



MANAGEMENT'S DISCUSSION AND ANALYSIS

March 17, 2010

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 DISCUSSION AND ANALYSIS

March 17, 2010

The following management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes ("Financial Statements") of WesternOne Equity Income Fund and its direct and indirect subsidiaries (collectively known as the "Fund" below, unless the context otherwise requires) for the year ended December 31, 2009. Results have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian dollars unless otherwise indicated.

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

FORWARD-LOOKING INFORMATION

Forward-looking information is included in this MD&A, which involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Forward-looking information is identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information may involve, but is not limited to, comments with respect to strategies, expectations, planned operations or future actions. Forward-looking information included in this MD&A include, but are not limited to, statements with respect to: the intention of the Fund to continue to make monthly cash distributions, the use of proceeds from the offering of the 2010 Debentures (as defined under "Overview of the Fund" below), the outlook of the Fund's business and the western Canadian economy, the performance characteristics of the Fund's assets, the supply and demand for products and services, the Fund's ability to fund debt maturities, the ability to meet current and future obligations, the impact of the SIFT Rules (as defined under "Risks and Uncertainties - Federal income tax changes" below) on the Fund, critical accounting estimates, management's assessment of future plans and operations, and discussion of the Fund's adoption of the International Financial Reporting Standards.

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Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this MD&A. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the following factors: current economic conditions, failure to access financing, credit facilities risk, reliance on key personnel, financial health of Business LPs (as defined under “Overview of the Fund” below) and their related cash flows, failure to realize anticipated benefits of acquisitions, laws and regulations, sensitivity to general economic conditions and levels of economic activity, growth initiatives, competition, interest rates, labour shortages, employee relations, seasonality, adverse weather conditions, resale of rental equipment, equipment availability, supply disruptions, environmental regulation and health and safety matters, import product restrictions and foreign trade risks, financing constraints, insurance coverage, dependence on existing sites, dependence on information systems and technology, dependence upon WesternOne Equity LP to fund cash distributions, cash distributions are not guaranteed and will fluctuate with the performance of subsidiaries, distributions are discretionary, nature of the Units (as defined under “Overview of the Fund” below), prior ranking indebtedness, conversion following certain transactions, limited liability, unpredictability and volatility of Unit prices, attributes of securities distributed on redemption of Units and termination of the Fund, dilution, leverage and restrictive covenants, investment eligibility, discontinuation of tax incentives, impact of changes to tax treatment of income trusts or dividend tax credits, SIFT Rules and level of distributions, taxation of the Fund and its direct and indirect subsidiaries, nature of distributions, limitations on future growth and cash flow, restrictions on the ownership of Units by non-residents of Canada, indemnities under acquisition agreements and Unitholders are not afforded certain statutory rights. A description of these factors can be found under “Risks and Uncertainties” below.

Although the forward-looking information contained in this MD&A is based upon what the Fund’s management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with such information. Forward-looking information reflects management’s current beliefs and is based on information currently available to the Fund. Such information reflects current assumptions regarding future events and operating performance including, without limitation, stability in the economy in western Canada, interest rates and the equipment rental and sales and fuel wholesale markets in which the Fund operates, and speaks only as of the date of this discussion. The forward-looking information is made as of the date of this MD&A and the Fund assumes no obligation to update or revise such information to reflect new events or circumstances, except as may be required by applicable law.

OVERVIEW OF THE FUND

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

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

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

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

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

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

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

The Fund holds a 100% indirect interest in WEQ Heat & Propane LP (“H&P”), a limited partnership established under the laws of Manitoba on August 26, 2008. H&P’s operation commenced on October 1, 2008, when it acquired the assets and the businesses of SureFire Propane Ltd. and Davis Heater Service Ltd. (collectively, “Davis SureFire”) These businesses have been market leaders in the northern Alberta equipment rental, construction heat, and propane wholesale and distribution industry for over 30 years.

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

British Columbia Platform (“BC Platform”): This platform currently includes:

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

The businesses within the BC Platform began formally operating under a unified brand name, “WesternOne Rentals and Sales”, on July 3, 2008.

Alberta Platform: This platform currently includes:

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

The Units and the Fund's senior secured convertible debentures – Series A (“Series A Debentures”) and unsecured convertible subordinated debentures (“2010 Debentures”) trade on the Toronto Stock Exchange under the respective symbols WEQ.UN, WEQ.DB and WEQ.DB.B.

RECENT EVENTS

On January 22, 2010, the Fund signed a letter of intent for the purchase of 100% of the assets of a rental, sales, service and transport business specializing in aerial and material-handling equipment (the “Business”). The Business is independently owned, and operates from a base in Calgary, Alberta with operations covering central and southern Alberta.

On February 11, 2010, the Fund's board of Trustees granted options to senior executives, directors, Trustees and certain employees to purchase, in aggregate, up to 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.

On February 26, 2010, the Fund completed a new public offering, in which \$27.6 million principal amount of 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 over-allotment option granted to a syndicate of underwriters. The 2010 Debentures each have a face value of \$1,000, 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, among other uses, funding possible future acquisitions and repaying outstanding indebtedness.

SUMMARY FINANCIAL REVIEW

The Fund reported positive growth in sales, gross profit and EBITDA (for definition see “Non-GAAP Measures” below) for the year ended December 31, 2009 compared to last year. The year to date growth was achieved despite a year-over-year decline in the fourth quarter operating results, caused by lower demand for the Fund's equipment rentals and fuel distribution services in the construction sector under the prevailing general economic conditions.

Summary Financial Overview

(\$000's, except per Unit amounts and percentages)	Three months ended			Year ended		
	December 31			December 31		
	2009	2008	2007	2009	2008	2007
Revenue	\$ 10,333	\$ 13,448	\$ 6,089	\$ 41,660	\$ 37,580	\$ 22,534
Cost of sales	(3,348)	(4,532)	(1,387)	(13,595)	(11,521)	(6,666)
Gross profit	6,985	8,916	4,702	28,065	26,059	15,868
<i>Gross margin</i>	67.6%	66.3%	77.2%	67.4%	69.3%	70.4%
Operating expenses ⁽¹⁾	(4,317)	(4,862)	(2,336)	(16,216)	(14,463)	(7,760)
EBITDA ⁽²⁾	2,668	4,054	2,366	11,849	11,596	8,108
Interest expense ⁽³⁾	(622)	(902)	(409)	(2,556)	(2,262)	(1,223)
Amortization, accretion and others ⁽⁴⁾	(3,059)	(2,395)	(675)	(11,292)	(6,039)	(3,015)
Impairment of assets	-	(3,515)	-	-	(3,566)	-
Income before future income taxes	(1,013)	(2,758)	1,282	(1,999)	(271)	3,870
Future income tax (expense)/recoveries	1,986	2,220	1,452	3,130	1,750	1,452
Net income/(loss)	\$ 973	\$ (538)	\$ 2,734	\$ 1,131	\$ 1,479	\$ 5,322
Adjustments:						
Depreciation of property and equipment ⁽⁵⁾	1,165	-	-	3,870	-	-
Impairment of assets	-	3,515	-	-	3,566	-
Loss on derivatives	16	416	-	55	575	-
Future income tax expense/(recoveries)	(1,986)	(2,220)	(1,452)	(3,130)	(1,750)	(1,452)
Non-recurring expenses	-	27	-	-	186	-
Adjusted net income/(loss) ⁽²⁾⁽⁶⁾	\$ 168	\$ 1,200	\$ 1,282	\$ 1,926	\$ 4,056	\$ 3,870
Basic weighted avg income/(loss) per Unit	\$ 0.07	\$ (0.04)	\$ 0.23	\$ 0.08	\$ 0.12	\$ 0.56
Diluted weighted avg income/(loss) per Unit	0.07	(0.04)	0.21	0.08	0.12	0.53
Basic weighted avg income/(loss) per Unit - adjusted	0.01	0.10	0.11	0.14	0.34	0.41
Diluted weighted avg income/(loss) per Unit - adjusted	0.01	0.09	0.11	0.14	0.32	0.41
Total assets	\$ 78,829	\$ 87,655	\$ 51,849	\$ 78,829	\$ 87,655	\$ 51,849
Total long-term liabilities	9,730	9,385	8,345	9,730	9,385	8,345
Maintenance capital expenditure ⁽²⁾	203	297	29	563	563	102
Distributable cash generated ⁽²⁾	\$ 1,893	\$ 2,799	\$ 2,084	\$ 8,903	\$ 8,778	\$ 6,939
Distributable cash per Unit ⁽⁷⁾	0.1356	0.2314	0.1774	0.6428	0.7361	0.7325
Distributions declared	2,095	1,867	1,762	8,328	7,209	5,498
Distributions declared per Unit	0.1500	0.1500	0.1500	0.6000	0.6000	0.5666
Payout percentage ⁽⁸⁾	110.6%	66.7%	84.5%	93.5%	82.1%	79.2%

Notes:

- (1) Excludes items relating to interest, amortization, accretion, loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap, foreign exchange gains/losses, and impairment of assets.
- (2) See definition of EBITDA, adjusted net income/(loss), distributable cash and maintenance capital expenditures under "Non-GAAP Measures".
- (3) Net of interest income.
- (4) Includes amortization, accretion, loss on financial derivatives relating to the changes in the fair market value of the fixed interest rate swap, and foreign exchange gains/losses.
- (5) Effective January 1, 2009, the Fund prospectively changed its estimates of the useful life of its rental fleet. If depreciation for the three and twelve months ended December 31, 2009 were calculated consistently with the same periods in 2007 and 2008 using the previous estimate of 10-year straight-line depreciation less estimated salvage value, depreciation for the three and twelve months ended December 31, 2009 would have been decreased by \$1.17 million and \$3.87 million respectively.
- (6) Net income/(loss) adjusted for impairment of assets, depreciation of property and equipment using estimates consistent with prior years, loss on financial derivatives relating to the changes in the fair market value of the fixed interest rate swap, non-recurring items and future income taxes.
- (7) Calculated based on basic weighted average number of Units.
- (8) Calculated as distribution declared divided by distributable cash generated.

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More detailed discussions of the financial results for the three and twelve months ended December 31, 2009 are provided under “Operating Results” below.

The Fund’s revenue decreased by 23.2%, or \$3.12 million for the three months ended December 31, 2009 and increased by 10.9% or \$4.08 million for the twelve months ended December 31, 2009. The year-over-year decline in the Fund’s revenue in the fourth quarter was due to reduced demand for equipment rentals and sales and fuel distribution services primarily in the construction sector under the prevailing economic conditions. The Fund’s annual revenue was higher than last year due to H&P’s first full year of operation since the acquisition on Oct 1, 2008. H&P generated \$15.79 million of revenue for the year ended December 31, 2009, compared to \$5.54 million for the three months ended December 31, 2008.

Gross profit decreased by 21.7%, or \$1.93 million for the three months ended December 31, 2009 and increased by 7.7% or \$2.01 million for the twelve months ended December 31, 2009. Deerfoot and H&P, being the Fund’s construction heat and fuel distribution operations in Alberta, contributed a total gross profit of \$3.69 million in the fourth quarter, compared to \$1.78 million in the third quarter when the winter construction heat season started in mid-November.

Gross margin increased from 66.3% to 67.6% for the three months ended December 31, 2009 and decreased from 69.3% to 67.4% for the twelve months ended December 31, 2009. The changes in the gross margins reflect the different product and service mix sold during the period. Compared to the fourth quarter of 2008, a higher proportion of the revenue for the fourth quarter of 2009 was associated with equipment rentals and related parts and services, which yielded a higher gross margin than other products and services. Compared to the twelve months ended December 31, 2008, more fuel was sold in the same period in 2009 as it was H&P’s first full year of operation, leading to a lower gross margin for the year as fuel distribution typically has a lower margin than the equipment rental operation.

EBITDA (for definition see “Non-GAAP Measures” below) decreased by 34.2%, or \$1.39 million for the three months ended December 31, 2009 and increased by 2.2% or \$0.25 million for the twelve months ended December 31, 2009. A decline in the annual EBITDA due to slowdown in the construction sector was offset by additional earnings from the first full year of H&P’s operations, which generated \$6.37 million for the twelve months ended December 31, 2009 compared to \$2.55 million in 2008 since the acquisition on October 1, 2008.

Interest expense (net of interest income) was \$0.62 million or 6.0% of total revenue for the three months ended December 31, 2009 and \$2.56 million or 6.1% of total revenue for the twelve months ended December 31, 2009. This is compared to \$0.9 million (6.7% of total revenue) and \$2.26 million (6.0% of total revenue), respectively, for the same periods a year ago. The higher interest for the year was due to the financing of a larger fleet, as well as the acquisition loan drawn for acquiring the businesses of Davis SureFire in October, 2008.

Amortization and accretion expenses were \$3.05 million or 29.5% of total revenue for the three months ended December 31, 2009 and \$11.27 million or 27.0% of total revenue for the twelve months ended December 31, 2009. This is compared to \$1.84 million (13.7% of total revenue) and \$5.28 million (14.1% of total revenue) for the same periods a year ago. The increase was due to higher capital and intangible assets as a result of internal fleet growth and business acquisitions. The increase was also due to the change in management’s estimate of the rental fleet useful life on January 1, 2009, based on management’s review

of the Fund's fleet mix subsequent to the business acquisitions completed in 2008, as well as management's strategic decision with respect to repairs and maintenance expenditures on the rental fleet.

Net income was \$0.97 million or \$0.07 per Unit for the three months ended December 31, 2009 and \$1.13 million or \$0.08 per Unit for the twelve months ended December 31, 2009. Net income included charges relating to asset impairments, gains/losses on financial derivatives from changes in the fair market value of the fixed interest rate swap and future income taxes. After excluding the impact from asset impairments, financial derivatives, future income taxes, and adjustments resulting from the change in management's estimate of the rental fleet useful life on January 1, 2009 as discussed in the preceding paragraph, the Fund's adjusted net income (for definition see "Non-GAAP Measures" below) was \$0.17 million or \$0.01 per Unit for the three months ended December 31, 2009 and \$1.93 million or \$0.14 per Unit for the twelve months ended December 31, 2009.

Total assets were \$78.8 million as at December 31, 2009, compared to \$87.7 million a year ago. The difference was due to changes in working capital as a result of the normal course of the business, amortization of capital assets, and recognition of future income tax assets.

Long-term liabilities were \$9.73 million as at December 31, 2009, compared to \$9.39 million a year ago. The difference was due to assumption of capital leases arising from fleet purchases, accretion relating to the equity portion of Series A Debentures, and changes in the fair value of financial derivatives.

FUTURE INCOME TAXES

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

Prior to June 22, 2007, the Fund estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at nil tax rate. Under the enacted legislation, the tax rate on the post-2010 reversal of these temporary differences is estimated to be 26.5% for 2011 and 25.0% thereafter. Temporary differences reversing prior to December 31, 2010 will still give rise to nil future income taxes. Based on its assets and liabilities as at December 31, 2009, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse.

As a result of this legislation, Canadian accounting guidance required that the Fund record a cumulative future tax asset and a corresponding non-cash recovery to net income of \$3.20 million at the end of the fiscal year 2008. This future income tax treatment is based on the assumption that the Fund will be a taxable entity in 2011. Adjustments to this future income tax asset are required based on changes in the differences between the tax basis and financial statement basis of the Fund's assets and liabilities. Accordingly, the Fund recorded an adjustment representing a non-cash, future income tax recovery of \$1.99 million and \$3.13 million for the three and twelve months ended December 31, 2009 respectively.

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

OPERATING RESULTS

Basis of discussion and analysis

The Fund's operating results reflect its operations for the three and twelve months ended December 31, 2009. For the same periods in 2008 the Fund's business comprised three and twelve full months of operation at PER, OCR and C&N, 92 and 320 days of operation at Deerfoot (acquired on February 15, 2008) and 92 and 92 days of operation at H&P (acquired on October 1, 2008), respectively. In 2009, the Fund's operations for the three and twelve months ended December 31, 2009 comprised three and twelve full months of operation at all of the Fund's Business LPs, respectively.

For the purposes of discussing operating results of the Fund for the three and twelve months ended December 31, 2009 under this section, only Business LPs that have operated for the full three and twelve months ended December 31, 2008 and 2009 are included for discussion. This includes PER, OCR, and C&N, together with interest income, overhead and other expenses recorded at the corporate level, and excludes Deerfoot (acquired on February 15, 2008) and H&P (acquired on October 1, 2008).

Revenue

The following table summarizes the revenues for the three and twelve months ended December 31, 2008 and 2009.

Summary of Revenues (\$000's)

	Three months ended		Year ended		Increase/(Decrease)		Increase/(Decrease)	
	December 31		December 31		Three months ended		Year ended	
	2009	2008	2009	2008	December 31		December 31	
					\$	%	\$	%
Equipment Rentals	\$ 3,001	\$ 4,100	\$ 12,841	\$ 16,572	\$ (1,099)	-26.8%	\$ (3,731)	-22.5%
Equipment Sales	605	846	3,397	4,991	(241)	-28.5%	(1,594)	-31.9%
Parts, Fuel, Service and Others	924	1,183	3,533	4,227	(259)	-21.9%	(694)	-16.4%
Total Revenues	\$ 4,530	\$ 6,129	\$ 19,771	\$ 25,790	\$ (1,599)	-26.1%	\$ (6,019)	-23.3%

Revenue from equipment rentals of \$3.00 million for the three months ended December 31, 2009 decreased by 26.8%, or \$1.10 million, compared to \$4.10 million a year ago. For the twelve months ended December 31, 2009, revenue from equipment rentals decreased by 22.5%, to \$12.84 million from \$16.57 million a year ago. Impact from the prevailing economic conditions in 2009 gave rise to weakness in the construction sector and resulted in lower project starts in British Columbia, which in turn decreased the demand for rental equipment. Excess supply of rental equipment in the market continued to intensify price competition amongst rental companies. Falling commodity prices due to reduced demand, particularly in the forestry sector, led to several mill and logging closures on Vancouver Island which affected the Fund's general rental operation in that region. The decline was partially compensated by a sustained level of equipment rental activity in the infrastructure and filming sectors, which remains robust in the current economic environment.

Revenue from equipment sales of \$0.61 million for the three months ended December 31, 2009 decreased by 28.5%, or \$0.24 million, compared to \$0.85 million a year ago. For the twelve months ended December 31, 2009, revenue from equipment sales decreased by 31.9%, to \$3.40 million from \$5.00 million a year ago. The economic recession has posed challenges in the Fund's aerial equipment sales as well as retail equipment and merchandise sales due to weak consumer demand.

Revenue from parts, fuel, service and others of \$0.92 million for the three months ended December 31, 2009 decreased by 21.9%, or \$0.26 million, compared to \$1.18 million a year ago. For the twelve months ended December 31, 2009, revenue decreased by 16.4%, to \$3.53 million from \$4.23 million a year ago. Reduced fleet utilization due to the slow down in construction activity resulted in lower revenue from related services.

Gross margin and gross profit

Gross margin was 72.8% and 71.1% for the three and twelve months ended December 31, 2009, respectively. This is compared to 70.6% and 70.9% for the same periods last year. Gross profit decreased by 23.8%, from \$4.33 million to \$3.30 million for the three months ended December 31, 2009, and reduced by 23.1% from \$18.29 million to \$14.06 million for the twelve months ended December 31, 2009.

Cost of sales

Cost of sales as a percentage of total revenue was 27.2% and 28.9% for the three and twelve months ended December 31, 2009, respectively, compared to 29.4% and 29.1% for the same periods last year.

Costs associated with equipment sales were 84.1% and 91.5% of equipment sales revenue for the three and twelve months ended December 31, 2009, compared to 89.8% and 84.8% for the same periods last year. While margins of retail equipment and merchandise sales remained relatively consistent compared to last year, margins from sales of used aerial equipment from the fleet tend to fluctuate from time to time.

Costs associated with parts, fuel, service and others was 16.0% and 13.2% of total revenue for the three and twelve months ended December 31, 2009, compared to 17.0% and 12.7% for the same periods last year. Costs under this category relate mostly to purchases of fuel for the rental fleet, expenditures of parts for the repair and maintenance of the rental equipment and servicing of customers' equipment, and costs of re-renting equipment from other rental companies. The changes in the percentages were primarily due to rentals of equipment from other rental companies to fill one-off demand from customers.

Operating expenses

Operating expenses, before interest, amortization, accretion and gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap was 57.3% and 50.0% of total revenue for the three and twelve months ended December 31, 2009, respectively. This is compared to 53.5% and 42.6% of total revenue for the same periods a year ago. Aside from the decline in revenues, the higher percentages are attributable to higher corporate overhead in relation to regulatory compliance and IT-related integration costs.

EBITDA

EBITDA (for definition see “Non-GAAP Measures” below) as a percentage of total revenue was 15.4% and 20.9%, respectively, for the three and twelve months ended December 31, 2009, compared to 19.0% and 28.5% for the same periods a year ago. The decline is largely attributable to lower margins from rentals and sales due to price competition.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides quarterly historical financial data of the Fund for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and related notes thereto.

in \$000's except per Unit amounts and percentages (unaudited)	Q4 '09	Q3 '09	Q2 '09	Q1 '09	Q4 '08	Q3 '08	Q2 '08	Q1 '08
Revenue	\$ 10,333	\$ 7,741	\$ 9,485	\$ 14,100	\$ 13,448	\$ 8,813	\$ 7,952	\$ 7,367
Cost of sales	(3,348)	(2,247)	(2,991)	(5,008)	(4,532)	(2,537)	(2,258)	(2,195)
Gross profit	6,985	5,494	6,494	9,092	8,916	6,276	5,694	5,172
Gross margin	67.6%	71.0%	68.5%	64.5%	66.3%	71.2%	71.6%	70.2%
Operating expenses	(4,317)	(3,910)	(3,910)	(4,080)	(4,862)	(3,418)	(3,359)	(2,823)
EBITDA ⁽¹⁾	\$ 2,668	\$ 1,584	\$ 2,584	\$ 5,012	\$ 4,054	\$ 2,858	\$ 2,335	\$ 2,349
Net income/(loss)	\$ 973	\$ (1,649)	\$ (372)	\$ 2,180	\$ (538)	\$ 623	\$ 655	\$ 740
Income/(Loss) per Unit								
Basic	0.07	(0.12)	(0.03)	0.16	(0.04)	0.05	0.06	0.06
Diluted	0.07	(0.12)	(0.03)	0.15	(0.04)	0.05	0.06	0.06
Distributable cash generated ⁽¹⁾	\$ 1,893	\$ 883	\$ 1,826	\$ 4,300	\$ 2,799	\$ 2,126	\$ 1,873	\$ 1,980
Distributable cash per Unit ⁽²⁾	0.1356	0.0634	0.1314	0.3163	0.2314	0.1784	0.1589	0.1677
Distribution declared	\$ 2,095	\$ 2,092	\$ 2,085	\$ 2,057	\$ 1,867	\$ 1,790	\$ 1,781	\$ 1,771
Distribution per Unit	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500
Payout percentage ⁽³⁾	110.6%	236.9%	114.2%	47.8%	66.7%	84.2%	95.1%	89.5%
TTM ⁽⁴⁾ distributable cash	8,903	9,808	11,050	11,097	8,777	8,062	8,265	8,021
TTM distribution declared	8,328	8,100	7,798	7,495	7,209	7,104	7,076	6,458
TTM payout percentage ⁽⁵⁾	93.5%	82.6%	70.6%	67.5%	82.1%	88.1%	85.6%	80.5%

Notes:

- (1) See definition of EBITDA and distributable cash under “Non-GAAP Measures” below.
- (2) Calculated based on basic weighted average number of Units.
- (3) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts.
- (4) TTM stands for trailing twelve months.
- (5) Calculated based on distributable cash generated and distributions declared in the past twelve months. Calculated as distribution declared divided by distributable cash generated.

WESTERNO EQUITY INCOME FUND

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Seasonality

The seasonality of the Fund's business impacts its operating results as follows: the Fund's business activity levels in the BC Platform are generally lower from January through March as the winter weather hampers construction activity. Construction heater rentals and related fuel supply and wholesale during the winter months in the Alberta Platform compensate for the slow winter business cycle in British Columbia. From April through July, the rental demand for construction and general rental equipment grows gradually as rental activities accelerate into the summer months. Expenditures on inventory for sale and rental fleet are mostly incurred during these months in anticipation of equipment rental and sales in summer and fall. From August through November the demand for rental equipment continues as construction companies strive to meet construction targets prior the start of the holiday season in December. The construction heater rentals and fuel wholesale business in Alberta starts in November and continues through to the spring of the following year.

In addition to the seasonal nature of the Fund's business, the quarterly changes above are also due to organic growth in the business and timing of acquisition of assets.

CASH FLOW AND LIQUIDITY

The following table provides an overview of the Fund's cash flows from operating, investing and financing activities for the three and twelve months ended December 31, 2009.

Summary of cash flows (\$000's)	Three months ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Net change of cash related to:				
Operations				
Cash generated from operating earnings	\$ 2,054	\$ 3,130	\$ 9,505	\$ 9,168
Changes from non-cash working capital	(2,145)	(1,033)	838	2,246
Investing	(760)	(23,980)	(774)	(44,208)
Financing	(2,429)	20,125	(9,514)	29,294
Net change in cash during the period	\$ (3,280)	\$ (1,758)	\$ 55	\$ (3,500)

As mentioned above, the revenue and operating results of the businesses of the Fund have historically displayed seasonal variations throughout a year. While certain of the Fund's variable costs can be managed to match seasonal patterns, a significant portion of its costs are fixed and cannot be adjusted for seasonality. The fluctuation in future results of operations may require the Fund to rely on its operating loans for working capital financing at certain times of the year.

A single Canadian chartered bank (the "Bank") has provided a \$5.75 million operating loan on an interest only basis, that is payable upon demand, on which the Business LPs had drawn \$1.74 million as at December 31, 2009.

Working capital management continues to be an important element of cash generation for the Fund. As at December 31, 2009, management expects that net receivables are collectible and that payments to suppliers will also continue under current terms.

The Fund had a working capital deficiency of \$28.6 million as at December 31, 2009. The Fund's working capital includes items expected for normal operations, such as cash and cash equivalents, accounts receivable, inventories, prepaid expenses, deposits, operating loans, accounts payable and accrued liabilities, unearned revenue, as well as the current portion of capital lease obligations, equipment financing payable and term mortgage payable. As at December 31, 2009, the working capital deficiency included approximately \$32.8 million of capital and acquisition loans. The outstanding capital and acquisition loans were advanced from the Bank with maturity dates ranging from December 2010 to November 2014. Since the capital and acquisition loans could be repayable on demand before their maturity dates, they are classified as current liabilities in the financial statements of the Fund. As at December 31, 2009, the Fund had made all monthly payments related to the capital and acquisition loans according to the payment schedule of the Bank and the Fund was in compliance with its covenants. For the twelve months ended December 31, 2009, the Fund generated \$10.3 million of cash from operating activities. The Fund does not anticipate any problems in meeting future obligations as they become due given the level of funds from its operations and its ability to make monthly loan payments according to the payment schedule of the Bank.

During the three months ended December 31, 2009, the Fund generated cash of \$2.05 million from operating earnings. This was offset by \$2.15 million relating to changes from non-cash working capital which largely related to an increase in accounts receivable due to the construction heat and fuel distribution sales in winter. The changes from the non-cash working capital represented a normal course of fluctuation in the Fund's businesses.

During the three months ended December 31, 2009, the Fund purchased rental equipment and other operating assets of \$0.94 million and received proceeds of \$0.18 million from sales of fleet equipment. It also repaid \$0.34 million of net bank debt and distributed \$2.09 million to the Unitholders.

Liquidity Risks

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 (operating, capital and acquisition loans combined) of \$4.85 million. The Fund also had accounts receivable of \$6.14 million and cash and cash equivalents totaling \$2.07 million. Management expects to discharge the Fund's liabilities by means of cash flow generated from operations and existing cash reserves.

As at December 31, 2009, the timing of cash outflows relating to financial liabilities and capital lease obligations are outlined in the table below:

in \$000's	1 year	2-3 years	4-5 years	Total	Carrying value
Accounts payable and accrued liabilities	\$ 3,294			\$ 3,294	\$ 3,294
Distributions payable	692			692	692
Equipment financing payable	70	32		102	102
Capital leases	146	139	129	414	414
Term mortgage	17	328		345	338
Interest rate swap	202	80		282	303
Capital and acquisition loans ⁽¹⁾	8,961	11,666	12,270	32,897	32,768
Series A Debentures		9,702		9,702	8,806
	\$ 13,382	\$ 21,947	\$ 12,399	\$ 47,728	\$ 46,717

Note:

(1) The capital and acquisition loans are repayable on demand.

CAPITAL RESOURCES

In addition to the \$5.75 million interest-only demand operating loan described in “Cash Flow and Liquidity” above, the Bank has made capital and acquisition loans available to the Fund to finance its capital expenditures and future acquisitions. As at December 31, 2009, \$33.61 million of capital and acquisition loans were approved by the Bank and \$32.77 million were outstanding.

The Fund’s credit facilities have covenants specifying a minimum current ratio of 1.10 to 1.0 as at December 31, 2009 and 1.25 to 1.0 thereafter, a maximum funded debt to earnings (as defined in the credit facilities 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.

Under the current terms, the capital and acquisition loans charge 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%.

DISTRIBUTABLE CASH AND DISTRIBUTIONS

The Fund reviews its historic and expected results on a regular basis. This review includes consideration of economic conditions, including seasonality, the competitive environment, and future cash requirements. In order to ensure the Fund’s continued financial strength, and providing a reasonable return to its Unitholders, the Fund has considered it financially prudent not to distribute 100% of distributable cash (for definition see “Non-GAAP Measures” below) on an annual basis in order to address the seasonality nature of the business and unforeseen events, should they occur. The Fund’s policy is to make stable monthly distributions to Unitholders.

The following shows the Fund's distribution history since its initial public offering on August 15, 2006:

Distribution history (per Unit)	2006	2007	2008	2009	2010
January		\$ 0.0408	\$ 0.0500	\$ 0.0500	\$ 0.0500
February		0.0408	0.0500	0.0500	0.0500
March		0.0450	0.0500	0.0500	
April		0.0450	0.0500	0.0500	
May		0.0450	0.0500	0.0500	
June		0.0500	0.0500	0.0500	
July		0.0500	0.0500	0.0500	
August	\$ 0.0224 ⁽¹⁾	0.0500	0.0500	0.0500	
September	0.0408	0.0500	0.0500	0.0500	
October	0.0408	0.0500	0.0500	0.0500	
November	0.0408	0.0500	0.0500	0.0500	
December	0.0608	0.0500	0.0500	0.0500	
Total	\$ 0.2056	\$ 0.5666	\$ 0.6000	\$ 0.6000	\$ 0.1000

Note:

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

Distributions are paid on or about the 15th day of each month to Unitholders of record on the last business day of the preceding month.

Reconciliation of cash provided by operating activities to distributable cash

The following table reconciles cash flow from operating activities to distributable cash for the three and twelve months ended December 31, 2009.

Reconciliation of cash flow from operating activities to distributable cash (\$000's, except for per Unit amounts and percentages)	Three months ended December 31	Year ended December 31
Cash flow from operating activities	\$ (91)	\$ 10,343
Changes in non-cash working capital balances	2,145	(838)
	2,054	9,505
Loss on sale of assets	42	(39)
Maintenance capital expenditure ⁽¹⁾	(203)	(563)
Distributable cash generated ⁽¹⁾	\$ 1,893	\$ 8,903
Distributions declared	\$ 2,095	\$ 8,328
Distributable cash generated per Unit	\$ 0.1356	\$ 0.6428
Distributions declared per Unit	0.1500	0.6000
Payout percentage ⁽²⁾	110.6%	93.5%
Net income	\$ 973	\$ 1,131
Surplus/(Deficit) of net income over/(below) distributions declared	\$ (1,122)	\$ (7,197)

Notes:

(1) See definition of "maintenance capital expenditures" and "distributable cash" under "Non-GAAP Measures" below.

(2) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

NON-GAAP MEASURES

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

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

References in this MD&A to “distributable cash” are to cash available for distribution to the Unitholders by the Fund. distributable cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Canadian open-ended income trusts, such as the Fund, use distributable cash as an indicator of financial performance and it should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Fund’s distributable cash may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to distributable cash as reported by such issuers. The Fund’s management believes that, in addition to net income, distributable cash is a useful supplemental measure that may assist investors in assessing the return on their investment in Units. See “Distributable Cash and Distributions - Reconciliation of cash provided by operating activities to distributable cash”.

“Adjusted net income/(loss)” is not a recognized measure under GAAP. Adjusted net income/(loss) is net income/(loss) adjusted for charges relating to asset impairment, depreciation of property and equipment for the three and twelve months ended December 31, 2009 using estimates consistent with prior years, gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest swap, future income taxes, and non-recurring expenses. Adjusted net income/(loss) is used to compare the Fund’s current and prior years’ profitability on a consistent basis.

“Maintenance capital expenditures” is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. The Fund considers maintenance capital expenditures as expenditures that are required to maintain the service capacity of the Fund’s rental equipment and operating assets which include vehicles, trailers, furniture and fixtures, computer equipment and software and leasehold improvements. The maintenance capital expenditures for the Fund are calculated as the difference between the original acquisition cost of rental equipment and the related net book value upon the disposition of such equipment, plus the cost of replacement to operating assets.

OFF-BALANCE SHEET FINANCING

The Fund has no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

The minimum repayments required for the currently outstanding capital and acquisition loans are as follows:

Loans payable (\$000's)	2010	2011	2012	2013	2014
Loans Payable	\$ 8,961	\$ 6,987	\$ 4,679	\$ 11,578	\$ 692

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

Contractual obligations (\$000's)	2010	2011	2012	2013	2014	Thereafter
Rental commitments	\$ 1,353	\$ 1,325	\$ 1,144	\$ 926	\$ 548	\$ 3,184
Equipment financing commitments	70	30	2	-	-	-
Term Mortgage	17	18	310	-	-	-
Capital leases	170	85	85	107	29	-
Operating leases	565	369	216	76	26	-
	\$ 2,175	\$ 1,827	\$ 1,757	\$ 1,109	\$ 603	\$ 3,184

LONG TERM INCENTIVE PLAN

Trustees, directors, officers and key employees of the Fund and its direct and indirect subsidiaries are eligible to participate in the Fund's long term incentive plan (the "LTIP"). The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance the Fund's ability to attract, retain and motivate key personnel and reward key employees for significant performance that results in the Fund exceeding its cash available for distribution targets. Pursuant to the LTIP, the Fund sets aside a pool of funds based upon the amount, if any, by which the cash available for distribution per Unit (as measured on a fully diluted basis) exceeds certain defined threshold amounts. A third-party trustee will purchase Units in the market with this pool of funds and hold the Units until such time as ownership vests to each participant. LTIP participants are entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the third-party trustee for an LTIP participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those Units will be sold and the proceeds returned to the Fund.

The Fund's compensation committee has the power to, among other things: (i) determine those individuals who will participate in the LTIP; (ii) determine the level of participation of each participant; and (iii) determine the time or times when LTIP awards will vest or be paid to each participant.

The compensation committee from time to time may adjust the threshold amounts. In fiscal 2009, the LTIP provided for awards that may be earned based on the amount by which cash available for distribution per

Unit (as measured on a fully diluted basis), exceeds a base distribution threshold of \$0.65 per Unit per annum (the “threshold”). The percentage amount of that excess which forms the LTIP incentive pool is determined as follows:

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

For the year ended December 31, 2009, the cash available for distribution per Unit did not exceed the threshold. Accordingly, no payments were approved under the LTIP for the 2009 fiscal year.

WESTERNONE EQUITY INCENTIVE UNIT OPTION PLAN

As part of the its initial public offering, the Fund reserved an aggregate of 463,000 Units for issuance under the WesternOne Equity Incentive Unit Option Plan. Under the WesternOne Equity Incentive Unit Option Plan, options to purchase the Fund’s Units may be granted to senior executives, directors, Trustees, certain employees of and service providers to the Fund and its direct and indirect subsidiaries. The purpose of the WesternOne Equity Incentive Unit Option Plan is to provide such eligible participants with compensation opportunities that will encourage ownership of Units, enhance the Fund’s ability to attract, retain and motivate key personnel, and reward directors, officers, employees and service providers for significant performance and growth in the Fund’s cash flow.

On July 9, 2008, the Fund granted options to senior executives, directors, Trustees and certain employees to purchase, in aggregate, up to 463,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.90. Vesting occurs equally over the next five years.

On March 17, 2009, the Trustees of the Fund approved the amendment to the WesternOne Equity Incentive Unit Option Plan by changing the maximum number of Units of the Fund reserved for issuance under the WesternOne Equity Incentive Unit Option Plan from 463,000 Units to 10% of the outstanding Unit capital of the Fund on a rolling basis. The amendment was subsequently approved by the Unitholders at the Fund’s annual meeting on April 17, 2009.

On February 11, 2010, the Fund 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.

As at the date of this MD&A, no options granted had yet been exercised.

TRANSACTIONS WITH RELATED PARTIES

The Fund purchased equipment from 0798319 BC Ltd., a company in which a board member of the Fund has a controlling interest, for \$52,842 (2008 - \$108,797) and \$336,972 (2008 - \$397,097) during the three

and twelve months ended December 31, 2009, respectively. These transactions arose during the normal course of business and have been recorded at fair market value.

The Fund currently rents premises in various locations from companies in which an officer and certain general managers of Business LPs hold interests. Specifically, the Fund rents premises in its operating locations in Comox (British Columbia), Calgary (Alberta) and Edmonton (Alberta) from Mahatta Holdings Ltd., Eastlake Properties Inc. and MYR Developments Ltd., respectively. The Fund paid \$200,000 (2008 - \$210,976) and \$801,541 (2008 - \$268,709) aggregately in rent to such companies during the three and twelve months ended December 31, 2009, respectively. The rent between the parties is at fair market value. The terms of the leases range from renewal on a monthly basis (with a termination notice of three months given either by the tenant or landlord) to August 31, 2023.

In the year ended December 31, 2008, the Fund purchased land and a building from 0798740 BC Ltd., a company in which a general manager of one of the Business LPs holds a non-controlling interest, for \$575,000. These transactions arose during the normal course of business and have been recorded at fair market value.

FUND UNITS AND PRINCIPAL UNITHOLDERS

As at the date of this MD&A, 13,850,175 Units are issued and outstanding, each of which entitles the holder to one vote at Unitholder meetings. Furthermore, 97,019 Series A Debentures and 27,600 2010 Debentures are issued and outstanding. Upon conversion of Series A Debentures and 2010 Debentures, an additional 2,309,976 and 5,257,142 Units, respectively, would be issuable. In addition, 125,000 exchangeable units (“Exchangeable LP Units”) were issued by a subsidiary indirectly controlled by the Fund on February 15, 2008. The Exchangeable LP Units have no voting rights but have economic rights equivalent to the Fund’s Units, and are exchangeable to the Units on a one-for-one basis. To the knowledge of the Fund, no person beneficially owns, directly or indirectly, or exercises control or direction over, Units carrying more than 10% of the voting rights attached to all of the issued and outstanding Units.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund’s financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, operating loans, accounts payable and accrued liabilities, distribution payable, equipment financing, term mortgage, capital and acquisition loans, financial derivatives not designated in an effective hedging relationship, 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 of the loans were at market at year-end. 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.

In addition to liquidity risk described in “Cash Flow and Liquidity” above, the Fund is exposed to credit, interest rate and foreign exchange risks associated with its financial assets and liabilities. Overall, the Fund’s Trustees have responsibility for the establishment and approval of the Fund’s risk management policies. Management continually performs risk assessments to ensure that all significant risks related to the Fund’s operations have been reviewed and assessed to reflect changes in market conditions and the Fund’s operating activities.

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.

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 equipment financing, term mortgage and Series A Debentures all bear fixed interest rates, and hence are not exposed to any interest rate risk. The Fund’s credit facilities bear interest at variable rates. In this case the Fund is managing its interest rate risk through entering into an interest rate swap agreement with the Bank for a portion of the outstanding acquisition loan. The Fund does not hold or use any derivative instruments for trading or speculative purposes.

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 foreign exchange contracts for trading or speculative purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the Financial Statements and the reported amounts of revenue and expenses during the reporting period. The Fund has taken into account

the current economic environment when determining the provision for inventory obsolescence, provision for doubtful accounts and any impairment of goodwill and other assets. As conditions change in 2010, actual results could differ from those estimates. The Fund's significant accounting policies are described in note 3 of the Financial Statements. The Fund bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The Fund considers the following to be most critical in understanding the judgments that are involved in preparing the Financial Statements and the uncertainties that could affect the Fund's results of operations, financial condition and cash flows.

Provision of inventory obsolescence

The value of the Fund's inventory, which includes equipment for resale and parts inventories, is evaluated by management throughout each year. When required, reserves are recorded to ensure that the book value of the resale equipment is valued at the lower of cost or estimated net realizable value. Management identifies slow moving or obsolete parts inventories (if any) and estimates appropriate obsolescence provisions related thereto. Assumptions underlying management's evaluation of inventory obsolescence include stability in inventory price levels and estimates of customer demand and projected level of repairs and maintenance needed for the rental fleet. Depending on the future economic environment, there is a risk that the Fund could have an increase in inventory obsolescence which would result in an increased charge to net income.

Provision for doubtful accounts

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. Management 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, and any such losses to date have been within management's expectations. Assumptions underlying management's evaluation of provision for doubtful accounts include stability of the business environment that customers operate in and financial health of customers. The provision for doubtful accounts at December 31, 2009 did not reflect any significant increase in expected losses compared to prior years. However, depending on the future economic environment, there is a risk that the Fund could experience a greater number of defaults which would result in an increased charge to net income.

Property and equipment

Management reviews property and equipment 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. Assumptions underlying management's evaluation of property and equipment impairments include estimates of the physical state of the assets and customers' demand for the rental fleet equipment. Depending on the future economic environment, there is a risk that the Fund could have an increase in property and equipment impairments which would result in an increased charge to net income.

In 2009, management prospectively changed its estimates of the useful life of its rental fleet from a straight-line amortization over ten years less the estimated salvage value to a straight-line amortization over a useful life individually assessed for each fleet item less the estimated salvage value. The change in estimates is based on management's review of the Fund's fleet mix subsequent to the business acquisitions completed in 2008, as well as management's strategic decision with respect to repairs and maintenance expenditures on the rental fleet. Under the previous estimates, the rental fleet depreciation for the year ended December 31, 2009 would have been \$2.68 million, compared to \$6.55 million currently recorded.

Intangible assets

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 through its 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 exceeds 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. Assumptions underlying management's evaluation of intangible asset impairments include estimates of future cash flow generated from and expected lives of the respective intangible assets, and future costs of capital. Depending on the future economic environment, there is a risk that the Fund could have an increase in intangible asset impairments which would result in an increased charge to net income.

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. Assumptions underlying management's evaluation of goodwill impairments include estimates of future operations of, and related cash flow generated from, the Fund's reporting units, and marketplace data. Depending on the future economic environment, there is a risk that the Fund could have an increase in goodwill impairments which would result in an increased charge to net income.

Accrual of unbilled revenue

Revenue from rental contracts and related services is generated through cycle billing to customers. Accrual of revenue relating to invoices not yet issued to customers at period-end is estimated by management based on rental rates specified in rental contracts and expected length of the rental periods.

Future income taxes

As the Fund will allocate all of its taxable income and taxable capital gains to the Unitholders, the Fund itself is not currently 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 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. Assumptions underlying the composition of future income tax assets include estimates of future results of operations, the timing of reversal of temporary differences, as well as the tax rates and laws in each province at the time of the expected reversal. The composition of future income tax assets is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2009, the Fund adopted the following accounting standards:

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 any impact on the Fund's consolidated financial statements or notes.

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.

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.

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.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards (“IFRS”) will replace Canada’s current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Fund will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending December 31, 2011.

The Fund has developed an IFRS transition work plan consisting of three phases as follows:

Phase 1: Preliminary study and diagnostic

1. Identification of the IFRS standards that will require changes with regard to measurement in the consolidated financial statements and disclosure.
2. Rank of standards based on their anticipated impact on the Fund’s consolidated financial statements and the effort their implementation will require.

Expected completion date: June 30, 2010

Phase 2: Standards analysis

1. Analysis of the difference between GAAP and IFRS.
2. Selection of the accounting policies that the Fund will apply on an ongoing basis.
3. Fund’s selection of IFRS 1 exemptions at the date of transition, calculation of the quantitative impact on the consolidated financial statements and disclosure analysis.

Expected completion date: October 31, 2010

Phase 3: Implementation

1. Preparation of the opening balance sheet at the date of transition.
2. Production of template for the interim and annual consolidated financial statements and the associated disclosure for the fiscal year ending December 31, 2010.

3. Identification and implementation of changes required for information technology, internal control over financial reporting, disclosure controls and procedure, business activities, financial reporting expertise and training.

Expected completion date: December 31, 2010

The Fund has completed its preliminary assessment in identifying the key areas that may have a significant impact on the Fund's consolidated financial statements a result of the IFRS conversion. The potential key impacted areas are as follows:

1. Election of options and application of exemptions under IFRS 1

IFRS 1 is the standard that provides guidance for creating the Fund's first IFRS financial statements. The standard provides elective options in the opening balance and mandatory exceptions to retrospective application of IFRS in certain circumstances. The Fund will need to assess the impact of the mandatory exceptions and make elections from the available options under IFRS 1.

2. Classification of the Fund's Units

Currently, the Fund's Units are classified as equity. The Fund will need to perform an analysis to determine the Unit's classification according to IFRS based on the terms in the original Unit subscription agreement.

3. Impairment of assets

According to IFRS 36, an impairment loss is recognized if an asset's or cash generating unit's (including goodwill) carrying value exceeds its recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and value in use, which is based on the net present value of future cash flows. The Fund will need to assess the impact of the IFRS standard on the Fund's assets and goodwill impairment analyses which currently are mainly performed based on expected undiscounted future cash flows.

4. Financial Instruments

According to International Accounting Standards ("IAS") 32 and 39, compound financial instruments that have both liability and equity characteristics are split into these components upon initial recognition. The carrying amount of the compound financial instrument is allocated between its debt and equity components so that the liability component is recognized at its fair value and the equity component as the residual. The Fund will need to assess the impact of the IAS standards on the Fund's financial instruments.

RISKS AND UNCERTAINTIES

For risks and uncertainties associated with the Fund, refer to the Fund's Annual Information Form dated March 31, 2009. In particular, the Fund believes that the following items represent significant areas for consideration.

Current economic conditions

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

Current economic conditions at both a local and national level may impact customer demand for the Fund's products and services. Changes in interest rates, consumer and business confidence, corporate profits, credit conditions, foreign exchange, commodity prices and the level of government infrastructure spending may influence the Fund's customers' operating and capital spending, and therefore the Fund's revenues and results of operations. Although the Fund has attempted to address its exposure to business and industry cyclicality by diversifying its operations by geography, product offerings and customer base, there can be no assurance that the Fund's results of operations, and the cash flows, will not be adversely affected by changes in economic conditions.

Failure to access financing

Recent financial conditions globally have been subject to unprecedented volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. The Fund's ability to maintain sufficient operating, capital and acquisition credit facilities may be adversely affected by these market conditions.

Credit facilities risk

The Fund is required to comply with covenants under its credit facilities. In the event that the Fund does not comply with covenants under such credit facilities, its access to capital could be restricted or immediate full repayment of the credit facilities could be required.

Financial health of Business LPs and cash flows

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

Dependence upon WesternOne Equity LP to fund cash distributions

The Fund is an unincorporated, open-ended trust that will ultimately be entirely dependent on the operations and assets of WesternOne Equity LP. Cash distributions to Unitholders will ultimately be dependent on, among other things, the ability of WesternOne Equity LP to make cash available for distributions. The Fund's ability to make cash distributions or other payments or advances will be subject

to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of WesternOne Equity LP, including restrictive covenants in the credit facilities agreement.

Cash distributions are not guaranteed and will fluctuate with business performance

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

Distributions are discretionary

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

Nature of the Units

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

Prior ranking indebtedness

The likelihood that purchasers of the Series A Debentures and the 2010 Debentures will receive payments owing to them under the respective terms of such debentures will depend on the financial health of the Fund and its creditworthiness. Series A Debentures are subordinate in right of payment to all of the Fund's existing and future senior indebtedness, while 2010 Debentures are subordinate in right of payment to Series A Debentures as well as all of the Fund's existing and future senior indebtedness. Therefore, if the Fund becomes bankrupt, liquidates its assets or enters into certain other transactions, the Fund's assets will be available to pay its obligations with respect to such debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following the senior indebtedness payments to pay amounts due on any or all of such debentures then outstanding.

Conversion following certain transactions

In the case of certain transactions, the Debentures will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Series A Debentures and the 2010 Debentures were convertible immediately prior to the transaction.

This change could substantially lessen or eliminate the value of the conversion privilege associated with such debentures in the future.

Unpredictability and volatility of Unit prices

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

Failure to realize anticipated benefits of acquisitions

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

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

Growth initiatives

The Fund's ability to grow successfully through add-on acquisitions will be dependent on a number of factors, including: the identification of suitable acquisition targets in both new and existing markets; the negotiation of purchase agreements on satisfactory terms and prices; securing attractive financing arrangements; and the integration of newly acquired operations into the existing business. Any acquisition will involve a number of risks, including: the inability to integrate the operations, personnel and information systems of the acquired business; the potential acquisition of previously undisclosed liabilities; and the

potential disruption of the Fund's ongoing business and the diversion of management's attention from its day-to-day operations. An unsuccessful acquisition could have a material adverse impact on the Fund, its results of operations and financial condition. Unitholders are totally dependent upon management, directors and Trustees in making investment decisions.

Competition

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

Financing constraints

The indebtedness represented by the operating loan, equipment financing, credit facilities for equipment purchases and capital leases that the Fund uses to finance the Business LPs' new equipment inventories and rental fleet acquisitions could limit the future availability of debt financing to fund acquisitions. An extension to the acquisition loan under the existing credit facilities agreement may not be available to the Fund on favourable terms from its current or other lenders. The Fund may be required to use available cash or other sources of debt or equity financing. Using cash to complete acquisitions may substantially affect the Fund's operating or financial flexibility. If the Fund is unable to obtain financing on acceptable terms, it may be required to reduce the scope of its presently anticipated expansion, which may materially and adversely affect its growth strategy.

Supply disruptions

Various businesses of the Fund are dependent on the steady supply of fuels for their business operations with respect to fuel sales, equipment rentals and general logistics. Potential disruptions of fuel supply from the existing suppliers could negatively impact the Fund's revenues and operating results if the Fund fails to secure alternate fuel supplies.

Seasonality and fluctuations in results

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

Adverse weather conditions

Adverse weather conditions may affect construction schedules. Prolonged rain, snowfall or extreme cold weather may shut down construction sites. This may reduce demand for equipment and propane usages, particularly in the areas of outdoor construction activity and space heating. As a result, the Fund's revenues and operating results may be negatively affected.

Expansion

Existing or future competitors may compete with the Fund for acquisition candidates, which may increase acquisition prices and reduce the number of suitable acquisition candidates. Existing or future competitors

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

Interest rates

The Fund's credit facilities bear interest at variable rates. The Fund is currently using a combination of fixed interest rate swaps and short-term instrument in the form of a banker's acceptance to reduce exposure to interest rate risk on a portion of its loans. Fluctuations in interest rates may significantly increase debt serving costs on the variable rate portion of the credit facilities, and may have an adverse effect on the Fund's future earnings and cash flows. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of the Business LPs' businesses, particularly new and used equipment sales, because many of their customers finance their equipment purchases. As a result, rising interest rates may have the effect of reducing the Fund's revenues.

Foreign exchange

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

As at December 31, 2009, the Fund's consolidated balance sheet included \$440,247 of accounts payable and \$160,236 of cash which were U.S. currency denominated.

Discontinuation of tax incentives

Currently the Government of British Columbia provides refundable tax credits through the Production Services Tax Credit Program to accredited production corporations who produce accredited films or videos in British Columbia. These credits are available to both domestic and foreign producers. This creates an incentive for film productions in the province and fuels demand for associated products and services from businesses such as PER, which is a major supplier of logistics equipment in Metro Vancouver. Unless the government continues such tax incentives with terms that are competitive compared to other jurisdictions such as Ontario and Quebec, it may affect the level of production activities in British Columbia. This may impact the Fund's revenues and operating results from this sector.

Federal income tax changes

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

Under the SIFT Rules, commencing January 1, 2011, the Fund will become subject to tax on its income and taxable capital gains from dispositions, that is paid or payable to Unitholders, at a rate equal to the then prevailing corporate income tax rate (currently set at 26.5% for 2011 and 25.0% thereafter). Distributions of such income to Unitholders would be treated as dividends paid by a taxable Canadian corporation. This will result in the Fund's income being subject to the tax, and distributions of such income by the Fund to its Unitholders being treated as dividends paid by a taxable Canadian corporation. Returns of capital by the Fund to its Unitholders would not be affected by the SIFT Rules and would continue to be taxed in the same manner as done currently.

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

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

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

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

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

SIFT Rules and level of distributions

Under the SIFT Rules, which are discussed in detail under "Federal income tax changes" above, commencing January 1, 2011, the Fund will become subject to tax on its income and taxable capital gains from dispositions, that are paid or payable to Unitholders, at a rate equal to the then prevailing corporate income tax rate. Distributions of such income to Unitholders would be treated as dividends paid by a taxable Canadian corporation, which will result in the Fund's income being subject to the tax. As a result, the Fund may not be able to maintain its current level of distributions.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Fund's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). DC&P are designed to provide reasonable assurance that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are designed to ensure that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Fund's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The Fund's ICFR may not prevent or detect all misstatements because of the inherent limitations of any control system. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Fund's policies and procedures.

As at December 31, 2009, the Fund's management, under the supervision of its CEO and CFO has completed an assessment of the design and effectiveness of DC&P and ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment, the CEO and CFO concluded that the Fund maintained effective DC&P and ICFR for the year ended December 31, 2009.

Changes have occurred in the Fund's DC&P and ICFR during the year ended December 31, 2009 to remediate material control weaknesses that were previously identified. A new computer system and related control procedures were implemented at H&P, a subsidiary indirectly owned by the Fund which acquired the assets and businesses of Davis SureFire on October 1, 2008. Furthermore, changes were made to the Fund's staffing resources to effect the Fund's financial reporting procedures over segregation of duties as well as documentation of financial closing and reporting procedures.

OUTLOOK

The following discussion is qualified in its entirety by the "Forward-looking information" at the beginning of this MD&A, and the section titled "Risks and Uncertainties".

In 2009, the Fund's business environment faced challenges posed by the prevailing economic conditions, most notably in the residential construction sector. Softened consumer demand in the market, driven by the recession, led to delays in project starts. This in turn resulted in reduced demand for rental equipment and declining rental rates amongst the Fund's competitors. The acquisition of Davis SureFire in October 2008 was part of the Fund's strategy to diversify its product offering and enter into the construction heat and fuel distribution market. After a full year's operation in 2009, H&P has demonstrated success in delivering

incremental cash flow and earnings during the winter months to facilitate the Fund's year-round operating model.

The economy has shown early signs of a gradual recovery beginning in late 2009/early 2010, reflected in a general increase in residential construction permit applications and sales level in western Canada. Based on research reports released by Canada Mortgage and Housing Corporation ("CMHC"), new home construction in major hubs in British Columbia and Alberta, such as Greater Vancouver, Victoria, Calgary and Edmonton will continue the gradual growth trend throughout 2010 due to tight resale conditions, low levels of new home inventories and improving economic fundamentals¹. The non-residential sector, however, reflects a mixed outlook in which a continuing downward trend on spending on commercial building construction is compensated by increased investments in institutional projects, infrastructure spending and oil and gas-related expenditures.

The Fund seeks growth by means of identifying new revenue sources within the existing operations through leveraging its diversified product offering and market coverage. For instance, the Fund expanded its general rental operation in Metro Vancouver to complement the existing aerial rentals business. The Fund also enhanced its fuel distribution network in southern Alberta to complement the construction heat and general rental operation in that region. These initiatives were undertaken through leveraging the Fund's existing fleet base and marketing expertise across its network of operations in order to optimize fleet utilization and facilitate internal growth.

The Fund also seeks growth by pursuing acquisition opportunities that will supplement the existing platform businesses. A disciplined accretive acquisition program continues to be the Fund's strategy to acquire well-managed businesses in order to consolidate market share in existing markets or gain entry into new markets.

The Fund continues to monitor actively its operating expenses and maintains flexibility to adjust to changing economic circumstances. A review of the operating cost structure of each platform business is constantly undertaken to assess staff resources, parts and inventory procurement, logistics management and other major operational areas in order to improve operational efficiency.

ADDITIONAL INFORMATION

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

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¹ CMHC Housing Market Outlook, Fall 2009.

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TRADING SYMBOLS

Toronto Stock Exchange: WEQ.UN, WEQ.DB and WEQ.DB.B