



MANAGEMENT'S DISCUSSION AND ANALYSIS

March 14, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

March 14, 2011

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, 2010. 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, achievements or industry results, to be materially different from any future results, performance, achievements or industry results 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 includes, but is not limited to, statements with respect to: the intention of the Fund to continue to make monthly cash distributions, 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 and the related impact on rental pricing, the Fund's ability to fund debt maturities, the ability to meet current and future obligations, the impact of the federal income tax changes 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.

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, financial health of the Fund's limited partnerships and cash flows, failure to realize

anticipated benefits of acquisitions, reliance on key personnel, competition for acquisition targets, interest rates, regulation, sensitivity to general economic conditions and levels of economic activity, financing constraints, supply disruptions, adverse weather condition, seasonality and fluctuations in results, growth initiatives, competition, discontinuation of tax incentives, labour shortages, employee relations, expansion, impact on demand due to interest rate changes, foreign exchange, resale of rental equipment, equipment availability, environmental regulation and health and safety matters, import product restrictions and foreign trade risks, 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 business performance, distributions are discretionary, nature of the Units (as defined under note 1 of the Financial Statements), leverage and restrictive covenants, limitations on future growth and cash flow, limited liability, unpredictability and volatility of Unit prices, attributes of securities distributed on redemption of Units of termination of the Fund, prior ranking indebtedness, conversion following certain transactions, dilution, investment eligibility, income tax matters, 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 businesses in the sector of construction and infrastructure services 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 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 Production Equipment Rentals Company. 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 is a major provider of rented heaters, generators and compact construction equipment to homebuilders and commercial builders in Calgary and Lethbridge, Alberta. On April 1, 2010, Deerfoot acquired the assets and the business of On*Site Equipment (“OnSite”). OnSite has a rental fleet of over 450 aerial and material-handling machines, and has operating locations in Edmonton, Red Deer, Calgary and Lethbridge.

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 Davis Heater Service Ltd. and Sure-Fire Propane 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 regions within the equipment rental, sales and service, and fuel wholesale and distribution industries – one based in British Columbia (the “BC Region”) and one in Alberta (the “Alberta Region”).

The BC Region began formally operating under a unified brand name, “WesternOne Rentals and Sales”, on July 3, 2008. The businesses in the Alberta Region were also integrated into the unified branding strategy in 2010, following the acquisition of OnSite in April 2010 and the ending of the franchise agreement with Volvo Rents in October 2010.

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 (the “Exchange”) under the respective symbols WEQ.UN, WEQ.DB and WEQ.DB.B.

SUMMARY FINANCIAL REVIEW

Following a third quarter which saw significant year-over-year growth in its operating results, the Fund continued to record strong growth for the three months ended December 31, 2010. Revenue, gross profit and EBITDA grew by 43.5%, 55.0% and 81.7%, respectively, compared to the fourth quarter in 2009. The increase was attributable to strong organic growth from the Fund’s existing businesses, which recorded increases of 20.5% and 54.7% in revenue and EBITDA, respectively, due to continued strength in the construction sector in Alberta, along with a robust filming sector in Metro Vancouver and an early arrival of winter in Northern Alberta which led to strong demand for heating fuel and related rentals. Incremental contributions from OnSite (acquired in April 2010) also generated \$2.38 million of revenue and \$0.72 million of EBITDA in the fourth quarter.

The strong operating results in the fourth quarter gave rise to a payout percentage of 58.5% for the quarter. For the year ended December 31, 2010, the payout percentage was 99.4%, which improved significantly from the trailing twelve months ratio of 124.4% as at September 30, 2010.

Summary Financial Overview

(\$000's, except per Unit amounts and percentages)	Three months ended			Year ended		
	December 31			December 31		
	2010	2009	2008	2010	2009	2008
Revenue	\$ 14,827	\$ 10,333	\$ 13,448	\$ 50,252	\$ 41,660	\$ 37,580
Cost of sales	(4,003)	(3,348)	(4,532)	(15,380)	(13,595)	(11,521)
Gross profit	10,824	6,985	8,916	34,872	28,065	26,059
<i>Gross margin</i>	<i>73.0%</i>	<i>67.6%</i>	<i>66.3%</i>	<i>69.4%</i>	<i>67.4%</i>	<i>69.3%</i>
Operating expenses ⁽¹⁾	(5,974)	(4,317)	(4,862)	(21,399)	(16,216)	(14,463)
EBITDA ⁽²⁾	4,850	2,668	4,054	13,473	11,849	11,596
Interest expense ⁽³⁾	(1,279)	(622)	(902)	(4,528)	(2,556)	(2,262)
Amortization, accretion and others ⁽⁴⁾	(3,731)	(3,059)	(2,395)	(13,493)	(11,292)	(6,039)
Franchise termination fees ⁽⁵⁾	-	-	-	(816)	-	-
Impairment of intangible assets ⁽⁵⁾	-	-	(3,515)	(910)	-	(3,566)
Loss before future income taxes	(160)	(1,013)	(2,758)	(6,274)	(1,999)	(271)
Future income tax recoveries	2	1,986	2,220	798	3,130	1,750
Net income/(loss)	\$ (158)	\$ 973	\$ (538)	\$ (5,476)	\$ 1,131	\$ 1,479
Adjustments:						
Franchise termination fees ⁽⁵⁾	-	-	-	816	-	-
Impairment of intangible assets ⁽⁵⁾	-	-	3,515	910	-	3,566
Adjusted net income/(loss) ⁽²⁾	\$ (158)	\$ 973	\$ 2,977	\$ (3,750)	\$ 1,131	\$ 5,045
Basic and diluted weighted avg income/(loss) per Unit	\$ (0.01)	\$ 0.07	\$ (0.04)	\$ (0.39)	\$ 0.08	\$ 0.12
Basic weighted avg income/(loss) per Unit - adjusted	(0.01)	0.07	0.25	(0.27)	0.08	0.42
Diluted weighted avg income/(loss) per Unit - adjusted	(0.01)	0.07	0.22	(0.27)	0.08	0.42
Total assets	\$ 91,162	\$ 78,829	\$ 87,655	\$ 91,162	\$ 78,829	\$ 87,655
Total long-term liabilities	24,615	9,698	9,385	24,615	9,698	9,385
Maintenance capital expenditure ⁽²⁾	104	203	297	865	563	563
Distributable cash generated ⁽²⁾	\$ 3,593	\$ 1,893	\$ 2,799	\$ 8,446	\$ 8,903	\$ 8,778
Distributable cash per Unit ⁽⁶⁾	0.2564	0.1356	0.2314	0.6035	0.6428	0.7361
Distributions declared	2,102	2,095	1,867	8,399	8,328	7,209
Distributions declared per Unit	0.1500	0.1500	0.1500	0.6000	0.6000	0.6000
Payout percentage ⁽⁷⁾	58.5%	110.6%	66.7%	99.4%	93.5%	82.1%

Notes:

- (1) Excludes items relating to interest, 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, impairment of assets and costs relating to the termination of the Volvo Rents franchise.
- (2) See definition of EBITDA, distributable cash, maintenance capital expenditures and adjusted net income/loss under "Non-GAAP Measures".
- (3) Net of interest income.
- (4) Includes amortization, accretion, gain/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) Related to the termination of the Volvo Rents franchise effective October 1, 2010 and the write-off of the associated intangible assets. The one-time, non-recurring cost relating to the franchise termination was excluded from EBITDA.
- (6) Calculated based on basic weighted average number of Units.
- (7) 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.

More detailed discussions of the financial results for the three and twelve months ended December 31, 2010 are provided under "Operating Results" below.

The Fund's revenue increased by 43.5%, or \$4.49 million, for the three months ended December 31, 2010 and 20.6%, or \$8.59 million, for the twelve months ended December 31, 2010 compared to the same periods a year ago. The increase was primarily driven by organic growth from the Fund's equipment rental, sales, fuel distribution and related businesses due to: 1) continued strength in Alberta's construction activity in the winter months, which led to strong demand for heating fuel and other heat-related products and services; and 2) a robust filming sector in Metro Vancouver, which increased demand for equipment rentals and related services. The revenue growth was also due to the addition of OnSite to the Fund's Alberta operation following its acquisition on April 1, 2010. OnSite contributed incremental revenue of \$2.38 million for the quarter and \$7.14 million since its acquisition.

Gross profit increased by 55.0%, or \$3.84 million, for the three months ended December 31, 2010 and 24.3% or \$6.81 million for the twelve months ended December 31, 2010, compared to the same periods a year ago. OnSite contributed \$2.05 million and \$5.94 million in the respective periods. Gross profit grew organically by 25.6% for the fourth quarter compared to a year ago.

Gross margin was 73.0% and 69.4% for the three and twelve months ended December 31, 2010, respectively, and improved from 67.6% and 67.4%, respectively, during the same periods a year ago.

Interest expense (net of interest income) was \$1.28 million or 8.6% of total revenue for the three months ended December 31, 2010 and \$4.53 million or 9.0% of total revenue for the twelve months ended December 31, 2010. This is compared to \$0.62 million (6.0% of total revenue) and \$2.56 million (6.1% of total revenue), respectively, for the same periods a year ago. The higher amount during 2010 was mainly due to additional interest payments for the 2010 Debentures, which were issued in February 2010. A portion of the net proceeds from the 2010 Debentures was used towards the acquisition of OnSite on April 1, 2010. The remainder of the 2010 Debentures was used towards repayment of debts and working capital requirements.

Amortization and accretion expenses were \$3.75 million or 25.5% of total revenue for the three months ended December 31, 2010 and \$13.48 million or 26.9% of total revenue for the twelve months ended December 31, 2010. This is compared to \$3.05 million (29.5% of total revenue) and \$11.27 million (27.0% of total revenue), respectively, for the same periods a year ago. The higher amount during 2010 was due to incremental amortization relating to the rental fleet equipment from the OnSite acquisition and incremental capital expenditures during the year.

Net loss was \$0.16 million or \$0.01 per Unit for the three months ended December 31, 2010 and \$5.48 million or \$0.39 for the twelve months ended December 31, 2010. This is compared to a net income of \$0.97 million (\$0.07 per Unit) and \$1.13 million (\$0.08 per Unit), respectively, for the same periods a year ago. Included in this year's figures was a cost of \$0.82 million relating to the termination of the Volvo Rents franchise, which the Fund announced on October 1, 2010 and incurred as a non-recurring expense in the quarter ended September 30, 2010. The Fund also recorded a write-down of \$0.91 million from its intangible assets in association with the termination of this franchise in the quarter ended September 30, 2010. Excluding these non-recurring items, adjusted net loss remained the same at \$0.16 million (\$0.01 per Unit) for the fourth quarter and \$3.75 million (\$0.27 per Unit) for the twelve months ended December 31, 2010.

Total assets were \$91.16 million as at December 31, 2010, compared to \$78.83 million a year ago. The difference was primarily due to incremental assets from the OnSite acquisition, 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 \$24.62 million as at December 31, 2010, compared to \$9.70 million a year ago. The difference was primarily due to the issuance of the 2010 Debentures (net of the associated equity

portion, which was recorded under Unitholders' Equity), partially offset by the reclassification of the Series A Debentures to current liabilities as they will mature on August 15, 2011.

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. The Fund has undepreciated capital costs and eligible capital properties which can be used for tax deductions when calculating taxable income.

The SIFT Tax also recharacterizes such distributions as eligible dividends received from a taxable Canadian corporation. Eligible dividend treatment for distributions to unitholders will generally be beneficial to Canadian resident investors holding their units in taxable accounts compared to the previous characterization primarily as ordinary income.

Future income taxes are recorded on the temporary differences arising between the accounting and tax bases of balance sheet assets and liabilities.

Under the SIFT Tax rules, the tax rate on the post-2010 reversal of temporary differences is estimated by the Fund to be 26.5% for 2011 and 25.0% thereafter. Temporary differences reversing prior to December 31, 2010 will give rise to nil future income taxes. Based on its assets and liabilities as at December 31, 2010, the Fund has estimated the amount of its temporary differences and the period in which these differences will reverse.

As a result of the SIFT Tax rules, Canadian accounting guidance required that the Fund record a cumulative future tax asset of \$7.13 million at the end of the fiscal year 2010. Accordingly, the Fund recorded an adjustment representing a non-cash, future income tax recovery of \$0.01 million and \$0.80 million, respectively, for the three and twelve months ended December 31, 2010.

OPERATING RESULTS

Basis of discussion and analysis

The Fund's operating results reflect its operations for the three and twelve months ended December 31, 2010. For the purposes of discussing operating results of the Fund under this section, only Business LPs that have operated for two full fiscal years prior to the year ended December 31, 2010 are included for discussion. This allows management to utilize financial information that is consistently maintained by the Fund to conduct year-over-year comparisons. In this case the operating results from all of PER, OCR, C&N, Deerfoot (excluding OnSite as it was acquired on April 1, 2010), H&P and overhead and other expenses at the Fund's corporate level are included for discussion.

Revenue

The following table summarizes the revenues (excluding OnSite) for the three and twelve months ended December 31, 2009 and 2010.

Summary of Revenues (\$000's)	Three months ended		Year ended		Increase/(Decrease)		Increase/(Decrease)	
	December 31		December 31		Three months ended		Year ended	
	2010	2009	2010	2009	December 31		December 31	
					\$	%	\$	%
Equipment Rentals	\$ 5,983	\$ 4,557	\$ 20,185	\$ 19,287	\$ 1,426	31.3%	\$ 898	4.7%
Equipment Sales	965	726	4,274	3,903	239	32.8%	371	9.5%
Parts, Fuel, Service and Others	5,503	5,050	18,657	18,470	453	9.0%	187	1.0%
Total Revenues	\$ 12,451	\$ 10,333	\$ 43,116	\$ 41,660	\$ 2,118	20.5%	\$ 1,456	3.5%

Revenue from equipment rentals of \$5.98 million for the three months ended December 31, 2010 increased by 31.3%, or \$1.42 million, compared to \$4.56 million a year ago. For the twelve months ended December 31, 2010, revenue from equipment rentals increased by 4.7%, to \$20.19 million from \$19.29 million a year ago. The increase in rental revenue was primarily due to the higher rental volume in the Fund's Southern Alberta operation. In addition to a robust single-home residential construction sector, the Fund's increased presence in the commercial construction sector led to higher fleet utilization in that region. The increase in rental revenue was also due to the higher demand for rental equipment from the robust film production sector in Metro Vancouver. The year-over-year revenue growth in the fourth quarter also resulted in an overall 4.7% increase for the year.

Revenue from equipment sales of \$0.97 million for the three months ended December 31, 2010 increased by 32.8%, or \$0.24 million, compared to \$0.73 million a year ago. For the twelve months ended December 31, 2010, revenue from equipment sales increased by 9.5%, to \$4.27 million from \$3.90 million a year ago. During 2010, C&N, the Fund's Northern Vancouver Island operation, entered into a dealership arrangement with Polaris Industries Inc. to sell all-terrain vehicles for construction, agricultural, forestry and recreational applications. This new line of products contributed \$0.10 million and \$0.52 million for the three and twelve months ended December 31, 2010, respectively. In addition, the retail sales of lawn and garden equipment and related merchandise at the Southern Vancouver Island operation grew by 24.4% and 22.4% for the three and twelve months ended December 31, 2010, respectively, from the same periods last year.

Revenue from parts, fuel, service and others of \$5.50 million for the three months ended December 31, 2010 increased by 9.0%, or \$0.45 million, compared to \$5.05 million a year ago. For the twelve months ended December 31, 2010, the revenue increased by 1.0%, to \$18.66 million from \$18.47 million a year ago. The increase in the fourth quarter revenue was primarily due to increased fuel sales, driven by higher commodity prices and the early arrival of winter in Alberta. Logistic-related revenue also increased as a result of the higher rental volume from the film production sector in Metro Vancouver and the commercial construction sector in Southern Alberta. The year-over-year revenue growth in the fourth quarter helped offset the slower construction heat season in the spring of 2010.

Gross margin and gross profit

Gross margin was 70.5% and 67.1% for the three and twelve months ended December 31, 2010, respectively. This is compared to 67.6% and 67.4% for the same periods a year ago. Gross profit increased by 25.6% for the three months ended December 31, 2010, to \$8.77 million from \$6.98 million a year ago and increased by 3.1% for the twelve months ended December 31, 2010, to \$28.94 million from \$28.06 million a year ago. The margin for the fourth quarter improved year-over-year primarily due to higher rental rates charged on specialty aerial equipment and related services in the film production sector.

Cost of sales

Cost of sales as a percentage of total revenue was 29.5% and 32.9% for the three and twelve months ended December 31, 2010, respectively, compared to 32.4% and 32.6% for the same periods a year ago.

Costs associated with equipment sales were 74.2% and 86.0% of equipment sales revenue for the three and twelve months ended December 31, 2010, compared to 78.9% and 90.7% for the same periods a year ago. 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 23.8% and 24.4% of total revenue for the three and twelve months ended December 31, 2010, respectively, compared to 26.9% and 24.1% for the same periods a year ago. Costs under this category relate mostly to purchases of fuel for the rental fleet and fuel distribution sales, expenditures of parts for the servicing of customers' equipment, and costs of re-renting equipment from other rental companies. The lower percentage in the fourth quarter compared to the same period last year was primarily due to the economy of scale from the higher rental volume. The higher percentage for the year ended December 31, 2010 was mainly due to higher fuel costs and higher re-rental costs to satisfy one-off demand from customers compared to the same period last year.

Operating expenses

Operating expenses, before interest, amortization, accretion, gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap, asset impairments and costs relating to the termination of the Volvo Rents franchise was 37.4% and 41.2% of total revenue for the three and twelve months ended December 31, 2010, respectively, compared to 41.7% and 38.8% for the same periods a year ago. The percentage for the fourth quarter reduced year-over-year as the higher revenue base improved the operating leverage. The higher percentage for the year ended December 31, 2010 was attributable to increased repairs and maintenance work on the equipment fleet and higher cartage costs as a result of increased deliveries and higher fuel prices.

EBITDA

EBITDA (for definition see "Non-GAAP Measures" below) as a percentage of total revenue was 33.2% and 25.9% for the three and twelve months ended December 31, 2010, compared to 25.8% and 28.4% for the same periods a year ago. Improvement in the EBITDA margin for the fourth quarter was primarily due to 1) increased demand for specialty aerial equipment rentals and related services in the film production sector; and 2) increased fuel sales in Alberta due to the early arrival of winter.

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 '10	Q3 '10	Q2 '10	Q1 '10	Q4 '09	Q3 '09	Q2 '09	Q1 '09
Revenue	\$ 14,827	\$ 11,220	\$ 11,160	\$ 13,045	\$ 10,333	\$ 7,741	\$ 9,485	\$ 14,100
Cost of sales	(4,003)	(3,217)	(3,408)	(4,752)	(3,348)	(2,247)	(2,991)	(5,008)
Gross profit	10,824	8,003	7,752	8,293	6,985	5,494	6,494	9,092
<i>Gross margin</i>	73.0%	71.3%	69.5%	63.6%	67.6%	71.0%	68.5%	64.5%
Operating expenses	(5,974)	(5,595)	(5,416)	(4,414)	(4,317)	(3,910)	(3,910)	(4,080)
EBITDA ⁽¹⁾	\$ 4,850	\$ 2,408	\$ 2,336	\$ 3,879	\$ 2,668	\$ 1,584	\$ 2,584	\$ 5,012
Net income/(loss)	\$ (158)	\$ (3,610)	\$ (1,887)	\$ 180	\$ 973	\$ (1,649)	\$ (372)	\$ 2,180
Income/(Loss) per Unit								
Basic	(0.01)	(0.26)	(0.13)	0.01	0.07	(0.12)	(0.03)	0.16
Diluted	(0.01)	(0.26)	(0.13)	0.01	0.07	(0.12)	(0.03)	0.15
Distributable cash generated ⁽¹⁾	\$ 3,593	\$ 1,004	\$ 811	\$ 3,038	\$ 1,893	\$ 883	\$ 1,826	\$ 4,300
Distributable cash per Unit ⁽²⁾	0.2564	0.0717	0.0579	0.2175	0.1356	0.0634	0.1314	0.3163
Distribution declared	\$ 2,102	\$ 2,102	\$ 2,099	\$ 2,096	\$ 2,095	\$ 2,092	\$ 2,085	\$ 2,057
Distribution per Unit	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500
Payout percentage ⁽³⁾	58.5%	209.3%	259.0%	69.0%	110.6%	236.9%	114.2%	47.8%

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. Calculated as distribution declared divided by distributable cash generated.

Seasonality

The seasonality of the Fund's business impacts its operating results as follows: the Fund's aerial and general rentals business is 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 compensate for the slow winter business cycle in the aerial and general rentals sector. 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 the 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, 2010.

Summary of cash flows (\$000's)	Three months ended		Year ended	
	December 31		December 31	
	2010	2009	2010	2009
Net change of cash related to:				
Operations				
Cash generated from operating earnings	\$ 3,522	\$ 2,054	\$ 8,213	\$ 9,505
Changes from non-cash working capital	(5,164)	(2,145)	(2,321)	838
Investing	(2,622)	(760)	(19,864)	(774)
Financing	(762)	(2,429)	15,894	(9,514)
Net change in cash during the period	\$ (5,026)	\$ (3,280)	\$ 1,922	\$ 55

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 \$2.61 million as at December 31, 2010.

Working capital management continues to be an important element of cash generation for the Fund. As at December 31, 2010, 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 \$31.16 million as at December 31, 2010. 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, distributions payable, unearned revenue, financial derivatives, the current portion of capital lease obligations and term mortgage payable, and Series A Debentures which will mature on August 15, 2011. As at December 31, 2010, the working capital deficiency included \$30.44 million of capital and acquisition loans. As at December 31, 2010, the outstanding capital and acquisition loans were advanced from the Bank with maturity dates ranging from February 2013 to November 2015. Since the capital and acquisition loans could be repayable on demand before their maturity dates, they were classified as current liabilities in the financial statements of the Fund. As at December 31, 2010, 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. The Fund had total cash and cash equivalents of \$3.99 million as at December 31, 2010. For the twelve months ended December 31, 2010, the Fund generated \$5.89 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, 2010, the Fund generated cash of \$3.52 million from operating earnings. This is offset by \$5.16 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 the winter. The changes from non-cash working capital represented a normal course of fluctuation in the Fund's businesses.

During the three months ended December 31, 2010, the Fund purchased rental equipment and other operating assets of \$3.16 million and received proceeds of \$0.54 million from sales of fleet equipment. The Fund also received net bank financing of \$1.34 million for capital expenditures of fleet equipment and distributed \$2.10 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, 2010, the Fund had available unused approved credit facilities (operating, capital and acquisition loans combined) of \$4.42 million. The Fund also had accounts receivable of \$9.48 million and cash and cash equivalents totaling \$3.99 million. Management expects to discharge the Fund's liabilities by means of cash flow generated from operations, existing cash reserves and refinancing of debt instruments.

As at December 31, 2010, the timing of cash outflows relating to financial liabilities are outlined in the table below:

in \$000's	1 year	2 years	3 years	4-5 years	Total	Carrying value
Accounts payable and accrued liabilities	\$ 4,040				\$ 4,040	\$ 4,040
Distributions payable	694				694	694
Capital leases	219	207	234	181	841	732
Term mortgage	39	319			358	324
Interest rate swap	80				80	89
Capital and acquisition loans ⁽¹⁾	6,886	6,848	12,529	7,454	33,717	30,445
Convertible debentures ⁽²⁾	12,374	2,346	2,346	29,946	47,012	32,883
	\$ 24,332	\$ 9,720	\$ 15,109	\$ 37,581	\$ 86,742	\$ 69,207

Note:

(1) The capital and acquisition loans are repayable on demand. The cash outflow reflects the scheduled repayment term.

(2) The Series A Debentures will mature on August 15, 2011. At maturity, at the Fund's sole option, 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.

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, 2010, \$31.72 million of capital and acquisition loans were approved by the Bank and \$30.44 million were outstanding.

The Fund's 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 Series A Debentures that will mature on August 15, 2011 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.

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, future cash requirements and projected accretion from newly acquired businesses. It is the Fund's normal policy not to distribute 100% of distributable cash (for definition see "Non-GAAP Measures" below) on a calendar year basis in order to address the seasonality nature of the business and unforeseen events, should they occur. With respect to

the Fund's ongoing strategy of monthly distributions, management and the board of Trustees consider the current and projected business activity level of the Fund's existing operations as well as impact from the projected accretion from the recent acquisition of OnSite. While it is the Fund's policy to make stable monthly distributions to Unitholders, unforeseen events may occur and cause the board of Trustees to decide to reduce or suspend monthly distributions temporarily or permanently.

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	2011
January		\$ 0.0408	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0500
February		0.0408	0.0500	0.0500	0.0500	0.0500 ⁽²⁾
March		0.0450	0.0500	0.0500	0.0500	
April		0.0450	0.0500	0.0500	0.0500	
May		0.0450	0.0500	0.0500	0.0500	
June		0.0500	0.0500	0.0500	0.0500	
July		0.0500	0.0500	0.0500	0.0500	
August	\$ 0.0224 ⁽¹⁾	0.0500	0.0500	0.0500	0.0500	
September	0.0408	0.0500	0.0500	0.0500	0.0500	
October	0.0408	0.0500	0.0500	0.0500	0.0500	
November	0.0408	0.0500	0.0500	0.0500	0.0500	
December	0.0608	0.0500	0.0500	0.0500	0.0500	
Total	\$ 0.2056	\$ 0.5666	\$ 0.6000	\$ 0.6000	\$ 0.6000	\$ 0.1000

Notes:

- (1) 17-day period from August 15-31, 2006.
- (2) Declared on February 16, 2011.

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, 2010.

Reconciliation of cash flow from operating activities to distributable cash (\$000's, except for per Unit amounts and percentages)	Three months ended	Year ended
	December 31, 2010	December 31, 2010
Cash flow from operating activities	\$ (1,642)	\$ 5,892
Changes in non-cash working capital balances	5,164	2,321
	3,522	8,213
Loss on sale of assets	175	282
Maintenance capital expenditure ⁽¹⁾	(104)	(865)
Franchise termination fees ⁽²⁾	-	816
Distributable cash generated ⁽¹⁾	\$ 3,593	\$ 8,446
Distributions declared	\$ 2,102	\$ 8,399
Distributable cash generated per Unit	\$ 0.2564	\$ 0.6035
Distributions declared per Unit	0.1500	0.6000
Payout percentage ⁽³⁾	58.5%	99.4%
Net income/(loss)	\$ (158)	\$ (5,476)
Deficit of net loss below distributions declared	\$ (2,260)	\$ (13,875)

Notes:

- (1) See definition of "maintenance capital expenditures" and "distributable cash" under "Non-GAAP Measures" below.
- (2) Related to the termination of the Volvo Rents franchise effective October 1, 2010. The one-time, non-recurring cost relating to the franchise termination was excluded from distributable cash.
- (3) 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, write-down of fleet assets, intangible assets and goodwill, and non-recurring items such as the costs relating to the termination of the Volvo Rents franchise. 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 and fees related to the termination of the Volvo franchise. 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 rentable equipment fleet (defined as equipment that has generated rental revenue equal to or exceeding 10% of the original acquisition cost of such equipment in the immediately preceding 12 months) 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 and the related net book value upon the disposition of such equipment, plus the cost of replacement of operating assets.

OFF-BALANCE SHEET FINANCING

The Fund has no off-balance sheet arrangements, except for the operating leases relating to the Fund’s various operating assets, as disclosed in note 11(a) of the Financial Statements. The operating lease arrangements represent a normal course of the Fund’s businesses.

CONTRACTUAL OBLIGATIONS

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

Loans payable (\$000's)	2011	2012	2013	2014	2015
Loans Payable	\$ 5,559	\$ 5,850	\$ 11,931	\$ 4,163	\$ 2,968

The Fund has the following rental, term mortgage, capital lease and operating lease commitments:

Contractual obligations (\$000's)	2011	2012	2013	2014	2015	Thereafter
Rental commitments	\$ 1,809	\$ 1,565	\$ 1,288	\$ 899	\$ 649	\$ 2,632
Term Mortgage	18	310	-	-	-	-
Capital leases	219	207	234	163	18	-
Operating leases	411	242	101	33	-	-
	\$ 2,457	\$ 2,324	\$ 1,623	\$ 1,095	\$ 667	\$ 2,632

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 2010, 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, 2010, the cash available for distribution per Unit did not exceed the threshold. Accordingly, no payments were approved under the LTIP for the 2010 fiscal year.

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 March 17, 2009, the Trustees approved the amendment to the WesternOne Equity Incentive Unit Option Plan by changing the maximum number of Units 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 10, 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 and 9,000 options had been forfeited and cancelled due to the departure of an employee.

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 \$93,102 (2009 - \$52,842) and \$437,417 (2009 - \$336,972) during the three and twelve months ended December 31, 2010, 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 \$204,941 (2009 - \$200,000) and \$811,410 (2009 - \$801,541) aggregately in rent to such companies during the three and twelve months ended December 31, 2010, 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.

FUND UNITS AND PRINCIPAL UNITHOLDERS

As at the date of this MD&A, 14,602,559 Units are issued and outstanding, each of which entitles the holder to one vote at Unitholder meetings. Furthermore, 65,309 Series A Debentures and 27,600 2010 Debentures are issued and outstanding with an outstanding balance of \$6.53 million and \$27.60 million respectively. Upon conversion of Series A Debentures and 2010 Debentures, an additional 1,554,976 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, term mortgage, capital and acquisition loans, financial derivatives not designated in an effective hedging relationship, Series A Debentures and 2010 Debentures. These financial instruments arise from the Fund's normal course of business, with respect to the financing of its day-to-day operations, capital expenditures and acquisitions.

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 carrying values of the capital and acquisition loans approximate their fair values as the related interest rates of the loans were at market as at December 31, 2010. The Fund has considered credit risk in making this determination and concluded no material adjustments would be required. The fair values 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. The fair values of Series A Debentures and 2010 Debentures are determined based on the closing prices at the Exchange as at December 31, 2010.

As required by Canadian GAAP, the Fund separated the liability and equity component of each of the Fund's convertible debentures. Proceeds from the issuance of the Fund's convertible debentures were allocated to the equity and liability components of the convertible 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 convertible debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying convertible debentures are converted into Units.

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 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, 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. As at December 31, 2010, the Fund had provisions for potential uncollectible accounts receivable of \$0.16 million and the related bad debt expense is classified as an operating expense in the Fund's income statement.

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 term mortgage, Series A Debentures and 2010 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. 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. Interest expense is classified as part of operating expenses in the Fund's income statement.

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 rates.

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. For the twelve months ended December 31, 2010, the Fund recorded foreign exchange losses of \$1,538. Foreign exchange gains or losses are classified as part of operating expenses in the Fund's income statement.

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 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 2011, 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, 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, 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, 2010 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.

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 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 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

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.

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. 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

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

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

Status: Completed

Phase 2: Standards analysis

- a. Analysis of the difference between GAAP and IFRS.

- b. Selection of the accounting policies that the Fund will apply on an ongoing basis.
- c. The Fund's selection of IFRS 1 exemptions at the date of transition which is January 1, 2010 (the "Transition Date"), calculation of the quantitative impact on the consolidated financial statements and disclosure analysis.

Status: Completed

Phase 3: Implementation

- a. Preparation of the opening balance sheet at the Transition Date.
- b. Production of template for the interim and annual consolidated financial statements and the associated disclosure for the fiscal year ending December 31, 2011.
- c. 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.

Status: Substantially completed. Certain financial reporting processes, business processes and internal controls are being reassessed as a result of the new IFRS guidance and developments.

Based on the work that has been completed to date, the Fund has identified the following key areas that may have a significant effect in converting its GAAP balance sheet to its opening IFRS statement of financial position on the Transition Date. The expected impacts are as follows:

1. Classification of the Fund's Units

The Fund's Units are currently classified as equity under GAAP. According to IFRS, the Units should be classified as liability as the Fund's declaration of trust contains an annual distribution requirement to distribute all undistributed income within the Fund, which constitutes a contractual obligation to deliver cash under International Accounting Standards ("IAS") 32. The related transaction costs incurred for issuing the Units are charged to retained earnings of the Fund. As a result, on transition to IFRS, the Fund's liabilities will increase and equity will decrease. Consequently, distributions declared after the Transition Date will be recorded as part of the Fund's comprehensive income as they would be categorized as expense. The Fund will account for the Units using the amortized cost method. The Fund is currently evaluating whether the Units, as a liability, would be considered current or long-term.

2. Convertible debentures

The Fund's Series A and 2010 Debentures will be affected in the following ways:

- a) Under GAAP, the Fund separated the debt and equity components of the convertible debentures by using the residual method, whereby the Fund determined the fair value of the equity component of the convertible debentures (i.e. the conversion feature), and then subtracted it from the fair value of the instrument as a whole to arrive at the value of the liability component. Under IFRS, while the bifurcation of the convertible debentures would still need to take place, it is the liability component which needs to be valued initially, with the equity component being assigned the residual value. This would normally have an effect on the Fund's statement of financial position, however, since the Fund's Units are to be classified as a liability (as described above), the convertible debentures cease to have an equity component to them, and as a result, are not bifurcated.

- b) Under GAAP, the carrying value of the liability portion of the Fund's convertible debentures are based on their amortized cost. However, since the debentures will not have an equity component and will be considered a liability in their entirety (as described above), IFRS allows the Fund to determine the carrying value of its convertible debentures based on their fair market values. The Fund elected to use the fair market values of the convertible debentures in determining their carrying values, as these values are readily available given the Fund's convertible debentures are traded publicly on the Exchange, and thus, would provide more meaningful information to Unitholders. As a result, on transition to IFRS, the Fund's liabilities will increase. Subsequent to the Transition Date, the Fund will need to mark its convertible debentures to market at the end of each reporting period and the difference in fair values of the convertible debentures will be recorded as part of the Fund's comprehensive income.

Other significant IFRS elections that the Fund has made 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 has assessed the impact of the mandatory exceptions and made elections from the available options under IFRS 1.

As a result of the assessment, the Fund has elected not to apply IFRS 3 retrospectively before the Transition Date. The Fund has also elected to measure its property, plants and equipments at historical cost under IFRS.

2. Impairment of assets

According to IAS 36, an impairment loss is recognized if an asset's or cash generating unit's (including goodwill) carrying value exceeds its recoverable amount. GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36 uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows). This may potentially result in write-downs where the carrying value of assets were previously supported under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This difference could lead to income statement and earnings volatility in future periods, but is not expected to have a significant impact on the Fund's opening IFRS statement of financial position on the Transition Date.

The Fund is in the final stage in assessing the effect of IFRS on operations and business processes as follows:

1. Information system and business process

The Fund has substantially completed the assessment of changes required to the Fund's information system, accounting and business processes. To date, no significant requirements of changes were identified. The Fund is also in the process of assessing the impact of IFRS on the Fund's covenants.

2. Internal controls over financial reporting

The Fund has substantially completed the assessment of additional control requirements as a result of changes to the Fund's operating and financial reporting processes. To date, no significant requirements of changes to internal controls were identified. The Fund is also performing an assessment to identify key disclosures under IFRS and the potential additional control requirements.

3. Training and financial reporting expertise

The Fund engaged additional financial reporting consultants to assist with the IFRS transition. The Fund's financial reporting professionals have attended training sessions and seminars in order to familiarize themselves with IFRS. The Fund's audit committee Chairman has completed a certification program from the Institute of Chartered Accountants of England and Wales. Other members of the Fund's audit committee and board of directors and Trustees continue to receive IFRS briefings and updates from the Fund's auditor and financial reporting professionals to ensure they are IFRS literate. In addition, the members of the board and audit committee receive briefings from auditors and management on the latest IFRS developments.

RISKS AND UNCERTAINTIES

For risks and uncertainties associated with the Fund, refer to the Fund's Annual Information Form dated March 31, 2010. 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

The Fund's ability to grow successfully through add-on acquisitions and rental fleet capital expenditures is dependent on its ability to obtain financing. There can be no assurance that the Fund will be able to access financing on satisfactory terms and prices. Failure to access future financing may adversely affect the Fund's ongoing operations and execution of the growth strategy.

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. As mentioned in "Cash Flow and Liquidity" above, the Fund's senior credit facility is repayable on demand, although scheduled repayment terms occur over the next five years. While the Fund has made all monthly debt repayments according to the Bank's payment schedule and was in compliance with all bank covenants as at December 31, 2010, the Bank may demand immediate repayment of the entire credit facility. In such an event, the Fund may need to refinance the credit facility either by way of issuing Units or debentures, or reducing or eliminating distributions.

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 and make interest and principal payments on the Series A Debentures and 2010 Debentures when due is dependent on the cashflow 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 and payments to holders of Series A Debentures and 2010 Debentures.

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, including the Business LPs. Cash distributions to Unitholders and interest and principal payments to the Series A Debentures and 2010 Debentures holders 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 GP Inc., 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 Series A Debentures and 2010 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 each business it purchases, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of each such business. Until the Fund actually assumes operating control of 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 is 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; 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.

In addition, the Business LPs' abilities to successfully expand through opening new branches is dependent upon many factors, including their ability to: negotiate acceptable lease terms for additional sites in both new and existing markets; effectively hire, train, manage and retain qualified personnel; create brand awareness in new markets; and successfully enter and compete in new geographic markets in which the Fund has no previous experience.

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, 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. On the other hand, unseasonably warm weather in the winter may reduce demand for heating fuel and related equipment rentals. 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, 2010, the Fund's consolidated balance sheet included \$135,457 of accounts payable and \$43,765 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.

Income tax matters

Under the SIFT Tax rules, which are discussed in detail under "Future Income Taxes", commencing 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.

The payment for the SIFT Tax may reduce the cash flow of the Fund, thereby reducing the amount available for distribution to Unitholders. 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, 2010, 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, 2010.

There has been no change in the Fund's DC&P and ICFR that occurred during the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Fund's DC&P and ICFR.

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”.

The Fund has benefited from the gradual economic recovery in 2010, particularly in the second half of the year when it recorded positive year-over-year organic growth. Management attributes the growth to the strong construction activity in Alberta, a stabilized construction climate in BC, and a rebound in the filming and oil & gas sectors which are the Fund’s key niche markets.

Management sees improving market conditions continuing, taking into account factors such as the low interest rate environment, recent strength in the resource-based economy in Western Canada (oil & gas, precious metals, forestry), and favourable government policies in areas such as film production tax credits and infrastructure project roll-outs. In respect of the high Canadian dollar, management sees the related impact on the Fund’s business, particularly the shipyard sector (as the higher Canadian dollar makes it less attractive for US cruise ships to come to Canada for maintenance) to be largely offset by the net benefit from the Fund’s ability to source cheaper rental fleet equipment in the US, as well as management’s focus on increasing business volume with Canadian-based businesses such as BC Ferries.

Management seeks future organic growth through leveraging its integrated network of 12 operations and its unified brand name, “WesternOne Rentals & Sales”. The network of complete equipment rental and fuel distribution solutions allows the Fund’s operation to mobilize fleet efficiently, while the integrated marketing strategy identifies cross-selling opportunities within the Fund’s existing markets and product offerings.

Management continues to actively review its rental fleet condition and execute a growth capital expenditure strategy through selectively purchasing high-utilization equipment in order to meet the future market demands. Furthermore, management continues to seek external growth through identifying accretive acquisition opportunities in the construction and infrastructure services sector.

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.

For more information, please contact:

Carlos Yam, Chief Financial Officer
WesternOne Equity Income Fund
Suite 910, 925 West Georgia Street
Vancouver, BC V6C 3L2
Phone: (604) 678-4042
E-mail: cyam@weq.ca

INVESTOR RELATIONS

For investor relations information, please contact:

Andrew Greig, Manager of Investor Relations
WesternOne Equity Income Fund
Suite 910, 925 West Georgia Street
Vancouver, BC V6C 3L2
Phone: (604) 678-4042
E-mail: agreig@weq.ca

TRADING SYMBOLS

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