



---

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*For the Three and Nine Months ended September 30, 2010 and 2009*

---

WESTERNONE EQUITY INCOME FUND

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



**MANAGEMENT'S COMMENTS ON  
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of WesternOne Equity Income Fund (the "Fund") have been prepared by and are the responsibility of the Fund's management. The unaudited interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

The Fund's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

WESTERNO ONE EQUITY INCOME FUND

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

## WesternOne Equity Income Fund

### INTERIM CONSOLIDATED BALANCE SHEETS

	As at September 30, 2010 (Unaudited)	As at December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,017,616	\$ 2,069,887
Accounts receivable	5,811,000	6,139,001
Inventories	1,960,230	1,454,686
Deposits and prepaid expenses	683,616	511,944
	<u>17,472,462</u>	<u>10,175,518</u>
PROPERTY AND EQUIPMENT (Note 3)	35,371,873	29,536,303
INTANGIBLE ASSETS (Note 4)	23,119,244	24,353,964
GOODWILL	9,923,709	8,430,418
FUTURE INCOME TAXES (Note 7)	7,128,324	6,332,903
	<u>\$ 93,015,612</u>	<u>\$ 78,829,106</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Operating loans (Note 5)	\$ 1,167,047	\$ 1,740,870
Accounts payable and accrued liabilities	5,434,492	3,293,896
Distributions payable	694,452	691,932
Current portion of equipment financing payable	35,291	70,487
Current portion of capital leases obligation (Note 11)	117,626	146,306
Current portion of term mortgage (Note 6)	17,654	16,815
Unearned revenue	75,874	73,876
Financial derivatives (Note 5)	135,580	-
Series A Debentures (Note 8)	9,009,151	-
Capital and acquisition loans (Note 5)	30,526,711	32,767,926
	<u>47,213,878</u>	<u>38,802,108</u>
EQUIPMENT FINANCING PAYABLE	7,207	31,860
CAPITAL LEASES OBLIGATION (Note 11)	368,296	267,767
TERM MORTGAGE (Note 6)	310,202	321,626
FINANCIAL DERIVATIVES (Note 5)	-	302,686
SERIES A DEBENTURES (Note 8)	-	8,805,704
2010 DEBENTURES (Note 8)	23,597,149	-
	<u>71,496,732</u>	<u>48,531,751</u>
UNITHOLDERS' EQUITY	21,518,880	30,297,355
	<u>\$ 93,015,612</u>	<u>\$ 78,829,106</u>

COMMITMENTS (Note 10)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

"Darren Latoski"

Trustee

"Douglas Scott"

Trustee

See accompanying Notes to the Interim Consolidated Financial Statements

## WesternOne Equity Income Fund

### INTERIM CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY (Unaudited)

	Fund Units (Note 9)	Contributed Surplus	Equity component of convertible debentures (Note 8)	Retained earnings/(deficit)	Total Unitholders' Equity
<b>BALANCE, December 31, 2008</b>	<b>39,822,704</b>	<b>24,926</b>	<b>1,092,570</b>	<b>(5,642,829)</b>	<b>35,297,371</b>
Issuance of Units (net of issuance costs)	1,924,805				1,924,805
Employee unit-based compensation for the period		12,644			12,644
Net and comprehensive income for the period				2,179,483	2,179,483
Distributions declared				(2,057,146)	(2,057,146)
<b>BALANCE, March 31, 2009</b>	<b>41,747,509</b>	<b>37,570</b>	<b>1,092,570</b>	<b>(5,520,492)</b>	<b>37,357,157</b>
Employee unit-based compensation for the period		12,784			12,784
Net and comprehensive loss for the period				(371,603)	(371,603)
Distributions declared				(2,085,079)	(2,085,079)
<b>BALANCE, June 30, 2009</b>	<b>41,747,509</b>	<b>50,354</b>	<b>1,092,570</b>	<b>(7,977,174)</b>	<b>34,913,259</b>
Issuance of units upon exercise of agent options	220,885				220,885
Employee unit-based compensation for the period		12,925			12,925
Net and comprehensive loss for the period				(1,648,939)	(1,648,939)
Distributions declared				(2,091,624)	(2,091,624)
<b>BALANCE, September 30, 2009</b>	<b>41,968,394</b>	<b>63,279</b>	<b>1,092,570</b>	<b>(11,717,737)</b>	<b>31,406,506</b>
<b>BALANCE, December 31, 2009</b>	<b>41,968,394</b>	<b>76,203</b>	<b>1,092,570</b>	<b>(12,839,812)</b>	<b>30,297,355</b>
Issuance of units upon conversion of Series A Debentures	48,472		(5,358)		43,114
Equity component of 2010 Debentures			2,587,932		2,587,932
Employee unit-based compensation for the period		17,177			17,177
Net and comprehensive income for the period				179,975	179,975
Distributions declared				(2,095,574)	(2,095,574)
<b>BALANCE, March 31, 2010</b>	<b>42,016,866</b>	<b>93,380</b>	<b>3,675,144</b>	<b>(14,755,411)</b>	<b>31,029,979</b>
Issuance of units upon conversion of Series A Debentures	90,737		(9,823)		80,914
Employee unit-based compensation for the period		21,204			21,204
Net and comprehensive loss for the period				(1,887,643)	(1,887,643)
Distributions declared				(2,099,029)	(2,099,029)
<b>BALANCE, June 30, 2010</b>	<b>42,107,603</b>	<b>114,584</b>	<b>3,665,321</b>	<b>(18,742,083)</b>	<b>27,145,425</b>
Issuance of units upon conversion of Series A Debentures	72,412		(8,035)		64,377
Employee unit-based compensation for the period		21,436			21,436
Net and comprehensive loss for the period				(3,610,255)	(3,610,255)
Distributions declared				(2,102,103)	(2,102,103)
<b>BALANCE, September 30, 2010</b>	<b>42,180,015</b>	<b>136,020</b>	<b>3,657,286</b>	<b>(24,454,441)</b>	<b>21,518,880</b>

See accompanying Notes to the Interim Consolidated Financial Statements

WesternOne Equity Income Fund

INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(Unaudited)

	Three-month period ended September 30, 2010	Three-month period ended September 30, 2009	Nine-month period ended September 30, 2010	Nine-month period ended September 30, 2009
REVENUE				
Equipment rental	\$ 6,403,970	\$ 4,314,948	\$ 17,343,027	\$ 14,729,886
Equipment sales	1,499,470	800,238	4,057,048	3,176,634
Parts, fuel, service and others	3,316,579	2,626,235	14,025,097	13,419,741
	<u>11,220,019</u>	<u>7,741,421</u>	<u>35,425,172</u>	<u>31,326,261</u>
COST OF SALES				
Equipment sold	1,345,723	783,132	3,534,839	2,966,374
Parts, fuel, service and others	1,871,590	1,464,060	7,842,419	7,279,707
	<u>3,217,313</u>	<u>2,247,192</u>	<u>11,377,258</u>	<u>10,246,081</u>
GROSS PROFIT	<u>8,002,706</u>	<u>5,494,229</u>	<u>24,047,914</u>	<u>21,080,180</u>
OPERATING EXPENSES				
General and administrative	2,448,785	1,854,080	6,775,883	5,435,322
Freight	1,164,804	685,815	3,023,072	2,011,992
Service	1,189,914	753,247	3,447,451	2,671,698
Sales	810,561	598,521	2,165,323	1,737,719
Interest	1,248,574	636,005	3,283,702	1,951,520
Amortization and depreciation	3,230,563	2,650,325	9,308,542	8,051,206
Accretion of debentures	161,013	57,033	416,902	168,219
	<u>10,254,214</u>	<u>7,235,026</u>	<u>28,420,875</u>	<u>22,027,676</u>
OTHER EXPENSES				
(Gain)/loss on derivatives (Note 5)	(5,498)	32,157	14,682	38,743
Franchise termination fee (Note 4)	815,976	-	815,976	-
Impairment of intangible assets (Note 4)	909,725	-	909,725	-
	<u>1,720,203</u>	<u>32,157</u>	<u>1,740,383</u>	<u>38,743</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(3,971,711)	(1,772,954)	(6,113,344)	(986,239)
FUTURE INCOME TAX RECOVERIES (Note 7)	(361,456)	(124,015)	(795,421)	(1,145,180)
NET AND COMPREHENSIVE INCOME/(LOSS)	<u>\$ (3,610,255)</u>	<u>\$ (1,648,939)</u>	<u>\$ (5,317,923)</u>	<u>\$ 158,941</u>
Basic and diluted weighted average income/(loss) per unit	\$ (0.26)	\$ (0.12)	\$ (0.38)	\$ 0.01
Basic and diluted weighted average number of units outstanding	14,009,781	13,931,873	13,989,314	13,812,425

See accompanying Notes to the Interim Consolidated Financial Statements

**WesternOne Equity Income Fund**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three-month period ended September 30, 2010	Three-month period ended September 30, 2009	Nine-month period ended September 30, 2010	Nine-month period ended September 30, 2009
<b>OPERATING ACTIVITIES</b>				
Net income/(loss)	\$ (3,610,255)	\$ (1,648,939)	\$ (5,317,923)	\$ 158,941
Items not affecting cash -				
Amortization of property and equipment	2,167,351	1,682,767	6,211,977	5,148,532
Amortization of intangible assets	1,063,212	967,558	3,096,565	2,902,674
Interest expense relating to amortization of transaction costs	147,212	95,475	384,357	266,082
Accretion of debentures	161,013	57,033	416,902	168,219
Future income tax recoveries	(361,456)	(124,015)	(795,421)	(1,145,180)
Gain on derivatives	(58,904)	(41,046)	(167,106)	(167,747)
Unit-based compensation	21,436	12,925	59,817	38,353
Franchise termination fee	815,976	-	815,976	-
Impairment of intangible assets	909,725	-	909,725	-
Loss/(gain) on sale of property and equipment	(43,094)	62,283	(107,799)	81,151
	<u>1,212,216</u>	<u>1,064,041</u>	<u>5,507,070</u>	<u>7,451,025</u>
Changes in non-cash working capital balances -				
Accounts receivable	(429,828)	(181,162)	1,125,031	4,157,250
Inventories	(154,831)	(22,359)	(198,471)	(62,594)
Deposits and prepaid expenses	(210,067)	(125,571)	(110,023)	(25,780)
Accounts payable and accrued liabilities	1,531,726	259,757	2,024,607	(1,042,316)
Unearned revenue	27,691	30,979	1,998	(43,071)
	<u>1,976,907</u>	<u>1,025,685</u>	<u>8,350,212</u>	<u>10,434,514</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(2,769,180)	(330,929)	(5,024,231)	(948,153)
Proceeds from the sale of property and equipment	811,796	373,191	1,541,212	933,882
Payment for franchise termination	(815,976)	-	(815,976)	-
Acquisitions	-	-	(13,759,353)	-
	<u>(2,773,360)</u>	<u>42,262</u>	<u>(18,058,348)</u>	<u>(14,271)</u>
<b>FINANCING ACTIVITIES</b>				
Distributions paid	(2,101,235)	(2,088,468)	(6,294,187)	(6,202,760)
Units issued for cash (net of expenses)	-	220,885	-	2,145,690
Debentures issued for cash (net of expenses)	-	-	25,866,841	-
Repayment of term mortgage	(4,192)	(3,925)	(12,492)	(11,709)
Repayment of loans payable	3,229,903	(176,160)	(2,904,297)	(3,015,959)
	<u>1,124,476</u>	<u>(2,047,668)</u>	<u>16,655,865</u>	<u>(7,084,738)</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS DURING THE PERIOD</b>	<u>328,023</u>	<u>(979,721)</u>	<u>6,947,729</u>	<u>3,335,505</u>
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>8,689,593</u>	<u>6,329,720</u>	<u>2,069,887</u>	<u>2,014,494</u>
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<u>\$ 9,017,616</u>	<u>\$ 5,349,999</u>	<u>\$ 9,017,616</u>	<u>\$ 5,349,999</u>
Supplemental cash flow information:				
Interest received	13,497	4,397	34,621	18,277
Interest paid	1,155,136	613,733	3,084,753	1,891,928
Conversion of convertible debentures into fund units	72,412	-	211,621	-
Assets under capital lease acquired	147,608	65,363	213,761	551,912

See accompanying Notes to the Interim Consolidated Financial Statements

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

---

### 1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements are prepared under Canadian generally accepted accounting principles and are stated in Canadian dollars. The consolidated financial statements include the accounts of the Fund, and its wholly owned subsidiaries: WesternOne Equity GP Inc. and WesternOne Equity Operating Trust. These two subsidiaries in turn include the accounts of their subsidiaries, WesternOne Equity LP, WEQ Production Equipment GP Inc., WEQ Production Equipment LP, WEQ Old Country Rentals GP Inc., WEQ Old Country Rentals LP, WEQ C&N Rentals GP Inc., WEQ C&N Rentals LP, WEQ Deerfoot Rentals GP Inc., WEQ Deerfoot Rentals LP, WEQ Heat & Propane GP Inc., and WEQ Heat & Propane LP.

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the Fund's audited consolidated financial statements and notes for the year ended December 31, 2009.

### 2. NEW ACCOUNTING POLICIES AND ESTIMATES

Except as outlined below, these unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2009 audited consolidated financial statements.

#### *International Financial Reporting Standards*

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

## WesternOne Equity Income Fund

### Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

#### 3. PROPERTY AND EQUIPMENT

	September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 45,736,604	\$ 14,783,565	\$ 30,953,039
Building	128,017	17,756	110,261
Land	481,133	-	481,133
Tractors and trailers	3,119,651	664,592	2,455,059
Furniture, fixtures and equipment	1,375,705	521,380	854,325
Computer equipment	457,237	188,247	268,990
Leasehold improvements	451,531	202,465	249,066
	<u>\$ 51,749,878</u>	<u>\$ 16,378,005</u>	<u>\$ 35,371,873</u>

  

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

#### 4. INTANGIBLE ASSETS

	September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 30,154,050	\$ 8,775,849	\$ 21,378,201
Brand name	782,017	-	782,017
Non-competition agreements	3,151,265	2,192,239	959,026
	<u>\$ 34,087,332</u>	<u>\$ 10,968,088</u>	<u>\$ 23,119,244</u>

  

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

During the nine month period ended September 30, 2010, an impairment on intangible assets of \$909,725 (2009 – nil) was recognized as a result of terminating a franchise agreement.

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

### 5. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	September 30, 2010		December 31, 2009
	Approved	Carrying Value	Carrying Value
Operating loans	\$ 5,750,000	1,167,047	\$ 1,740,870
Capital loans:			
Non-revolving	1,750,742	1,750,742	2,087,881
Revolving:	14,500,000		
Loan #1		6,333,046	7,029,522
Loan #2		2,156,556	1,130,433
Loan #3		739,902	-
Loan #4		1,736,703	-
Loan #5		1,000,000	-
Other		355,759	-
	16,250,742	14,072,708	10,247,836
Acquisition loans:	16,454,004		
Loan #1		6,569,941	7,478,034
Loan #2		9,884,062	10,956,950
Loan #3		-	4,085,106
	16,454,004	16,454,003	22,520,090
Capital and Acquisition loans	32,704,746	30,526,711	32,767,926
Total Credit Facilities	\$ 38,454,746	\$ 31,693,758	\$ 34,508,796

The following table illustrates the funding dates, maturity dates and interest rates as at September 30, 2010 for the Capital and Acquisition Loans described above:

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

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

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

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

---

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

The capital and acquisition loans are repayable on demand, and unless and until demanded in monthly installments with interest, at the Fund's option, at the Bank's prime rate plus a range of 1.20% to 1.70%, or the Bank's banker's acceptance rate plus a stamping fee with a range of 2.70% to 3.20%. Unless repaid on demand to the Bank, the non-revolving capital loan shall be repaid in full by August 13, 2013. Unless repaid on demand to the Bank, the revolving capital and acquisition loans shall be repaid in full on the fourth or fifth anniversary of the date of such advance made. The costs of obtaining the capital and acquisition loans are being amortized over the terms of the respective loans, resulting in an effective interest rate at September 30, 2010 of 4.50% (2009 – 3.69%) for the capital loans and 4.63% (2009 – 4.00%) for the acquisition loans.

On July 2, 2008, the Fund entered into an interest rate swap with the Bank. The swap has a three-year term, a notional value of \$9,312,000 at the commencement of the swap, and a fixed rate of 4.08% plus a stamping fee of 3.00% as at September 30, 2010. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$135,580 at September 30, 2010 (2009 - \$302,686). The Fund marks the value of this derivative to market every quarter, and any resulting gains/losses are recorded in net income. The fair value of the interest rate swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Fund has categorized this swap contract as Level 2.

The fair value of debt not due on demand was determined using the discounted cash flow forecast ("DCF"), at an appropriate market discount rate as at September 30, 2010. The fair value of the interest rate swap was determined by discounting the future expected net cash flows of the fixed and variable interest payments using observable market data. The Fund's credit risk was considered in the fair value calculation of the interest rate swap.

The credit facilities have covenants specifying a minimum current ratio of 1.25 to 1.0, a maximum funded debt to earnings (as defined in the credit facilities agreement) ratio of 3.0 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0, and a restriction on increases in distributions to Unitholders and future acquisitions without the prior written consent of the Bank. For purposes of calculating the current ratio, 25% of the Series A Debentures, capital and acquisition loans that are due within one year are included in current liabilities. As at September 30, 2010 the Fund was in compliance with all bank covenants.

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

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

October 1 to December 31, 2010 .....	\$ 1,288,343
2011 .....	5,339,663
2012 .....	5,614,437
2013 .....	11,827,091
2014 and thereafter .....	<u>6,496,655</u>
	30,566,189
Balance of transaction costs to amortize .....	<u>(39,478)</u>
	<u>\$ 30,526,711</u>

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

### 6. TERM MORTGAGE

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

October 1 to December 31, 2010 .....	\$ 4,320
2011 .....	17,941
2012 .....	<u>309,574</u>
	331,835
Balance of transaction costs to amortize .....	<u>(3,979)</u>
	327,856
Less current portion .....	<u>(17,654)</u>
	<u>\$ 310,202</u>

As at September 30, 2010 the market rate of the mortgage payable was not materially different from the nominal rate. Therefore, the fair value of the mortgage payable is the same as the carrying value.

### 7. FUTURE INCOME TAXES

The reconciliation to statutory tax rate is as follows:

	September 30, 2010	September 30, 2009
Loss before taxes	\$ (6,113,344)	\$ (986,239)
Statutory tax rate	28.2%	29.5%
Expected tax recovery	\$ (1,723,963)	\$ (290,941)
Current year's income not taxable for tax purposes	1,723,963	290,941
Impact of rate changes on future income taxes	-	-
Increase in future income tax recovery resulting from a change during the period in temporary differences expected to reverse after 2010	(795,421)	(1,145,180)
Future income tax recovery	(795,421)	(1,145,180)

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

	September 30, 2010	December 31, 2009
Future income tax asset/(liability):		
Issue costs	\$ 34,222	\$ 13,300
Intangible assets	3,182,110	2,689,562
Property, plant and equipment	3,848,742	3,575,559
Others	63,249	54,482
	<u>\$ 7,128,323</u>	<u>\$ 6,332,903</u>

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

### 8. DEBENTURES

#### (a) Series A Debentures

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2009 and September 30, 2010:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2009	\$ 9,701,900	\$ 8,805,704	\$ 1,092,570
Conversion to Units	(208,000)	(184,784)	(23,216)
Amortization and Accretion		388,231	
Balance as at September 30, 2010	\$ 9,493,900	\$ 9,009,151	\$ 1,069,354

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

The Series A Debentures rank senior to the Units and 2010 Debentures (as defined under note 8(b) below), *pari passu* in all respects with any other Series A Debentures issued from time to time, and are subordinate to senior security and permitted encumbrances.

The fair value of Series A Debentures, which was determined using the closing price at the Toronto Stock Exchange (the "Exchange") as at September 30, 2010, was \$9,588,839 (2009 – \$9,799,889) for all outstanding debentures.

The Series A Debentures will mature on August 15, 2011.

#### (b) 2010 Debentures

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

The 2010 Debentures will mature on December 31, 2015.

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

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

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

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

Cash financing costs in the amount of \$1,733,160 were incurred in the issuance of the 2010 Debentures. The financing costs were netted against the 2010 Debentures and amortized using the effective interest method. The effective interest rate as at September 30, 2010 was 12.18%.

The following summarizes the face and carrying value of the liability and equity component of the 2010 Debentures at September 30, 2010:

	<b>Liability Component</b>		<b>Equity Component</b>
	Face Value	Carrying Value	Carrying Value
Balance as at issuance on February 26, 2010	\$ 27,600,000	\$ 23,278,908	\$ 2,587,932
Amortization and Accretion		318,241	
Balance as at September 30, 2010	\$ 27,600,000	\$ 23,597,149	\$ 2,587,932

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

The fair value of 2010 Debentures, which was determined using the closing price at the Exchange as at September 30, 2010, was \$27,666,240 for all outstanding debentures.

## 9. FUND UNITS

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

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

The following summarizes changes to the Fund's Units for the nine months ended September 30, 2010:

	Fund Units <sup>(1)</sup>	Fund Units Outstanding	Exchangeable Units Outstanding <sup>(2)</sup>
Balance as at December 31, 2009	\$ 41,968,394	13,838,634	125,000
Issuance of Units upon conversion of Series A Debentures	211,621	50,386	
Balance as at September 30, 2010	\$ 42,180,015	13,889,020	125,000

<sup>(1)</sup> Amounts are net of transaction costs where applicable.

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

During the period from the creation of the Fund on June 14, 2006 to September 30, 2010, a total of 13,889,020 Units and 125,000 Exchangeable LP Units were issued for \$46,618,063 excluding offering costs.

## 10. COMMITMENTS

### (a) Minimum operating lease commitments

The Fund, through its indirectly owned subsidiaries, has entered into operating lease agreements for its operating assets. The leases require monthly payments, and have maturity dates ranging from November, 2010 to August, 2014. The minimum operating lease commitments, over the next five years, are as follows:

October 1 to December 31, 2010 .....	\$ 141,848
2011 .....	425,109
2012 .....	256,273
2013 .....	116,811
2014 .....	44,729

### (b) Minimum rental commitments

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

October 1 to December 31, 2010 .....	\$ 453,646
2011 .....	1,808,739
2012 .....	1,564,735
2013 .....	1,288,397
2014 .....	898,703
Thereafter .....	3,280,760

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

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

### 11. CAPITAL LEASES

The Fund, through its indirectly owned subsidiaries, has entered into capital lease agreements for assets that are part of the property and equipment. The leases have maturity dates ranging from November 2010 to July 2014, at imputed interest ranging from 4.20% to 10.89%, and all capital lease agreements have the option or requirement to purchase the assets at the end of the lease. The assets are being amortized consistent with the fund's amortization policy, and at September 30, 2010 had a book value of \$587,876, with \$83,672 in accumulated amortization.

The following table illustrates the lease commitments:

October 1 to December 31, 2010 .....	\$ 37,175
2011 .....	148,757
2012 .....	137,435
2013 .....	164,395
2014 .....	<u>67,502</u>
	555,264
Less: Amount representing interest .....	<u>(69,342)</u>
	485,922
Less: Current portion .....	<u>(117,626)</u>
Non-current portion .....	<u>\$ 368,296</u>

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

### 12. ACQUISITION

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

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

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

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

### 13. FINANCIAL INSTRUMENTS

#### (a) 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 September 30, 2010. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses.

Aging of receivables is as follows:

	September 30, 2010	December 31, 2009
Trade receivables, gross		
Outstanding 1-30 days	\$ 3,249,651	\$ 3,852,073
Outstanding 30-60 days (past due)	1,282,819	1,275,828
Outstanding over 60 days (past due)	648,772	697,376
	5,181,242	5,825,277
Allowance for doubtful accounts	(205,562)	(239,032)
Trade receivables, net	4,975,680	5,586,245
Sales tax and other receivables	835,320	552,756
<b>Accounts Receivable</b>	<b>\$ 5,811,000</b>	<b>\$ 6,139,001</b>

#### (b) Liquidity risk

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

The Fund manages its liquidity risk through cash and debt management. As at September 30, 2010, the Fund had available unused approved credit facilities of \$6,760,988. The Fund also has accounts receivable of \$5,811,000, and cash and cash equivalents totalling \$9,017,616.

The timing of estimated cash outflows relating to financial liabilities and capital lease obligations are outlined in the table below, for those items that have changed significantly from the notes to the consolidated financial statements as at December 31, 2009:

	1 year	2-3 years	4-5 years	beyond 5 years	Total	Carrying Value
Accounts payable and accrued liabilities	\$ 5,434,492				\$ 5,434,492	\$ 5,434,492
Equipment financing payable	35,291	7,207			42,498	42,498
Capital leases	117,626	267,821	100,475		485,922	485,922
Interest rate swap	127,121				127,121	135,580
Capital and acquisition loans*	5,262,796	13,980,952	11,322,441		30,566,189	30,526,711
Series A Debentures	9,493,900				9,493,900	9,009,151
2010 Debentures				27,600,000	27,600,000	23,597,149

\* The capital and acquisition loans are repayable on demand.

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

### 14. RELATED PARTY TRANSACTIONS

#### (a) Purchase of equipment

The Fund purchased equipment from a company in which a board member of the Fund has a controlling interest, for \$89,698 (2009 - \$108,220) and \$344,315 (2009 - 284,130) during the three and nine months period ended September 30, 2010. These transactions arose during the normal course of business and have been recorded at fair market value.

#### (b) Rental obligations

The Fund currently rents premises in various locations from companies in which employees of the Fund hold certain interests. The Fund has paid \$202,483 (2009 - \$200,000) and \$606,469 (2009 - \$601,541) in such rent during the three and nine months period ended September 30, 2010. The rent between the parties is at fair market value.

### 15. UNIT BASED COMPENSATION

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

On February 11, 2010, the Fund's board of trustees granted options to senior executives, directors, trustees and certain employees to purchase, in aggregate, an additional 503,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.30. Vesting of the options occurs equally over the next five years.

A summary of the details of the options granted follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding, at January 1, 2009	463,000	\$ 4.90	\$ 4.90
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, at December 31, 2009	463,000	\$ 4.90	\$ 4.90
Granted	503,000	\$ 4.30	\$4.30
Exercised	-	-	-
Forfeited	9,000	\$4.30 - \$4.90	\$4.57
Outstanding, at September 30, 2010	957,000	\$4.30 - \$4.90	\$ 4.59
Weighted average fair value of options granted at September 30, 2010		\$ 0.44	

The following table illustrates the fixed unit options outstanding, as of September 30, 2010:

## WesternOne Equity Income Fund

### Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

Range of Exercise Prices:	Outstanding Options			Options Exercisable	
	Number Outstanding September 30, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable September 30, 2010	Weighted Average Exercise Price
\$ 4.90	459,000	7.9 years	\$ 4.90	184,200	\$ 4.90
\$ 4.30	498,000	9.4 years	\$ 4.30	-	\$ 4.30

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

Grant date of options:	Annual Dividend Yield of Options	Volatility	Risk-Free Interest Rate	Expected life of the options
July 9, 2008	13.00%	52.25%	4.07%	10 years
February 10, 2010	13.95%	49.13%	2.09%	10 years

For the three and nine months ended September 30, 2010, the Fund recognized \$21,436 (2009 – \$12,925) and \$59,817 (2009 – \$38,353) of compensation expense.

#### 16. SEGMENTED REPORTING

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

The Fund's business activity levels in the British Columbia Platform are generally lower from January through March as the winter weather hampers construction activity. Construction heater rentals and related fuel supply and wholesale during the winter months in the Alberta Platform compensate for the slow winter business cycle in British Columbia. From April through July, the rental demand for construction and general rental equipment grows gradually as rental activities accelerate into the summer months. From August through November the demand for rental equipment continues as construction companies strive to meet construction targets prior the start of the holiday season in December. The construction heater rentals and fuel wholesale business in Alberta starts in November and continues through to the spring of the following year.

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

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

For the three months ended September 30	British Columbia		Alberta		Consolidated	
	2010	2009	2010	2009	2010	2009
Total segment revenue	5,280,531	4,856,807	5,939,488	2,884,614	<b>11,220,019</b>	<b>7,741,421</b>
Earnings before interest, tax, depreciation, amortization, write-down of assets, and foreign exchanges gains/(losses)	1,145,283	1,445,360	1,262,761	138,495	<b>2,408,044</b>	<b>1,583,855</b>
Depreciation and amortization						
Property and equipment	1,141,444	1,143,765	1,025,907	539,002	<b>2,167,351</b>	<b>1,682,767</b>
Intangible and other assets	364,774	368,764	698,438	598,794	<b>1,063,212</b>	<b>967,558</b>
Impairment of Assets	-	-	909,725	-	<b>909,725</b>	-
Identifiable assets excl goodwill <sup>(1)</sup>	35,515,304	36,832,679	47,576,599	33,566,009	<b>83,091,903</b>	<b>70,398,688</b>
Goodwill <sup>(1)</sup>	2,726,613	2,726,613	7,197,096	5,703,805	<b>9,923,709</b>	<b>8,430,418</b>
Total identifiable assets <sup>(1)</sup>	38,241,917	39,559,292	54,773,695	39,269,814	<b>93,015,612</b>	<b>78,829,106</b>
Net purchases of property and equipment during the period (net of business acquisitions)	1,189,084	215,281	1,580,096	115,648	<b>2,769,180</b>	<b>330,929</b>

(1) Balances for 2009 are balances as of December 31, 2009.

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2010 and 2009

(Unaudited)

For the nine months ended September 30	British Columbia		Alberta		Consolidated	
	2010	2009	2010	2009	2010	2009
Total segment revenue	14,843,262	15,240,518	20,581,910	16,085,743	35,425,172	31,326,261
Earnings before interest, tax, depreciation, amortization, write-down of assets, and foreign exchanges gains/(losses)	2,538,526	3,975,305	6,084,610	5,204,824	8,623,136	9,180,129
Depreciation and amortization						
Property and equipment	3,467,884	3,453,702	2,744,093	1,694,830	6,211,977	5,148,532
Intangible and other assets	1,100,972	1,106,292	1,995,593	1,796,382	3,096,565	2,902,674
Impairment of Assets	-	-	909,725	-	909,725	-
Identifiable assets excl goodwill <sup>(2)</sup>	35,515,304	36,832,679	47,576,599	33,566,009	83,091,903	70,398,688
Goodwill <sup>(2)</sup>	2,726,613	2,726,613	7,197,096	5,703,805	9,923,709	8,430,418
Total identifiable assets <sup>(2)</sup>	38,241,917	39,559,292	54,773,695	39,269,814	93,015,612	78,829,106
Net purchases of property and equipment during the period (net of business acquisitions)	2,483,699	571,860	2,540,532	376,293	5,024,231	948,153

(2) Balances for 2009 are balances as of December 31, 2009.