



CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

WESTERNONE EQUITY INCOME FUND

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



MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

March 14, 2010
"Darren Latoski"

Chief Executive Officer
WesternOne Equity Income Fund

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of WesternOne Equity Income Fund

We have audited the accompanying consolidated financial statements of WesternOne Equity Income Fund ("the Fund"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the statements of income (loss) and comprehensive income (loss), statements of unitholders equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WesternOne Equity Income Fund as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

March 10, 2011

Vancouver, Canada

WesternOne Equity Income Fund

CONSOLIDATED BALANCE SHEETS

	As at December 31, 2010	As at December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,991,637	\$ 2,069,887
Accounts receivable	9,476,079	6,139,001
Inventories	2,058,753	1,454,686
Deposits and prepaid expenses	576,756	511,944
	<u>16,103,225</u>	<u>10,175,518</u>
PROPERTY AND EQUIPMENT (Note 4)	35,923,304	29,536,303
INTANGIBLE ASSETS (Note 5)	22,080,330	24,353,964
GOODWILL	9,923,709	8,430,418
FUTURE INCOME TAXES (Note 8)	7,131,017	6,332,903
	<u>\$ 91,161,585</u>	<u>\$ 78,829,106</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Operating loans (Note 6)	\$ 2,608,318	\$ 1,740,870
Accounts payable and accrued liabilities	4,040,327	3,396,243
Distributions payable	694,452	691,932
Current portion of capital leases obligation (Note 12)	162,354	146,306
Current portion of term mortgage (Note 7)	17,941	16,815
Unearned revenue	64,775	73,876
Financial derivatives (Note 6)	88,914	-
Series A Debentures (Note 9)	9,144,260	-
Capital and acquisition loans (Note 6)	30,444,585	32,767,926
	<u>47,265,926</u>	<u>38,833,968</u>
CAPITAL LEASES OBLIGATION (Note 12)	569,924	267,767
TERM MORTGAGE (Note 7)	306,244	321,626
FINANCIAL DERIVATIVES (Note 6)	-	302,686
SERIES A DEBENTURES (Note 9)	-	8,805,704
2010 DEBENTURES (Note 9)	23,738,987	-
	<u>71,881,081</u>	<u>48,531,751</u>
UNITHOLDERS' EQUITY	19,280,504	30,297,355
	<u>\$ 91,161,585</u>	<u>\$ 78,829,106</u>

COMMITMENTS (Note 11)

SUBSEQUENT EVENTS (Note 19)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

"Darren Latoski"

Trustee

"Douglas Scott"

Trustee

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

	Fund Units (Note 10)	Contributed Surplus	Equity component of convertible debentures (Note 9)	Retained deficit	Total Unitholders' Equity
BALANCE, December 31, 2008	39,822,704	24,926	1,092,570	(5,642,829)	35,297,371
Issuance of Units (net of issuance costs)	1,924,805				1,924,805
Issuance of units upon exercise of agent options	220,885				220,885
Employee unit-based compensation for the period		51,277			51,277
Net and comprehensive income for the period				1,131,410	1,131,410
Distributions declared				(8,328,393)	(8,328,393)
BALANCE, December 31, 2009	41,968,394	76,203	1,092,570	(12,839,812)	30,297,355
Issuance of units upon conversion of Series A Debentures	211,621		(23,216)		188,405
Equity component of 2010 Debentures (Note 9)			2,587,932		2,587,932
Employee unit-based compensation for the period		81,254			81,254
Net and comprehensive loss for the period				(5,475,587)	(5,475,587)
Distributions declared				(8,398,855)	(8,398,855)
BALANCE, December 31, 2010	42,180,015	157,457	3,657,286	(26,714,254)	19,280,504

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31, 2010	Year ended December 31, 2009
REVENUE		
Equipment rental	\$ 24,991,329	\$ 19,287,199
Equipment sales	5,231,202	3,902,793
Parts, fuel, service and others	20,029,819	18,469,756
	<u>50,252,350</u>	<u>41,659,748</u>
COST OF SALES		
Equipment sold	4,397,095	3,539,622
Parts, fuel, service and others	10,983,350	10,055,199
	<u>15,380,445</u>	<u>13,594,821</u>
GROSS PROFIT	<u>34,871,905</u>	<u>28,064,927</u>
OPERATING EXPENSES		
General and administrative	9,403,570	7,419,625
Freight	4,139,591	2,812,109
Service	4,783,766	3,554,359
Sales	3,026,815	2,375,741
Interest	4,574,642	2,579,492
Amortization and depreciation	12,898,835	11,042,792
Accretion of debentures	578,559	225,605
	<u>39,405,778</u>	<u>30,009,723</u>
OTHER EXPENSES		
Loss on derivatives (Note 6)	14,127	54,695
Franchise termination fee (Note 5)	815,976	-
Impairment of intangible assets (Note 5)	909,725	-
	<u>1,739,828</u>	<u>54,695</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(6,273,701)	(1,999,491)
FUTURE INCOME TAX RECOVERIES (Note 8)	(798,114)	(3,130,901)
NET AND COMPREHENSIVE INCOME/(LOSS)	<u>\$ (5,475,587)</u>	<u>\$ 1,131,410</u>
Basic and diluted weighted average income/(loss) per unit	\$ (0.39)	\$ 0.08
Basic and diluted weighted average number of units outstanding	13,995,559	13,850,643

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2010	Year ended December 31, 2009
OPERATING ACTIVITIES		
Net income/(loss)	\$ (5,475,587)	\$ 1,131,410
Items not affecting cash -		
Amortization of property and equipment	8,763,357	7,172,560
Amortization of intangible assets	4,135,478	3,870,232
Interest expense relating to amortization of transaction costs	514,844	368,208
Accretion of debentures	578,559	225,605
Future income tax recoveries	(798,114)	(3,130,901)
Gain on derivatives	(213,772)	(222,393)
Unit-based compensation	81,254	51,277
Impairment of intangible assets	909,725	-
Loss/(gain) on sale of property and equipment	(282,344)	38,979
	<u>8,213,400</u>	<u>9,504,977</u>
Changes in non-cash working capital balances -		
Accounts receivable	(2,540,048)	2,095,527
Inventories	(296,994)	(156,821)
Deposits and prepaid expenses	(3,163)	(159,290)
Accounts payable and accrued liabilities	528,095	(895,409)
Unearned revenue	(9,101)	(45,769)
	<u>5,892,189</u>	<u>10,343,215</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(8,185,105)	(1,882,999)
Proceeds from the sale of property and equipment	2,080,030	1,108,980
Acquisitions (Note 13)	(13,759,353)	-
	<u>(19,864,428)</u>	<u>(774,019)</u>
FINANCING ACTIVITIES		
Distributions paid	(8,396,335)	(8,297,305)
Units issued for cash (net of expenses)	-	2,145,690
Debentures issued for cash (net of expenses)	25,866,840	-
Repayment of term mortgage	(16,815)	(15,760)
Repayment of loans payable	(1,559,701)	(3,346,428)
	<u>15,893,989</u>	<u>(9,513,803)</u>
NET CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	<u>1,921,750</u>	<u>55,393</u>
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>2,069,887</u>	<u>2,014,494</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 3,991,637</u>	<u>\$ 2,069,887</u>
Supplemental cash flow information:		
Interest received	46,645	23,613
Interest paid	4,291,317	2,488,372
Conversion of convertible debentures into fund units	211,621	-
Assets under capital lease acquired	515,449	374,115

See accompanying Notes to the Consolidated Financial Statements

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

1. ORGANIZATION AND NATURE OF OPERATIONS

WesternOne Equity Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust created on June 14, 2006 and under the declaration of trust governed by the laws of British Columbia. The Fund is authorized to issue an unlimited number of units (“Units”) and special voting units. Each holder of a unit of the Fund (“Unitholder”) participates pro rata in any distribution of the Fund. The Fund was initially established to indirectly acquire the assets of Production Equipment Rentals Company and such other investments as the trustees of the Fund (the “Trustees”) may determine. The Fund commenced operations on August 15, 2006 when it completed its initial public offering (the “Offering”).

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

At December 31, 2010, the Fund has a working capital deficiency of \$31,162,701 and incurred a loss for the year ended December 31, 2010 of \$5,475,587 (2009 – net income of \$1,131,410). Included in the working capital deficiency are capital and acquisition loans of \$30,444,585 and the Series A Debentures of \$9,144,260. Excluding these items and including the current portion of the capital and acquisition loans repayable in fiscal 2011 of \$5,559,001, the Fund has a working capital balance of \$2,867,143.

The Series A Debentures are convertible into Units at the option of the debenture holders or convertible into Units on maturity at the option of the Fund. Based on the current trading price of the Units, management anticipates that a significant portion of these debentures will convert into Units prior to maturity as evidenced through the subsequent event described in Note 19.

The Fund has financed its business acquisitions and expansion of its rental fleet through bank debt that is repayable on demand, although scheduled repayment terms occur over the next five years (Note 6). The Fund has used demand loans in order to minimize interest expense. The Fund believes it could convert these loans into long term if desired, albeit with a higher interest cost. In 2010, the Fund successfully renegotiated these loans in order to fund the acquisition of the assets of On*Site Equipment (Note 13). As at December 31, 2010, the Fund was in compliance with all bank covenants.

The Fund generated a net loss for the year, mainly as a result of the first half of the year, due to the recession which impacted the economic activity level in British Columbia and Alberta in the latter half of 2009 and into the first half of 2010. The Fund’s results improved in the latter half of 2010 along with the economic recovery in British Columbia and Alberta and the Fund is forecasting improved results for 2011. The Fund has consistently generated positive cash flow from operations.

Based on the performance of the Fund to date, the renegotiation of the capital and acquisition loans during 2010 (Note 6), and the support from the Bank to date, the Fund does not believe there is any significant risk of having to repay such loans on dates earlier than the scheduled repayment dates. As a result of this determination, the Fund has concluded that it is a going concern and that there is no substantial doubt as to the Fund’s ability to continue as a going concern in the foreseeable future.

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

2. ADOPTION OF NEW ACCOUNTING STANDARDS

International Financial Reporting Standards

In February 2008, the Accounting Standards Board confirmed the date of changeover from generally acceptable accounting principles (“GAAP”) to International Financial Reporting Standards (“IFRS”). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund has developed a three-phase IFRS transition work plan, and after having completed the preliminary impact assessment, has identified four key potential areas of impact. These areas are: election of options and application of exceptions under IFRS 1, classification of Fund units, impairment of assets, and financial instruments. The Fund is currently in the final stages of its IFRS transition work plan and is working to finalize and quantify the impact of IFRS in these areas.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Financial Instruments

The Fund’s financial assets and financial liabilities are initially recognized at their fair value and their subsequent measurement is dependent on their classification or designation as described below. Their classification or designation depends on the purpose for which the financial instruments were acquired or issued and their characteristics. Financial instruments classified or designated as held for trading are measured at fair value with gains and losses recognized in net income. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost.

The following is a summary of each significant category of financial instruments outstanding as at December 31, 2010:

Cash and cash equivalents	Held-for-trading
Financial derivatives*	Held-for-trading
Accounts receivable	Loans and receivables
Operating loans	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Distributions payable	Other liabilities
Capital and acquisition loans	Other liabilities
Term mortgage	Other liabilities
Debentures	Other liabilities

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

WesternOne Equity Income Fund

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

(b) Measurement uncertainty

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

Other areas requiring the use of management estimates include the accrual of unbilled revenue at year end, and the valuation of accounts receivable and service parts inventory.

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

(c) Revenue recognition

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

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

Revenue from fuel wholesale and distribution is recognized at the time when the fuel is delivered, the related services have been rendered, and collectability is reasonably assured.

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

(d) Cash and cash equivalents

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

(e) Inventories

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

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Notes to the Consolidated Financial Statements

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Parts inventories are valued at the lower of cost and net realizable value, with cost generally being determined on a weighted-average basis. Parts inventory write-downs are included in cost of sales.

(f) Property and equipment

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

Rental fleet	1-8 years
Tractors and trailers.....	7 years
Furniture, fixtures and equipment	5 years
Computer equipment and software.....	5 years
Leasehold improvements	lesser of 5 years and the remaining term of the lease

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

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

(g) Intangible assets

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

Customer relationships	10 years
Non-competition agreements	1-3 years
Franchise Agreements.....	12 years
Brand name	nil

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

(h) Goodwill

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

WesternOne Equity Income Fund

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December 31, 2010 and 2009

impairment to be recognized is measured as the amount by which the carrying amount of the goodwill exceeds its estimated fair value.

(i) *Foreign currency translation*

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

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

(j) *Income taxes and future income taxes*

In 2007, the Federal Government of Canada amended the Income Tax Act to impose an entity level specified investment flow-through tax (the "SIFT Tax") on Canadian publicly listed income trusts effective January 1, 2011. As a result of the SIFT tax, starting from January 1, 2011, the Fund is subject to income taxes at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from deducting trust distributions when calculating taxable income. 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.

Future income tax assets and liabilities are determined based on the temporary differences between the tax basis of the Fund's assets and liabilities and the amounts reported in the financial statements, to the extent that such temporary differences are expected to reverse on or after January 1, 2011. Future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Currently the enacted or substantively enacted tax rate is 26.5% for 2011 and 25.0% thereafter. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

(k) *Income/(loss) per unit*

Basic income per unit of the Fund is calculated by dividing income by the weighted average number of units outstanding during the reporting period. Diluted income per unit is calculated by dividing income by the sum of the weighted average number of Units outstanding used in the basic income per Unit calculation and the number of Units that would be issued assuming a dilutive effect of the conversion of the Series A Debentures and 2010 Debentures (Note 9). The impact of the conversion feature is calculated using the if-converted method.

(l) *Long-term incentive plan*

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

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

For the year ended December 31, 2010, the Compensation Committee approved \$Nil of LTIP (2009 - \$Nil).

(m) Unit-based Compensation and Other Unit-based Payments

The Fund grants Unit options to directors, trustees and employees pursuant to a Unit-based compensation plan described in Note 17. Compensation expense is recorded for Unit options issued to such individuals using the fair value method with a corresponding increase in contributed surplus. Any consideration received on exercise of options or the purchase of Units is credited to Fund Units.

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

4. PROPERTY AND EQUIPMENT

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 47,985,100	\$ 16,902,652	\$ 31,082,448
Building	128,017	19,392	108,625
Land	481,133	-	481,133
Tractors and trailers	3,688,355	785,373	2,902,982
Furniture, fixtures and equipment	1,431,717	592,895	838,822
Computer equipment	485,433	211,978	273,455
Leasehold improvements	461,108	225,269	235,839
	<u>\$ 54,660,863</u>	<u>\$ 18,737,559</u>	<u>\$ 35,923,304</u>
	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 35,912,836	\$ 9,859,443	\$ 26,053,393
Building	128,017	12,785	115,232
Land	481,133	-	481,133
Tractors and trailers	1,972,295	418,860	1,553,435
Furniture, fixtures and equipment	1,156,727	327,771	828,956
Computer equipment	370,348	129,049	241,299
Leasehold improvements	401,407	138,552	262,855
	<u>\$ 40,422,763</u>	<u>\$ 10,886,460</u>	<u>\$ 29,536,303</u>

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

5. INTANGIBLE ASSETS

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 30,154,050	\$ 9,529,700	\$ 20,624,350
Brand name	782,017	-	782,017
Non-competition agreements	3,151,265	2,477,302	673,963
	\$ 34,087,332	\$ 12,007,002	\$ 22,080,330

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

During the year ended December 31, 2010, an impairment on intangible assets of \$909,725 (2009 – nil) was recognized as a result of terminating a franchise agreement.

6. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	December 31, 2010		December 31, 2009
	Approved	Carrying Value	Carrying Value
Operating loans	\$ 5,750,000	\$ 2,608,318	\$ 1,740,870
Capital loans:			
Non-revolving	1,638,920	1,638,920	2,087,881
Revolving:	14,500,000		
Loan #1		6,089,445	7,029,522
Loan #2		2,088,437	1,130,433
Loan #3		720,000	-
Loan #4		1,691,000	-
Loan #5		972,000	-
Loan #6		692,813	-
Other		969,001	-
	16,138,920	14,861,616	10,247,836
Acquisition loans:	15,582,969		
Loan #1		6,254,533	7,478,034
Loan #2		9,328,436	10,956,950
Loan #3		-	4,085,106
	15,582,969	15,582,969	22,520,090
Capital and Acquisition loans	31,721,889	30,444,585	32,767,926
Total Credit Facilities	\$ 37,471,889	\$ 33,052,903	\$ 34,508,796

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The following table illustrates the funding dates, maturity dates and interest rates as at December 31, 2010 for the Capital and Acquisition Loans described above:

Loan	Funding Date	Maturity Date	Interest Rate at Dec 31, 2010
Non-Revolving	August 14, 2006	August 13, 2013	4.20%
Revolving:			
Loan #1	July 2, 2010	July 1, 2014	4.20%
Loan #2	July 2, 2010	July 1, 2015	4.70%
Loan #3	September 14, 2010	September 13, 2015	4.70%
Loan #4	September 15, 2010	September 14, 2015	4.70%
Loan #5	September 28, 2010	September 27, 2015	4.70%
Loan #6	November, 16, 2010	November 15, 2015	4.70%
Acquisition Loans:			
Loan #1	February 15, 2008	February 14, 2013	4.50%
Loan #2	October 1, 2008	September 30, 2013	4.50%

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

The Bank has provided the operating loans payable upon demand. The operating loans are at the Bank's prime rate plus 1.25% and are secured by 50% of inventory and 75% of acceptable (as defined in the operating loan agreement) accounts receivable, minus priority claims. The operating loan has no stated maturity date and is due on demand.

On July 2, 2010, the Fund completed refinancing and consolidating its existing capital loans (the "Refinancing"). The comparative figures of the capital loans have been reclassified to conform with presentation adopted after the Refinancing.

The capital and acquisition loans are repayable on demand, and unless and until demanded in monthly installments with interest, at the Fund's option, at the Bank's prime rate plus a range of 1.20% to 1.70%, or the Bank's banker's acceptance rate plus a stamping fee with a range of 2.70% to 3.20%. Unless repaid on demand to the Bank, the non-revolving capital loan shall be repaid in full by August 13, 2013. Unless repaid on demand to the Bank, the revolving capital and acquisition loans shall be repaid in full on the fourth or fifth anniversary of the date of such advance made. The costs of obtaining the capital and acquisition loans are being amortized over the terms of the respective loans, resulting in an effective interest rate at December 31, 2010 of 4.53% (2009 – 3.70%) for the capital loans and 4.61% (2009 – 3.98%) for the acquisition loans.

On July 2, 2008, the Fund entered into an interest rate swap with the Bank. The swap has a three-year term, a notional value of \$9,312,000 at the commencement of the swap, and a fixed rate of 4.08% plus a stamping fee of 3.00% as at December 31, 2010. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$88,914 at December 31, 2010 (2009 - \$302,686). The Fund marks the value of this derivative to market every quarter, and any resulting gains/losses are recorded in net income. The fair value of the interest rate swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Fund has categorized this swap contract as Level 2.

The fair value of debt not due on demand was determined using the discounted cash flow forecast, at an appropriate market discount rate as at December 31, 2010. The fair value of the interest rate swap was determined by discounting the future expected net cash flows of the fixed and variable interest payments

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

The credit facilities have covenants specifying a minimum current ratio of 1.25 to 1.0, 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 Series A Debentures and capital and acquisition loans that are due within one year are included in current liabilities. As at December 31, 2010 the Fund was in compliance with all bank covenants.

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

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

2011	\$ 5,559,001
2012	5,849,839
2013	11,930,531
2014	4,162,504
2015 and thereafter	<u>2,967,639</u>
	30,469,514
Balance of transaction costs to amortize	<u>(24,929)</u>
	<u>\$ 30,444,585</u>

7. TERM MORTGAGE

The Fund obtained, through a wholly-owned indirect subsidiary, a term mortgage, during 2008. The initial term of this mortgage is 4 years, and is being amortized over a period of 15 years. The fixed nominal interest rate of the mortgage is 6.50%, and the effective interest rate, including the amortization of transaction costs is 7.37%. This mortgage consists of blended principal and interest payments. At the end of the initial four-year term (April 11, 2012), a principal amount of \$303,349 will remain outstanding. A general security agreement providing a charge over all assets of the Fund has been provided as collateral to the lending institution. The minimum principal payments of the initial term of this mortgage are as follows:

2011	\$ 17,941
2012	<u>309,574</u>
	327,515
Balance of transaction costs to amortize	<u>(3,330)</u>
	324,185
Less current portion	<u>(17,941)</u>
	<u>\$ 306,244</u>

As at December 31, 2010 the market rate of the mortgage payable was not materially different from the nominal rate. Therefore, the fair value of the mortgage payable is the same as the carrying value.

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8. FUTURE INCOME TAXES

The reconciliation to statutory tax rate is as follows:

	December 31, 2010	December 31, 2009
Loss before taxes	\$ (6,273,701)	\$ (1,999,491)
Statutory tax rate	28.2%	29.5%
Expected tax recovery	\$ (1,769,184)	\$ (589,250)
Current year's income not taxable for tax purposes	1,769,184	589,250
Increase in future income tax recovery resulting from a change during the period in temporary differences expected to reverse after 2010	(798,114)	(3,130,901)
Future income tax recovery	(798,114)	(3,130,901)

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

	December 31, 2010	December 31, 2009
Future income tax asset/(liability):		
Issue costs	\$ (31,416)	\$ 13,300
Intangible assets	3,128,836	2,689,562
Property, plant and equipment	4,034,136	3,575,559
Others	(539)	54,482
	\$ 7,131,017	\$ 6,332,903

9. DEBENTURES

(a) Series A Debentures

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

At any time after August 15, 2008, on not more than 60 days' notice and not less than 30 days' notice, the Fund may redeem the Series A Debentures at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption, provided that the current market price (defined as “the weighted average trading price of the Units on the Toronto Stock Exchange (the “Exchange”) for the 20 consecutive trading days ending on the fifth trading day preceding such date”) of the Units on the day preceding the date on which notice of redemption is given is at least 125% of the conversion price of \$4.20 per Unit. The redemption can be settled in cash or through the issuance of Units.

At maturity on August 15, 2011, the Fund shall repay the outstanding principal amount of the Series A Debentures, along with any accrued or unpaid interest, or, at the Fund's sole option, upon providing not less than 30 days' notice and not more than 60 days' notice, the Series A Debentures shall be converted into such number of Units as is determined by dividing the principal amount of Series A Debentures plus accrued and unpaid interest by the value of Units obtained by calculating 95% of the weighted average trading price of the Units on the Exchange during the prior 20 consecutive days on which Units are traded.

The holders of Series A Debentures are permitted to convert all or any part of the principal of, and accrued interest on, the Series A Debentures held by them into Units at the conversion price of \$4.20

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per Unit at any time prior to the maturity of the Series A Debentures, subject to anti-dilution provisions.

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

Cash financing costs in the amount of \$1,060,332 were incurred in the issuance of the Series A Debentures. The financing costs were netted against the Series A Debentures and amortized using the effective interest method. The effective interest rate as at December 31, 2010 was 15.0% (2009 – 15.0%).

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2009 and December 31, 2010:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2009	\$ 9,701,900	\$ 8,805,704	\$ 1,092,570
Conversion to Units	(208,000)	(184,784)	(23,216)
Amortization and Accretion		523,340	
Balance as at December 31, 2010	\$ 9,493,900	\$ 9,144,260	\$ 1,069,354

At closing of the Series A Debentures on August 15, 2006, the Fund granted the agents an option to purchase a certain principal number of Series A Debentures equal to 5% of the principal amount of Series A Debentures under the offering. The price to purchase the Series A Debentures under the Agents' Options was equal to the price under the offering, which was \$100 per Series A Debenture. The Agents' Options were expired on August 14, 2009.

The Series A Debentures rank senior to the Units and 2010 Debentures (as defined under note 9(b) below), pari passu in all respects with any other Series A Debentures issued from time to time, and are subordinate to senior security and permitted encumbrances.

The fair value of Series A Debentures, which was determined using the closing price at the Exchange as at December 31, 2010, was \$9,778,717 (2009 – \$9,799,889) for all outstanding debentures.

(b) 2010 Debentures

On February 26, 2010, the Fund completed a public offering of 27,600 8.50% unsecured convertible subordinated debentures (the "2010 Debentures") at \$1,000 per debenture, for gross proceeds of \$27,600,000. The 2010 Debentures will mature on December 31, 2015.

On and after December 31, 2013 and prior to December 31, 2014, the 2010 Debentures are redeemable in whole or in part from time to time at the Fund's option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the conversion price of \$5.25 per Unit. On and after

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December 31, 2014, the 2010 Debentures are redeemable at the Fund's option at any time at par plus accrued and unpaid interest. The redemption can be settled in cash or through the issuance of Units.

At maturity on December 31, 2015, the Fund has the option, upon not more than 60 nor less than 40 days' prior notice, to satisfy its obligations to pay on maturity, the principal amount of the 2010 Debentures, in whole or in part, by delivering freely tradeable Units. Any accrued and unpaid interest will be paid in cash. In such event, payment will be satisfied by delivering for each \$1,000 due, that number of freely tradeable Units obtained by dividing \$1,000 by 95% of the volume-weighted average trading price of the Units on the Exchange for the 20 consecutive trading days ending five trading days prior to the date of maturity.

The 2010 Debentures are convertible at the holder's option into fully paid Units at any time prior to the close of business on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of \$5.25 per Unit, subjected to standard anti-dilutive provisions.

As required by Canadian GAAP, the Fund separated the liability and equity component of the 2010 Debentures. Proceeds from the issuance of the 2010 Debentures were allocated to the equity and liability components of the 2010 Debentures using the residual method. The fair value of the equity component was determined using the Black-Scholes pricing model. The difference between the proceeds received and the fair value of the equity component calculated at the date of issuance was allocated as the liability component. The liability component will be accreted through the term of the 2010 Debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying 2010 Debentures are converted into Units.

Cash financing costs in the amount of \$1,733,160 were incurred in the issuance of the 2010 Debentures. The financing costs were netted against the 2010 Debentures and amortized the using effective interest method. The effective interest rate as at December 31, 2010 was 12.18%.

The following summarizes the face and carrying value of the liability and equity component of the 2010 Debentures at December 31, 2010:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at issuance on February 26, 2010	\$ 27,600,000	\$ 23,278,908	\$ 2,587,932
Amortization and Accretion		460,079	
Balance as at December 31, 2010	\$ 27,600,000	\$ 23,738,987	\$ 2,587,932

The payment of the principal of, and interest on, the 2010 Debentures are subordinated in right of payment to all senior obligations of the Fund, including all senior security and Series A Debentures. The 2010 Debentures rank pari passu with other series of debentures issued under the trust indenture of the 2010 Debentures, and rank senior to the Units.

The fair value of 2010 Debentures, which was determined using the closing price at the Exchange as at December 31, 2010, was \$27,876,000 for all outstanding debentures.

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10. FUND UNITS

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

The following summarizes changes to the Fund's Units for the year ended December 31, 2010:

	Fund Units ⁽¹⁾	Fund Units Outstanding	Exchangeable Units Outstanding ⁽²⁾
Balance as at December 31, 2009	\$ 41,968,394	13,838,634	125,000
Issuance of Units upon conversion of Series A Debentures	211,621	50,386	
Balance as at December 31, 2010	\$ 42,180,015	13,889,020	125,000

⁽¹⁾ Amounts are net of transaction costs where applicable.

⁽²⁾ On February 15, 2008, pursuant to the acquisition of the assets of Deerfoot, WEQ Deerfoot Rentals LP, an indirect subsidiary of the Fund, issued 125,000 exchangeable units ("Exchangeable LP Units") at \$4.00 per unit for net proceeds of \$500,000. Under the terms of the exchange agreement dated February 15, 2008, the Exchangeable LP Units are convertible to Units on a one-for-one basis at the option of the holder. The Exchangeable LP Units do not have voting rights, but have economic rights equivalent to the Fund's Units.

During the period from the creation of the Fund on June 14, 2006 to December 31, 2010, a total of 13,889,020 Units and 125,000 Exchangeable LP Units were issued for \$46,618,063 excluding offering costs.

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

At closing of the Offering, the Fund granted the agents an option ("Agents' Options") to purchase a certain number of Units equal to 5% of the Units issued under the Offering. The price to purchase the Units was equal to the price under the Offering, which was \$3.50 per Unit. The Agents' Options were expired on August 14, 2009.

11. COMMITMENTS

(a) Minimum operating lease commitments

The Fund, through its indirectly owned subsidiaries, has entered into operating lease agreements for its operating assets. The leases require monthly payments, and have maturity dates ranging from January 2011 to August 2014. The minimum operating lease commitments, over the next five years, are as follows:

2011	\$ 410,871
2012	242,034
2013	100,903
2014	32,603

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(b) *Minimum rental commitments*

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

2011	\$ 1,808,739
2012	1,564,735
2013	1,288,397
2014	898,703
2015	649,056
Thereafter	2,631,705

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

12. CAPITAL LEASES

The Fund, through its indirectly owned subsidiaries, has entered into capital lease agreements for assets that are part of the property and equipment. The leases have maturity dates ranging from November 2011 to September 2015, at imputed interest ranging from 4.20% to 10.89%, and all capital lease agreements have the option or requirement to purchase the assets at the end of the lease. The assets are being amortized consistent with the fund's amortization policy, and at December 31, 2010 had a book value of \$889,564, with \$113,091 in accumulated amortization.

The following table illustrates the lease commitments:

2011	\$ 218,523
2012	207,202
2013	234,163
2014	162,921
2015	<u>18,320</u>
	841,129
Less: Amount representing interest	<u>(108,851)</u>
	732,278
Less: Current portion	<u>(162,354)</u>
Non-current portion	<u>\$ 569,924</u>

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

13. ACQUISITION

On April 1, 2010, pursuant to an acquisition agreement dated April 1, 2010, WEQ Deerfoot Rentals LP, an indirect subsidiary of the Fund, purchased the assets of On*Site Equipment ("OnSite") from the partners of OnSite.

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

Allocation of purchase price		
Accounts receivable, net	\$	797,030
Inventory		307,073
Prepaid expenses		61,649
Accounts payable and accrued liabilities		(115,989)
Property and equipment		8,444,730
Intangible assets:		
Customer relationships		2,636,827
Non-compete agreements		134,742
Goodwill		1,493,291
	\$	13,759,353
Consideration:		
Cash	\$	13,328,375
Direct acquisition costs		430,978
	\$	13,759,353

14. CAPITAL DISCLOSURES

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

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

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

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

The Fund's credit facilities have restrictive covenants relating to debt incurrence and distributions to Unitholders. Furthermore, the credit facilities contain financial covenants, as described in Note 6 above, that also form the basis for the Fund to monitor its capital. The Fund closely monitors the business performance to evaluate compliance with the covenants. As at December 31, 2010, the Fund is in compliance with all such covenants.

15. FINANCIAL INSTRUMENTS

(a) Comparison of fair value to carrying value

Financial instruments consist of cash and cash equivalents, accounts receivable, financial derivatives, operating loans, accounts payable and accrued liabilities, distributions payable, capital and acquisition

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loans, mortgage payable, Series A Debentures, and 2010 Debentures. The carrying values of the financial instruments, except for the capital and acquisition loans, mortgage payable, Series A Debentures and 2010 Debentures, are considered to approximate their fair values due to their short term nature. The face values of the capital and acquisition loans approximate their fair values as they are due on demand. The fair value of the mortgage payable is based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions.

(b) Credit risk

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

The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry in British Columbia and Alberta due to its concentration of business in that sector. The Fund mitigates the risk by means of a diverse customer base in the construction (industrial, commercial, infrastructure, and residential) as well as other sectors, in which there was no single account receivable balance in excess of 10% of the Fund's consolidated accounts receivable balance as at December 31, 2010. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses.

Aging of receivables is as follows:

	December 31, 2010		December 31, 2009	
Trade receivables, gross				
Outstanding 1-30 days	\$	5,029,316	\$	3,852,073
Outstanding 30-60 days (past due)		2,629,517		1,275,828
Outstanding over 60 days (past due)		824,460		697,376
		8,483,293		5,825,277
Allowance for doubtful accounts		(163,135)		(239,032)
Trade receivables, net		8,320,158		5,586,245
Sales tax and other receivables		1,155,921		552,756
Accounts Receivable	\$	9,476,079	\$	6,139,001

(c) Liquidity risk

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

The Fund manages its liquidity risk through cash and debt management. As at December 31, 2010, the Fund had available unused approved credit facilities of \$4,418,986. The Fund also has accounts receivable of \$9,476,079, and cash and cash equivalents totalling \$3,991,637.

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

	1 year	2 years	3 years	4-5 years	beyond 5 years	Total	Carrying Value
Accounts payable and accrued liabilities	\$ 4,040,327					\$ 4,040,327	\$ 4,040,327
Distributions payable	694,452					694,452	694,452
Capital leases	218,523	207,202	234,163	181,241		841,129	732,278
Term mortgage	38,700	319,474				358,174	324,185
Interest rate swap	80,055					80,055	88,914
Capital and acquisition loans*	6,885,685	6,848,351	12,528,779	7,454,182		33,716,997	30,444,585
Debentures	12,373,932	2,346,000	2,346,000	29,946,000		47,011,932	32,883,247
Totals	\$24,331,674	\$ 9,721,027	\$ 15,108,942	\$37,581,423	\$ -	\$ 86,743,066	\$ 69,207,988

* The capital and acquisition loans are repayable on demand.

(d) Interest rate risk

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

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

For the twelve months ended December 31, 2010, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$309,944.

The Fund is managing its interest rate risk, in part, through an interest rate swap (see Note 6).

The Fund's Series A Debentures bear a fixed interest rate of 9.00% throughout the five-year term and thus are not exposed to any interest rate risk.

The Fund's 2010 Debentures bear a fixed interest rate of 8.50% throughout the five-year term and thus are not exposed to any interest rate risk.

The Fund's mortgage payable bears a fixed interest rate of 6.50% throughout the four-year term and thus is not exposed to any interest rate risk.

The Fund's capital leases payable bear fixed interest rates from 4.20% to 10.89% throughout the terms of the leases and thus are not exposed to any interest rate risk.

(e) Foreign exchange risk

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

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

As at December 31, 2010, the Fund's consolidated balance sheet included \$135,457 of accounts payable (2009 - \$440,247), and \$43,765 of cash (2009 - \$160,236) which were U.S. currency denominated.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At December 31, 2010 there were no foreign exchange contracts outstanding.

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16. RELATED PARTY TRANSACTIONS

(a) Purchase of equipment

During 2010, the Fund purchased equipment from a company in which a board member of the Fund has a controlling interest, for \$437,417 (2009 - \$336,972). These transactions arose during the normal course of business and have been recorded at fair market value.

(b) Rental obligations

The Fund currently rents premises in various locations from companies in which employees of the Fund hold certain interests. During 2010, the Fund has paid \$811,410 (2009 - \$801,541) in such rent. The rent between the parties is at fair market value.

17. UNIT BASED COMPENSATION

Since August 14, 2006, the Fund had a unit-based compensation plan in place, as described below. Grants under this plan are accounted for according to the fair value based method of accounting for unit-based compensation.

On February 10, 2010, the Fund's board of trustees granted options to senior executives, directors, trustees and certain employees to purchase, in aggregate, an additional 503,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.30. Vesting of the options occurs equally over the next five years.

A summary of the details of the options granted follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding, at December 31, 2008	463,000	\$ 4.90	\$ 4.90
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, at December 31, 2009	463,000	\$ 4.90	\$ 4.90
Granted	503,000	\$ 4.30	\$4.30
Exercised	-	-	-
Forfeited	9,000	\$4.30 – \$4.90	\$4.57
Outstanding, at December 31, 2010	957,000	\$4.30 – \$4.90	\$ 4.59
Weighted average fair value of options granted at December 31, 2010		\$ 0.44	

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The following table illustrates the fixed unit options outstanding, as of December 31, 2010:

Range of Exercise Prices:	Outstanding Options			Options Exercisable	
	Number Outstanding December 31, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2010	Weighted Average Exercise Price
\$ 4.90	459,000	7.5 years	\$ 4.90	184,200	\$ 4.90
\$ 4.30	498,000	9.2 years	\$ 4.30	-	\$ 4.30

The fair value of each option granted was estimated on the date of grant using the Black-Scholes options pricing model. The following table illustrates the assumptions of the model for options granted in 2010:

Grant date of options:	Annual Dividend Yield of Options	Volatility	Risk-Free Interest Rate	Expected life of the options
February 10, 2010	13.95%	49.13%	2.09%	10 years

18. SEGMENTED REPORTING

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

The Fund's business activity levels in the British Columbia 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. 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.

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

WesternOne Equity Income Fund

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

For the year ended December 31	British Columbia		Alberta		Consolidated	
	2010	2009	2010	2009	2010	2009
Total segment revenue	20,023,214	19,769,854	30,229,136	21,889,894	50,252,350	41,659,748
Earnings before interest, tax, depreciation, amortization, write-down of assets, and foreign exchanges gains/(losses)	3,768,838	4,901,279	9,704,190	6,947,314	13,473,028	11,848,593
Depreciation and amortization						
Property and equipment	4,722,939	4,611,113	4,040,418	2,561,447	8,763,357	7,172,560
Intangible and other assets	1,465,744	1,475,057	2,669,734	2,395,175	4,135,478	3,870,232
Identifiable assets excl goodwill	33,747,454	36,832,679	47,490,422	33,566,009	81,237,876	70,398,688
Goodwill	2,726,613	2,726,613	7,197,096	5,703,805	9,923,709	8,430,418
Total identifiable assets	36,474,067	39,559,292	54,687,518	39,269,814	91,161,585	78,829,106
Net purchases of property and equipment during the period (net of business acquisitions)	2,837,069	986,998	5,348,036	896,001	8,185,105	1,882,999

19. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2010, 713,539 Units were issued as a result of the conversion of \$2,963,000 of the Series A Debentures, thereby reducing the balance of Series A Debentures and increasing the balance of the unitholders' equity.