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CONSOLIDATED FINANCIAL STATEMENTS

*Years ended December 31, 2009 and 2008*

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WESTERNONE EQUITY INCOME FUND

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



## 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 17, 2010  
*"Darren Latoski"*

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Chief Executive Officer  
WesternOne Equity Income Fund

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## AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of WesternOne Equity Income Fund as at December 31, 2009 and 2008 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

March 10, 2010

## WesternOne Equity Income Fund

### CONSOLIDATED BALANCE SHEETS

	As at December 31, 2009	As at December 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,069,887	\$ 2,014,494
Accounts receivable	6,139,001	8,234,528
Inventories	1,454,686	1,701,980
Deposits and prepaid expenses	511,944	352,654
	<u>10,175,518</u>	<u>12,303,656</u>
PROPERTY AND EQUIPMENT (Note 4)	29,536,303	35,495,003
INTANGIBLE ASSETS (Note 5)	24,353,964	28,224,196
GOODWILL	8,430,418	8,430,418
FUTURE INCOME TAXES (Note 10)	6,332,903	3,202,004
	<u>\$ 78,829,106</u>	<u>\$ 87,655,277</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Operating loans (Note 7)	\$ 1,740,870	\$ 1,978,657
Accounts payable and accrued liabilities	3,293,896	4,189,305
Distributions payable	691,932	660,843
Current portion of equipment financing payable (Note 8)	70,487	92,031
Current portion of capital leases obligation (Note 14)	146,306	169,483
Current portion of term mortgage (Note 9)	16,815	15,760
Unearned revenue	73,876	119,645
Capital and acquisition loans (Note 7)	32,767,926	35,747,115
	<u>38,802,108</u>	<u>42,972,839</u>
EQUIPMENT FINANCING PAYABLE (Note 8)	31,860	95,429
CAPITAL LEASES OBLIGATION (Note 14)	267,767	84,775
TERM MORTGAGE (Note 9)	321,626	335,929
FINANCIAL DERIVATIVES (Note 7)	302,686	525,079
SERIES A DEBENTURES (Note 11)	8,805,704	8,343,855
	<u>48,531,751</u>	<u>52,357,906</u>
UNITHOLDERS' EQUITY	<u>30,297,355</u>	<u>35,297,371</u>
	<u>\$ 78,829,106</u>	<u>\$ 87,655,277</u>

COMMITMENTS (Note 13)

SUBSEQUENT EVENTS (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
<b>BALANCE, December 31, 2007</b>	<b>34,768,888</b>	<b>-</b>	<b>1,116,250</b>	<b>86,634</b>	<b>35,971,772</b>
Issuance of units upon conversion of Series A Debentures	426,762				426,762
Issuance of Units (net of issuance costs)	3,955,274		(6,139)		3,949,135
Issuance of Exchangeable LP Units	500,000				500,000
Issuance of units upon exercise of agent options	171,780				171,780
Equity portion relating to issuance of Series A Debentures			(17,541)		(17,541)
Employee unit-based compensation for the period		24,926			24,926
Net and comprehensive income for the period				1,479,365	1,479,365
Distributions declared				(7,208,828)	(7,208,828)
<b>BALANCE, December 31, 2008</b>	<b>39,822,704</b>	<b>24,926</b>	<b>1,092,570</b>	<b>(5,642,829)</b>	<b>35,297,371</b>
Issuance of Units (net of issuance costs)	1,924,805				1,924,805
Issuance of units upon exercise of agent options	220,885				220,885
Employee unit-based compensation for the period		51,277			51,277
Net and comprehensive income for the period				1,131,410	1,131,410
Distributions declared				(8,328,393)	(8,328,393)
<b>BALANCE, December 31, 2009</b>	<b>41,968,394</b>	<b>76,203</b>	<b>1,092,570</b>	<b>(12,839,812)</b>	<b>30,297,355</b>

*See accompanying Notes to the Consolidated Financial Statements*

## WesternOne Equity Income Fund

### CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year ended December 31, 2009	Year ended December 31, 2008
<b>REVENUE</b>		
Equipment rental	\$ 19,287,199	\$ 21,145,057
Equipment sales	3,902,793	5,449,160
Parts, fuel, service and others	18,469,756	10,986,218
	<u>41,659,748</u>	<u>37,580,435</u>
<b>COST OF SALES</b>		
Equipment sold	3,539,622	4,652,025
Parts, fuel, service and others	10,055,199	6,869,635
	<u>13,594,821</u>	<u>11,521,660</u>
<b>GROSS PROFIT</b>	<u>28,064,927</u>	<u>26,058,775</u>
<b>OPERATING EXPENSES</b>		
General and administrative	7,419,625	6,081,809
Freight	2,812,109	2,882,510
Service	3,554,359	3,141,005
Sales	2,375,741	2,407,455
Interest	2,579,492	2,392,914
Amortization and depreciation	11,042,792	5,064,549
Accretion of Series A Debentures	225,605	217,526
	<u>30,009,723</u>	<u>22,187,768</u>
<b>OTHER EXPENSES</b>		
Loss on derivatives (Note 7)	54,695	575,355
Impairment of equipment	-	237,205
Impairment of intangible assets	-	1,593,693
Impairment of goodwill	-	1,735,155
	<u>54,695</u>	<u>4,141,408</u>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(1,999,491)	(270,401)
<b>FUTURE INCOME TAX RECOVERIES (Note 10)</b>	(3,130,901)	(1,749,766)
<b>NET AND COMPREHENSIVE INCOME</b>	<u>\$ 1,131,410</u>	<u>\$ 1,479,365</u>
Basic and diluted weighted average income per unit	\$ 0.08	\$ 0.12
Basic and diluted weighted average number of units outstanding	13,850,643	11,925,725

See accompanying Notes to the Consolidated Financial Statements

## WesternOne Equity Income Fund

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2009	Year ended December 31, 2008
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,131,410	\$ 1,479,365
Items not affecting cash -		
Amortization of property and equipment	7,172,560	2,568,327
Amortization of intangible assets	3,870,232	2,496,222
Interest expense relating to amortization of transaction costs	368,208	213,221
Accretion of Series A Debentures	225,605	217,526
Future income tax recoveries	(3,130,901)	(1,749,766)
Loss/(gain) on derivatives	(222,393)	525,079
Unit-based compensation	51,277	24,926
Impairment of fixed assets	-	237,205
Impairment of intangible assets	-	1,593,693
Impairment of goodwill	-	1,735,155
Loss/(gain) on sale of property and equipment	38,979	(172,646)
	<u>9,504,977</u>	<u>9,168,307</u>
Changes in non-cash working capital balances -		
Accounts receivable	2,095,527	(1,825,900)
Inventories	(156,821)	268,007
Deposits and prepaid expenses	(159,290)	17,744
Cash held in trust	-	2,015,000
Accounts payable and accrued liabilities	(895,409)	1,651,400
Unearned revenue	(45,769)	119,645
	<u>10,343,215</u>	<u>11,414,203</u>
<b>INVESTING ACTIVITIES</b>		
Sale of short term investments	-	2,173,062
Purchase of property and equipment	(1,882,999)	(9,522,429)
Proceeds from the sale of property and equipment	1,108,980	1,780,933
Acquisitions	-	(38,639,487)
	<u>(774,019)</u>	<u>(44,207,921)</u>
<b>FINANCING ACTIVITIES</b>		
Distributions paid	(8,297,305)	(7,135,169)
Units issued for cash (net of expenses)	2,145,690	4,139,816
Debentures issued for cash (net of expenses)	-	115,900
Proceeds from/ (repayment of) term mortgage	(15,760)	349,902
Proceeds from/(repayment of) loans payable	(3,346,428)	31,823,169
	<u>(9,513,803)</u>	<u>29,293,618</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS DURING THE PERIOD</b>	<u>55,393</u>	<u>(3,500,100)</u>
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>2,014,494</u>	<u>5,514,594</u>
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<u>2,069,887</u>	<u>2,014,494</u>
<b>Supplemental cash flow information:</b>		
Interest received	\$ 23,613	\$ 131,941
Interest paid	2,488,372	2,229,968
Conversion of convertible debentures into fund units	-	414,000
Exchangeable units issued upon acquisition	-	500,000
Assets under capital lease acquired	374,115	254,258

See accompanying Notes to the Consolidated Financial Statements

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 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 under 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.

As at December 31, 2009 the principal lender of the Fund (the "Bank") advanced \$32,767,926 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 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, 2009, 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.

### 2. ADOPTION OF NEW ACCOUNTING STANDARDS

New accounting standards adopted:

#### *CICA HB Section 3064 – Goodwill and Intangible Assets*

Effective January 1, 2009, the Fund adopted the recommendation of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets," which replaced the previous standards. This revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The adoption of this standard did not have a material impact on the Fund's consolidated financial statements or notes.

Future accounting changes:

#### *a) CICA HB Section 1582 – Business Combinations*

In January 2009, the CICA issued Section 1582, "Business Combinations", replacing Section 1581, "Business Combinations". This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Fund is currently assessing the future impact of this new standard on its financial statements.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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*b) CICA HB Section 1601 – Consolidated Financial Statements*

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements”, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Fund is currently assessing the future impact of this new standard on its financial statements.

*c) CICA HB Section 1602 – Non-Controlling Interest*

In January 2009, the CICA issued Section 1602, “Non-Controlling Interest”. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Fund is currently assessing the future impact of this new standard on its financial statements.

*d) International Financial Reporting Standards*

In February 2008, the Accounting Standards Board confirmed the date of changeover from generally acceptable accounting principles (“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 has developed a three-phase IFRS transition work plan, and after having completed the preliminary impact assessment, has identified four key potential areas of impact. These areas are: election of options and application of exceptions under IFRS 1, classification of Fund units, impairment of assets, and financial instruments.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared under Canadian GAAP 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 comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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The following is a summary of each significant category of financial instruments outstanding as at December 31, 2009:

Cash and cash equivalents .....	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
Term mortgage .....	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 estimates 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 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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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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 quoted market value at the year end.

(e) *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.

(f) *Property and equipment*

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

Rental fleet * .....	1-8 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 remaining term of the lease

*\*net of estimated 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.

Effective January 1, 2009, the Fund prospectively changed its estimates of the useful life of its rental fleet as a result of the Fund's strategic decision with respect to repairs and maintenance expenditures on the rental fleet. Previously the Fund had amortized the rental fleet based on straight-line amortization over ten years less the estimated salvage value. The rental fleet depreciation for the year ended December 31, 2009 would have been \$3,870,362 less if the previous estimates were used. The Fund now amortizes its rental fleet based on the estimated remaining useful life of each item in the fleet on a straight-line basis less the estimated salvage value.

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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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(g) *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

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.

(h) *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.

(i) *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.

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.

(j) *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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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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 26.5% for 2011 and 25.0% thereafter. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

*(k) 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.

*(l) 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 Fund's compensation committee (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, 2009, the Compensation Committee approved \$Nil of LTIP (2008 - \$Nil).

*(m) 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 such individuals 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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

### 4. PROPERTY AND EQUIPMENT

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 35,912,836	\$ 9,859,443	\$ 26,053,393
Building	128,017	12,785	115,232
Land	481,133	-	481,133
Tractors and trailers	1,972,295	418,860	1,553,435
Furniture, fixtures and equipment	1,156,727	327,771	828,956
Computer equipment and software	370,348	129,049	241,299
Leasehold improvements	401,407	138,552	262,855
	<u>\$ 40,422,763</u>	<u>\$ 10,886,460</u>	<u>\$ 29,536,303</u>
	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>

At December 31, 2009 the Fund performed an impairment test of its property and equipment. As a result of the test, it was determined no impairment as at that date was warranted.

### 5. INTANGIBLE ASSETS

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 27,517,223	\$ 6,580,216	\$ 20,937,007
Brand name	782,017	-	782,017
Franchise Agreements	1,164,448	181,945	982,503
Non-competition agreements	3,064,417	1,411,980	1,652,437
	<u>\$ 32,528,105</u>	<u>\$ 8,174,141</u>	<u>\$ 24,353,964</u>
	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

### Notes to the Consolidated Financial Statements

December 31, 2009

At December 31, 2009 the Fund performed an impairment test of its intangible assets in accordance with Note 3(g). As a result of the test, it was determined no impairment as at that date was warranted.

#### 6. GOODWILL

December 31, 2009			December 31, 2008		
Cost	Write down	Net Book Value	Cost	Write down	Net Book Value
\$ 8,430,418	\$ -	\$ 8,430,418	\$ 10,165,573	\$ 1,735,155	\$ 8,430,418

At December 31, 2009 the Fund performed an impairment test of goodwill in accordance with Note 3(h). As a result of the test, it was determined no impairment as at that date was warranted.

#### 7. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	December 31, 2009		December 31, 2008
	Approved	Carrying Value	Carrying Value
Operating loans	\$ 5,750,000	\$ 1,740,870	\$ 1,978,657
Capital loans:			
Non-revolving	2,087,881	2,087,881	2,519,830
Revolving:	9,000,000		
Loan #1		1,089,783	1,244,185
Loan #2		430,785	510,144
Loan #3		669,868	766,327
Loan #4		1,256,107	1,440,668
Loan #5		648,763	740,794
Loan #6		1,644,514	1,880,233
Loan #7		537,368	-
Loan #8		576,867	-
Loan #9		553,565	-
Other		752,335	878,411
	11,087,881	10,247,836	9,980,592
Acquisition loans:	22,520,090		
Loan #1		7,478,034	8,614,683
Loan #2		10,956,950	12,551,840
Loan #3		4,085,106	4,600,000
	22,520,090	22,520,090	25,766,523
Capital and Acquisition loans	33,607,971	32,767,926	35,747,115
Total Credit Facilities	\$ 39,357,971	\$ 34,508,796	\$ 37,725,772

The following table illustrates the funding dates, maturity dates and interest rates as at December 31, 2009 for the Capital and Acquisition Loans described above:

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

Loan	Funding Date	Maturity Date	Interest Rate at Dec. 31, 2009
Non-Revolving	August 14, 2006	August 13, 2011	3.45%
Revolving:			
Loan #1	August 14, 2006	August 13, 2011	3.45%
Loan #2	April 9, 2008	April 8, 2013	3.45%
Loan #3	May 27, 2008	May 26, 2013	3.45%
Loan #4	July 18, 2008	July 17, 2013	3.45%
Loan #5	September 26, 2008	September 25, 2013	3.45%
Loan #6	October 22, 2008	October 21, 2013	3.45%
Loan #7	January 30, 2009	January 29, 2014	3.45%
Loan #8	July 21, 2009	July 20, 2014	3.95%
Loan #9	November 13, 2009	November 12, 2014	3.95%
Acquisition Loans:			
Loan #1	February 15, 2008	February 14, 2013	3.75%
Loan #2	October 1, 2008	September 30, 2013	3.75%
Loan #3	December 31, 2008	December 30, 2010	3.75%

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 1.25% and are secured by 50% of inventory and 75% of acceptable (as defined in the 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 1.7%, or the Bank's banker's acceptance rate plus a stamping fee with a range of 2.7% to 3.2%. Unless repaid on demand to the Bank, the non-revolving capital loan shall be repaid in full by August 13, 2011. Unless repaid on demand to the Bank, the revolving capital and acquisition loans shall be repaid in full on the fifth anniversary of the date of such advance made, except for \$4,600,000 to be repaid in full by December 30, 2010. The costs of obtaining the capital and acquisition loans are being amortized over the terms of the respective loans, resulting in an effective interest rate at December 31, 2009 of 3.70% (2008 – 4.97%) for the capital loans and 3.98% (2008 – 5.30%) 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, 2009. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$302,686 at December 31, 2009 (2008 - \$525,079). The Fund marks the value of this derivative to market every quarter, and any resulting gains/losses are recorded in net income. The fair value of the interest rate swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Fund has categorized this swap contract as Level 2.

On December 9, 2009 the Fund amended the covenants of its credit facilities with the Bank. The covenants were amended to exclude payments that are not regularly scheduled monthly payments according to the loan amortization schedule from the Bank for calculating the debt service coverage ratio, and set the minimum current ratio of 1.10 to 1.0 for the year ended December 31, 2009 and 1.25 to 1.0 for periods subsequent to the year ended December 31, 2009.

The fair value of debt not due on demand was determined using the discounted cash flow forecast ("DCF"), at an appropriate market discount rate as at December 31, 2009. 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

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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using observable market data. The Fund's credit risk was considered in the fair value calculation of the interest rate swap.

The credit facilities have covenants specifying a minimum current ratio of 1.10 to 1.0 for the year ended December 31, 2009 and 1.25 to 1.0 for periods subsequent to the year ended December 31, 2009, 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 increases in 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, 2009 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.

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:

2010 .....	\$ 8,960,540
2011 .....	6,987,038
2012 .....	4,678,776
2013 .....	11,577,831
2014 .....	<u>692,480</u>
	32,896,665
Balance of transaction costs to amortize .....	<u>(128,739)</u>
	<u>\$ 32,767,926</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 3.45% per annum, and have maturity dates ranging from September 2010 to December, 2012. The current and non-current portions of the total gross payments are as follows:

2010 .....	\$ 70,487
2011 .....	29,883
2012 .....	<u>1,977</u>
Total gross payment.....	102,347
Less: Current Portion.....	<u>(70,487)</u>
Non-current portion .....	<u>\$ 31,860</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, 2009, the net book value of the rental equipment and operating assets under equipment financing was \$194,381.

### 9. TERM MORTGAGE

The Fund 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

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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

2010 .....	\$ 16,815
2011 .....	17,941
2012 .....	<u>309,574</u>
	344,330
Balance of transaction costs to amortize .....	<u>(5,889)</u>
	338,441
Less current portion .....	<u>(16,815)</u>
	<u>\$ 321,626</u>

As at December 31, 2009 the market rate of the mortgage payable was not materially different from 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, 2009	December 31, 2008
Loss before taxes	\$ (1,999,491)	\$ (270,401)
Statutory tax rate	29.47%	30.25%
Expected tax recovery	\$ (589,250)	\$ (81,796)
Current year's loss not deductible/taxable for tax purposes	589,250	81,796
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	(3,130,901)	(1,894,766)
Future income tax recovery	(3,130,901)	(1,749,766)

The tax effect of temporary differences that give rise to the future income tax asset/(liability) are as follows:

	December 31, 2009	December 31, 2008
Future income tax asset/(liability):		
Issue costs	\$ 13,300	\$ (1,845)
Intangible assets	2,689,562	2,156,169
Property, plant and equipment	3,575,559	1,065,778
Others	54,482	(18,098)
	<u>\$ 6,332,903</u>	<u>\$ 3,202,004</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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

At maturity on August 15, 2011, 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, 2009 was 15.0% (2008 – 15.0%).

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2008 and December 31, 2009:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2008	\$ 9,701,900	\$ 8,343,855	\$ 1,092,570
Amortization and Accretion		461,849	
Balance as at December 31, 2009	\$ 9,701,900	\$ 8,805,704	\$ 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 were fully expired on August 14, 2009.

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, 2009, was \$9,799,889 (2008 – \$7,955,558) for all outstanding debentures.

## 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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

The following summarizes changes to the Fund's Units for the year ended December 31, 2008 and 2009:

	Fund Units*	Fund Units Outstanding	Exchangeable Units Outstanding
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
Issuance of Units from offering	1,924,805	558,659	
Issuance of Units from exercise of Agents' Options	220,885	63,110	
Balance as at December 31, 2009	\$ 41,968,394	13,838,634	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), WEQ Deerfoot Rentals 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, 2009, a total of 13,838,634 Units and 125,000 Exchangeable LP Units were issued for \$46,406,442 excluding offering costs.

On February 19, 2009, the Fund issued 558,659 Units for net proceeds of \$1,924,805 after deducting expenses of \$198,099.

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 fully expired on August 14, 2009.

### 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 April, 2010 to August, 2014. The minimum operating lease commitments, over the next five years, are as follows:

2010 .....	\$ 564,918
2011 .....	368,788
2012 .....	215,575
2013 .....	76,113
2014 .....	25,751

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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*(b) Minimum rental commitments*

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

2010 .....	\$ 1,353,335
2011 .....	1,325,373
2012 .....	1,143,956
2013 .....	926,172
2014 .....	548,189
Thereafter .....	3,184,177

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

### 14. CAPITAL LEASES

The Fund, through its indirectly owned subsidiaries, has entered into capital lease agreements for assets that are part of the property and equipment. The leases have maturity dates ranging from June, 2010 to April, 2014, at imputed interest ranging from 4.7% to 10.89%, and all capital lease agreements have the option or requirement to purchase the assets at the end of the lease. The assets are being amortized consistent with the fund's amortization policy (see Note 3), and at December 31, 2009 had a book value of \$622,390, with \$62,306 in accumulated amortization.

The following table illustrates the lease commitments:

2010 .....	\$ 170,096
2011 .....	84,618
2012 .....	84,618
2013 .....	106,785
2014 .....	<u>29,086</u>
	475,203
Less: Amount representing interest .....	<u>(61,130)</u>
	414,073
Less: Current portion .....	<u>(146,306)</u>
Non-current portion .....	<u>\$ 267,767</u>

The fair values of the capital leases are not materially different from their carrying values.

### 15. ACQUISITIONS

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:

## WesternOne Equity Income Fund

### Notes to the Consolidated Financial Statements

December 31, 2009

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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

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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.

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 years ended December 31, 2008 and 2009.

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:

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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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
	\$	13,265,123
<hr/>		
Consideration:		
Cash	\$	12,669,780
Issuance of Exchangeable LP Units (125,000 units @ \$4.00/unit)		500,000
Direct acquisition costs		95,343
	\$	13,265,123

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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.

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

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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:

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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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
	<hr/>
	\$ 23,123,722
Consideration:	
Cash	\$ 22,952,022
Direct acquisition costs	171,700
	<hr/>
	\$ 23,123,722

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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 was included in the Fund's financial statements for the year ended December 31, 2008 as part of the consideration of the acquisition, and was fully paid to the shareholders of Davis Sure-Fire in the year end December 31, 2009.

### 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, 2009, the Fund is in compliance with all such covenants.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 17. FINANCIAL INSTRUMENTS

(a) *Comparison of fair value to carrying value*

Financial instruments consist of cash and cash equivalents, accounts receivable, financial derivatives, 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 face values of the capital and acquisition loans approximate their fair values as they are due on demand. 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.

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, 2009. 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, 2009		December 31, 2008	
Trade receivables, gross				
Outstanding 1-30 days	\$	3,852,073	\$	4,841,772
Outstanding 30-60 days (past due)		1,275,828		1,907,026
Outstanding over 60 days (past due)		697,376		1,059,835
		5,825,277		7,808,633
Allowance for doubtful accounts		(239,032)		(239,552)
Trade receivables, net		5,586,245		7,569,081
Sales tax and other receivables		552,756		665,447
<b>Accounts Receivable</b>	<b>\$</b>	<b>6,139,001</b>	<b>\$</b>	<b>8,234,528</b>

(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, 2009, the Fund had available unused approved credit facilities of \$4,849,175. The Fund also has accounts receivable of \$6,139,001, and cash and cash equivalents totalling \$2,069,887.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

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

	1 year	2-3 years	4-5 years	Total	Carrying Value
Accounts payable and accrued liabilities	\$ 3,293,896			\$ 3,293,896	\$ 3,293,896
Distributions payable	691,932			691,932	691,932
Equipment financing payable	70,487	31,860		102,347	102,347
Capital leases	146,306	138,632	129,135	414,073	414,073
Term mortgage	16,815	327,515		344,330	338,441
Interest rate swap	202,369	80,055		282,424	302,686
Capital and acquisition loans*	8,960,540	11,665,814	12,270,311	32,896,665	32,767,926
Series A Debentures		9,701,900		9,701,900	8,805,704
Totals	\$ 13,382,345	\$ 21,945,776	\$ 12,399,446	\$ 47,727,567	\$ 46,717,005

\*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.

The Fund's credit facilities bear interest at variable rates.

For the twelve month months ended December 31, 2009, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$356,804.

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 3.45% throughout the terms of the respective financing and thus is not exposed to any interest rate risk.

The Fund's capital leases payable bear fixed interest rates from 4.7% to 10.89% throughout the terms of the leases and this are 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, 2009, the Fund's consolidated balance sheet included \$440,247 of accounts payable (2008 - \$242,254), and \$160,236 of cash (2008 - \$8,095) which were U.S. currency denominated.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At December 31, 2009 there were no foreign exchange contracts outstanding.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

### 18. RELATED PARTY TRANSACTIONS

(a) *Purchase of equipment*

During 2009, the Fund purchased equipment from a company in which a board member of the Fund has a controlling interest, for \$336,972 (2008 - \$397,097). These transactions arose during the normal course of business and have been recorded at fair market value.

(b) *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 2009, the Fund has paid \$801,541 (2008 - \$268,709) in such rent. The rent between the parties is at fair market value.

(c) *Purchase of land and building*

In the year ended December 31, 2008, 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.

### 19. UNIT BASED COMPENSATION

At December 31, 2009, 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, 2009, the Fund recognized \$51,277 of compensation expense (2008 - \$24,926).

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
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, at December 31, 2009	463,000	\$ 4.90	\$ 4.90
Weighted average fair value of options granted at December 31, 2009		\$ 0.55	

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

The following table illustrates the fixed unit options outstanding, as of December 31, 2009:

	Outstanding Options			Options Exercisable	
	Number Outstanding December 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2009	Weighted Average Exercise Price
Range of Exercise Prices:					
\$ 4.90	463,000	8.5 years	\$ 4.90	92,600	\$ 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

## 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.

# WesternOne Equity Income Fund

## Notes to the Consolidated Financial Statements

December 31, 2009

For the year ended December 31	British Columbia		Alberta		Consolidated	
	2009	2008	2009	2008	2009	2008
Total segment revenue	19,769,854	25,753,212	21,889,894	11,827,223	<b>41,659,748</b>	<b>37,580,435</b>
Earnings before interest, tax, depreciation, amortization, write- down of assets, and foreign exchanges gains/(losses)	4,901,279	7,788,761	6,947,314	3,807,110	<b>11,848,593</b>	<b>11,595,871</b>
Depreciation and amortization						
Property and equipment	4,611,113	1,951,910	2,561,447	616,417	<b>7,172,560</b>	<b>2,568,327</b>
Intangible and other assets	1,475,057	1,524,409	2,395,175	971,813	<b>3,870,232</b>	<b>2,496,222</b>
Impairment of Assets	-	2,203,155	-	1,362,898	-	<b>3,566,053</b>
Identifiable assets excl goodwill	36,832,679	41,715,128	33,566,009	37,509,731	<b>70,398,688</b>	<b>79,224,859</b>
Goodwill	2,726,613	2,726,613	5,703,805	5,703,805	<b>8,430,418</b>	<b>8,430,418</b>
Total identifiable assets	39,559,292	44,441,741	39,269,814	43,213,536	<b>78,829,106</b>	<b>87,655,277</b>
Net purchases of property and equipment during the period (net of business acquisitions)	986,998	5,417,831	896,001	4,104,598	<b>1,882,999</b>	<b>9,522,429</b>

## 21. SUBSEQUENT EVENTS

- (a) On February 11, 2010, the Fund's board of Trustees granted options to senior executives, directors, Trustees and certain employees to purchase, in aggregate, an additional 503,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.30. Vesting of the options occurs equally over the next five years.
- (b) On February 26, 2010, the Fund completed a new public offering, in which \$27.6 million principal amount of the unsecured convertible subordinated debentures (the "2010 Debentures") were issued by way of prospectus. This offering included \$3.6 million principal amount of the 2010 Debentures issued on the full exercise of the overallotment option granted to a syndicate of underwriters. The 2010 Debentures each have a face value of \$1,000 per debenture, a coupon 8.5%, a maturity date of December 31, 2015, and will be convertible into the Units at the option of the holder at a conversion price of \$5.25 per Unit. The net proceeds of the 2010 Debentures will be used for working capital requirements and for other trust purposes, including, amongst other uses, funding possible future acquisitions and repaying outstanding indebtedness.