	252,853	282,424			535,277	525,079
Capital and acquisition loans*	4,792,299	15,103,335	16,109,671		36,005,305	35,747,115
Series A Debentures		9,701,900			9,701,900	8,343,855
Totals	\$ 10,172,574	\$ 25,302,619	\$ 16,419,245	\$ -	\$ 51,894,438	\$ 50,259,604

* The capital and acquisition loans are repayable on demand.

(d) 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.

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The Fund's credit facilities 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.

For the twelve month months ended December 31, 2008, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$226,694.

The Fund is managing its interest rate risk, in part, through an interest rate swap (see note 7)

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.

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

The Fund's equipment financing payable bears fixed interest rates of up to 3.9% throughout the terms of the respective financing and thus is not exposed to any interest rate risk.

(e) 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, 2008, the Fund's consolidated balance sheet included \$242,254 of accounts payable (2007 - \$33,358), \$Nil of net operating loan (2007 - \$15,034), and \$8,095 of cash (2007 - \$Nil) which were U.S. currency denominated.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At December 31, 2008 there were no foreign exchange contracts outstanding.

18. RELATED PARTY TRANSACTIONS

(a) Purchase of equipment

During 2008, the Fund purchased equipment from a company in which a board member of the Fund has a controlling interest, for \$397,097. These transactions arose during the normal course of business and have been recorded at fair market value.

(b) Purchase of land and building

The Fund purchased land and a building from a company in which employees of the Fund held a non-controlling interest, for \$575,000. These transactions arose during the normal course of business and have been recorded at fair market value.

(c) Rental Obligations

The Fund currently rents premises in various locations from companies in which employees of the Fund hold certain interests. In the fiscal year 2008, the Fund has paid \$268,709 in such rent. The rent between the parties is at fair market value.

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19. UNIT BASED COMPENSATION

At December 31, 2008, the Fund had a unit-based compensation plan in place, as described below. Grants under this plan are accounted for according to the fair value based method of accounting for unit-based compensation. The plan was initiated on August 14, 2006. For the year ended December 31, 2008, the Fund recognized \$24,926 of compensation expense (2007 – nil).

On July 9, 2008, the Fund granted options to acquire 463,000 units to directors, trustees and other employees. Under this plan, the exercise price of each option is equal to the market value of the unit at the date of grant. These options vest evenly over five years. The expiry of the options is ten years from the date of initial grant.

A summary of the details of the options granted follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding, at January 1, 2008	-	-	-
Granted	463,000	\$ 4.90	\$ 4.90
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, at December 31, 2008	463,000	\$ 4.90	\$ 4.90
Exercisable at December 31, 2008	-		
Weighted average fair value of options granted to December 31, 2008		\$ 0.55	

The following table illustrates the fixed unit options outstanding, as of December 31, 2008:

	Outstanding Options			Options Exercisable	
	Number Outstanding December 31, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2008	Weighted Average Exercise Price
Range of Exercise Prices:					
\$ 4.90	463,000	9.5 years	\$ 4.90	-	-

The fair value of each option granted was estimated on the date of grant using the Black-Scholes options pricing model. The following table illustrates the assumptions of the model:

Grant date of options:	Annual Dividend Yield of Options	Volatility	Risk-Free Interest Rate	Expected life of the options
July 9, 2008	13.00%	52.25%	4.07%	10 years

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20. SEGMENTED REPORTING

The Fund operates in two reportable segments: British Columbia Platform and Alberta Platform, based on the way that management organizes its business for making operating decisions and assessing performance. Both platforms are engaged in the business of equipment rentals, sales and services and involve similar products, processes and marketing strategies. The Alberta platform is also involved in the business of fuel wholesale and distribution.

The method used for the allocation of assets jointly used by the operating segments and costs and liabilities jointly incurred (mostly corporate costs) between the operating segments is based on a proportion of each segment's assets, and for revenues and expenses on a proportion of each segment's revenue.

For Year Ended, December 31	British Columbia		Alberta		Consolidated	
	2008	2007	2008	2007	2008	2007
Total segment revenue	\$25,753,212	\$22,533,786	\$11,827,223	\$ -	\$37,580,435	\$22,533,786
Earnings before interest, tax, depreciation, amortization, impairment, derivative loss and foreign exchange gains/(losses)	7,788,761	8,107,626	3,807,110	-	11,595,871	8,107,626
Depreciation and amortization						
Property and equipment	1,951,910	1,395,445	616,417	-	2,568,327	1,395,445
Intangible and other assets	1,524,409	1,406,987	971,813	-	2,496,222	1,406,987
Impairment of Assets	2,203,155	-	1,362,898	-	3,566,053	-
Identifiable assets excluding goodwill	41,715,128	49,124,179	37,509,731	-	79,224,859	49,124,179
Goodwill	2,726,613	2,725,261	5,703,805	-	8,430,418	2,725,261
Total identifiable assets	44,441,741	51,849,440	43,213,536	-	87,655,277	51,849,440
Net purchases of property and equipment during the period (net of business acquisitions, see note 15)	5,417,831	6,250,390	4,104,598	-	9,522,429	6,250,390

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21. SUBSEQUENT EVENT

(a) Private Placement of Fund Units, February 2009

On February 19, 2009, the Fund completed a private placement of 558,659 units, at \$3.80 per Fund Unit for gross proceeds of \$2,122,904.