

# WESTERNO ONE EQUITY

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WESTERNO ONE EQUITY INCOME FUND

## 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 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

WESTERNONE EQUITY INCOME FUND

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## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*For the period from August 15, 2006 to September 30, 2006*

(Unaudited)

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## WesternOne Equity Income Fund

### INTERIM CONSOLIDATED BALANCE SHEET

As at September 30, 2006

(Unaudited)

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 1,186,805
Accounts receivable	2,960,105
Inventories	769,470
Prepaid expenses	273,908
	<hr/> 5,190,288
PROPERTY AND EQUIPMENT	13,514,283
DEFERRED FINANCING COSTS	118,546
INTANGIBLE ASSETS	13,608,295
	<hr/> \$ 32,431,412
<hr/>	
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>	
<b>CURRENT LIABILITIES</b>	
Operating loan	\$ 99,098
Accounts payable and accrued liabilities	993,834
Interest payable on Series A Debentures	116,129
Distributions payable	261,530
Loans payable, current portion	962,963
	<hr/> 2,433,554
LOANS PAYABLE, NET OF CURRENT PORTION	5,537,037
SERIES A DEBENTURES	8,911,656
	<hr/> 16,882,247
UNITHOLDERS' EQUITY	15,549,165
	<hr/> \$ 32,431,412
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COMMITMENTS (note 11)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

\_\_\_\_\_  
(Signed) "Darren T. Latoski"  
Trustee

\_\_\_\_\_  
(Signed) "Douglas R. Scott"  
Trustee

*See accompanying Notes to the Unaudited Interim Consolidated Financial Statements*

## WesternOne Equity Income Fund

### INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period from August 15, 2006 to September 30, 2006

(Unaudited)

REVENUE	
Equipment rental	\$ 1,698,985
Equipment sales	356,925
Logistical support	184,582
Parts and service	121,782
	<hr/>
	2,362,274
COST OF SALES	
Equipment sold	281,284
Commission	92,272
Re-rental	77,899
Other	35,394
	<hr/>
	486,849
<hr/>	
GROSS INCOME	1,875,425
<hr/>	
OPERATING EXPENSES	
General and administrative	171,425
Freight	255,868
Service	217,109
Sales	40,902
Interest	154,123
Depreciation	133,915
Amortization	337,622
Accretion of Series A Debentures	27,906
	<hr/>
	1,338,870
<hr/>	
NET INCOME (LOSS)	\$ 536,555
<hr/>	
Basic and diluted net income per unit	\$ 0.08
Basic weighted average number of units outstanding	6,410,050
Diluted weighted average number of units outstanding	8,791,002

*See accompanying Notes to the Unaudited Interim Consolidated Financial Statements*

**WesternOne Equity Income Fund**

**INTERIM CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY**

For the period from August 15, 2006 to September 30, 2006

(Unaudited)

	Fund Units (note 9)	Series A Debentures (note 8)	Cumulative earnings	Cumulative distributions	Total
Balance, beginning of period	\$ 320,000	\$ -	-	-	320,000
Issuance of units on initial public offering	16,000,000				16,000,000
Issuance costs of units on initial public offering	(2,750,734)				(2,750,734)
Issuance of units on over-allotment	835,174				835,174
Issuance costs of units on over-allotment	(102,965)				(102,965)
Equity component		1,116,250			1,116,250
Net income			536,555		536,555
Distributions declared				(405,115)	(405,115)
<b>BALANCE, END OF PERIOD</b>	<b>\$ 14,301,475</b>	<b>\$ 1,116,250</b>	<b>\$ 536,555</b>	<b>\$ (405,115)</b>	<b>\$ 15,549,165</b>

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements

## WesternOne Equity Income Fund

### INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from August 15, 2006 to September 30, 2006

(Unaudited)

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#### OPERATING ACTIVITIES

Net Income	\$	536,555
Items not affecting cash -		
Depreciation		133,915
Amortization		337,622
Accretion of Series A Debentures		27,906
Gain on sale of property and equipment		(25,618)
		<hr/> 1,010,380
Changes in non-cash working capital balances -		
Accounts receivable		(529,600)
Inventories		116,751
Prepaid expenses		(252,488)
Accounts payable and accrued liabilities		(186,347)
Interest payable on Series A Debentures		116,129
		<hr/> 274,825

#### INVESTING ACTIVITIES

Purchase of property and equipment		(824,928)
Proceeds from the sale of property and equipment		283,500
Acquisition of Production Equipment Rentals Company (note 1)		(29,181,910)
		<hr/> (29,723,338)

#### FINANCING ACTIVITIES

Proceeds from capital loans		6,500,000
Financing costs incurred		(121,669)
Initial public offering of Fund Units, net of expenses (note 1)		13,249,266
Over-allotment of Fund Units, net of expenses (note 9)		732,208
Initial public offering of Series A Debentures (note 1)		10,000,000
Distributions paid		(143,585)
		<hr/> 30,216,220

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NET CHAGE IN CASH DURING THE PERIOD		767,707
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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		320,000
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CASH AND CASH EQUIVALENTS, END OF PERIOD (NET)	\$	1,087,707
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#### Supplemental cash flow information:

Interest received	\$	8,219
Interest paid		206,800

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*See accompanying Notes to the Unaudited Interim Consolidated Financial Statements*

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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### 1. ORGANIZATION, NATURE OF OPERATIONS AND ACQUISITION

#### (a) Organization

WesternOne Equity Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust created on June 14, 2006 and governed by the declaration of trust governed by the laws of British Columbia. The Fund is authorized to issue an unlimited number of 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 indirectly acquire the assets of Production Equipment Rentals Company and such other investments as the Trustees of the Fund may determine. The Fund holds a 100% indirect interest in WEQ Production Equipment LP, a limited partnership established under the laws of Manitoba on June 15, 2006.

#### (b) Nature of operations

The Fund commenced operations on August 15, 2006, when it completed its initial public offering and its indirect subsidiary, WEQ Production Equipment LP, acquired the assets of Production Equipment Rentals Company.

WEQ Production Equipment LP specializes in renting, selling and servicing quality high reach and material handling equipment and providing logistical support to its customers in British Columbia.

#### (c) Acquisition

On August 15, 2006 ("Closing"), the Fund completed a public offering of 4,571,429 units of the Fund ("Units") at \$3.50 per Unit, and 100,000 5-year 9% senior secured convertible debentures – Series A ("Series A Debentures") at \$100 per Series A Debenture (the "Offering") for net proceeds of \$23,249,266, after deducting expenses of the Offering of \$2,750,734. The Fund used the net proceeds of the Offering, together with funds from new credit facilities, to acquire a 100% indirect interest in WEQ Production Equipment LP for \$29,181,910. In accordance with the purchase agreement, the final purchase price was inclusive of an additional \$2,181,910 for net property and equipment additions acquired by the vendors of Production Equipment Rentals Company (the "Vendors") between January 1, 2006 and Closing.

The purchase was subject to a working capital adjustment which required the difference between specified items of working capital delivered on the initial acquisition and \$1,300,000 to be settled through a cash payment. The working capital excess of these specified items delivered upon acquisition was determined to be \$820,219 and has been reflected as "Due to Vendors" in the purchase equation. \$750,000 of this amount was paid to the Vendors on September 30, 2006.

The acquisition of WEQ Production Equipment LP has been accounted for using the purchase method, and the Fund has recorded the results of operations of WEQ Production Equipment LP from the date of acquisition.

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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A preliminary allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

Preliminary allocation of purchase price:	
Accounts receivable, net	\$ 2,430,505
Inventories	886,221
Prepays	21,420
Accounts payable	(354,962)
Due to Vendors	(825,219)
Property and equipment	13,081,152
Intangible assets (note 6)	13,942,793
	<hr/>
	\$ 29,181,910
Consideration:	
Cash	\$ 23,249,266
Reserve for payment of due to Vendors	(750,000)
Term loan, net of financing costs	6,466,870
Operating loan	585,040
Less: cash available to the Fund and its subsidiaries at Closing	(369,266)
	<hr/>
	\$ 29,181,910

## 2. BASIS OF PRESENTATION

The Fund has consolidated the assets and equity of all subsidiaries after the elimination of inter-entity transactions and balances. The consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries, WesternOne Equity GP Inc. and WesternOne Equity Operating Trust. These two subsidiaries in turn include the accounts of their own wholly owned subsidiaries, WesternOne Equity Limited Partnership, WEQ Production Equipment GP Inc., and WEQ Production Equipment Limited Partnership. All of the above wholly owned subsidiaries were acquired during June 2006 upon their incorporation, registration or settlement.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated interim financial statements and accompanying notes ("Interim Financial Statements") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and may not include all disclosures required by GAAP for annual financial statements. It is impracticable to present prior period information for the interim period in the immediately preceding financial year as the predecessor operations of WEQ Production Equipment LP were privately held and did not prepare quarterly reports for its shareholders. These Interim Financial Statements should be read in conjunction with the financial statements included in the prospectus of the Fund dated July 31, 2006 (the "Prospectus").

### (a) Basis of presentation

These Interim Financial Statements include the accounts of the Fund, and its subsidiaries, including its 100% indirect interest in WEQ Production Equipment LP. All material intercompany transactions have been eliminated upon consolidation.

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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(b) *Measurement uncertainty*

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

(c) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, bank balances and guaranteed investment certificates.

(d) *Inventories*

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

Parts inventories are valued at the lower of cost and net realizable value, with cost generally being determined on a "first-in, first-out" basis. Parts inventory write-downs are included in service expense.

Incentives received from suppliers are treated as a reduction in future purchases of the suppliers' products and are accounted for in the period in which these incentives are received.

(e) *Property and equipment*

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

Rental fleet*	10 years
Office equipment	5 years
Office furniture	5 years
Shop equipment	5 years
Tractors and trailers	7 years
Computer and software	5 years
Leasehold improvements	..... lesser of 5 years and the initial term of the lease

\*For rental fleet, salvage value of 25% of the original cost is taken into consideration.

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

Management reviews these assets for impairment periodically (at least annually) and whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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undiscounted future cash flows from their expected use and eventual disposition. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceed their estimated fair value.

(f) *Deferred financing costs*

Financing costs incurred to obtain new credit facilities are deferred on the balance sheet and amortized on a straight line basis over the life of the related debt.

(g) *Intangible assets*

Identifiable intangible assets are recorded at cost. The Fund amortizes its intangible assets over their estimated useful lives on a straight-line basis as follows:

Customer relationships .....	10 years
Brand name* .....	Indefinite life
Supplier agreements* .....	Indefinite life

*\*These assets have been determined by management to have indefinite lives and are therefore not being amortized.*

Management reviews these assets for impairment periodically (at least annually) and 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 impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceed their estimated fair value.

(h) *Revenue Recognition*

Revenue from rental contracts and logistical support is recognized in the period in which the related services have been provided, net of a provision for doubtful accounts.

Service revenue, comprised of the sale of parts and equipment servicing, is recognized when the parts are delivered and the related services have been rendered, net of a provision for doubtful accounts.

Revenue from equipment held for resale is recognized at the later of the time at which the contract is signed or the purchaser arranges sufficient financing to complete the purchase.

(i) *Foreign Currency Translation*

Assets bought and sold during the period and transactions relating to net income in foreign currencies are translated into Canadian dollars at the rate prevailing at the transaction dates. Monetary assets and liabilities in foreign currencies at the close of the period are translated into Canadian dollars at the rate prevailing at the period-end.

Foreign exchange gains or losses arise from recording the difference between foreign currency balances translated at rates prevailing at period-end and balances translated at rates prevailing on

## WesternOne Equity Income Fund

### Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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transaction dates. Foreign currency gains and losses are included in the results of operations in the period in which they occur.

(j) *Net income per Unit*

Basic net income per Unit of the Fund is calculated by dividing net income by the weighted average number of Units outstanding during the reporting period. Diluted net income per Unit is calculated by dividing net income by the sum of the weighted average number of Units outstanding used in the basic net income per Unit calculation and the number of Units that would be issued assuming a dilutive effect of the conversion of the Series A Debentures (note 8) and/or the exercise of the Agents' Option (note 10).

(k) *Long-term incentive plan*

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

(l) *Derivative financial instruments*

Derivative financial instruments are utilized by the Fund in the management of its interest rate exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives to forecasted transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

When the Fund discontinues its designation of a hedging relationship, or when a hedging relationship is no longer effective, hedge accounting is discontinued. When the Fund discontinues hedge accounting, the derivative financial instrument is recorded on the consolidated balance sheet at fair value. Gains and losses that had previously been deferred are carried forward for recognition in the statement of income in the same period that the hedged items are recognized. If the Fund does not meet the criteria for hedge accounting at the inception of the liability, the Fund will follow mark to market accounting.

## WesternOne Equity Income Fund

### Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

#### 4. PROPERTY AND EQUIPMENT

	September 30, 2006		
	Cost	Accumulated Depreciation	Net Book Value
Rental fleet	\$ 13,427,951	\$ 129,112	\$ 13,298,839
Furniture, fixtures and equipment	209,517	4,550	204,967
Computer equipment and software	10,730	253	10,477
	\$ 13,648,198	\$ 133,915	\$ 13,514,283

#### 5. DEFERRED FINANCING COSTS

	September 30, 2006		
	Cost	Accumulated Depreciation	Net Book Value
Deferred financing costs	\$121,670	\$ 3,124	\$ 118,546

#### 6. INTANGIBLE ASSETS

	September 30, 2006		
	Cost	Accumulated Depreciation	Net Book Value
Customer relationships	\$ 12,961,793	\$ 334,498	\$ 12,627,295
Brand name	713,000	n/a	713,000
Distributorship agreements	268,000	n/a	268,000
	\$ 13,942,793	\$ 334,498	\$ 13,608,295

These assets have no basis for tax purposes.

#### 7. OPERATING LOAN AND CAPITAL LOANS

	Approved	September 30, 2006
Operating loan	\$ 2,000,000	\$ 99,098
Capital loans:		
Non-revolving	3,500,000	3,500,000 *
Revolving	4,000,000	3,000,000
	\$ 9,500,000	\$ 6,599,098
Less: current portion		(962,963)
		\$ 5,636,135

\* Inclusive of banker's acceptance of \$3,111,000 established at Closing and maturing on August 14, 2007

A single Canadian chartered bank (the "Bank") has made the above operating loan and capital loans available to WEQ Production Equipment LP, which is indirectly owned by the Fund.

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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The Bank has provided the operating loan on an interest only basis, and is payable upon demand. The operating loan is at the Bank's prime rate plus 1.00% per annum and, in addition to covenant requirements, is secured by 50% of inventory up to a limit of \$0.75 million and 75% of acceptable accounts receivable, minus priority claims. The covenant requirements include a minimum level of tangible net worth of \$3.25 million, a minimum debt service coverage ratio of 1.25 to 1.0, a minimum current ratio of 1.2 to 1.0, a maximum debt to tangible net worth of 3.0 to 1.0, and a restriction on distributions to Unitholders that would cause any breach of the covenants without the prior written consent of the Bank.

The above capital loans are repayable on demand and unless and until demanded in monthly installments, with interest at the Bank's prime rate plus 0.65% per annum or 1.60% above banker's acceptance rates, secured by a general security agreement and a personal guarantee. The lending requirements include definitions of the eligibility for assets subject to financing, and covenants specifying a minimum level of tangible net worth of \$3.25 million, a minimum debt service coverage ratio of 1.25 to 1.0, a minimum current ratio of 1.2 to 1.0, a maximum debt to tangible net worth of 3.0 to 1.0, and a restriction on distributions to Unitholders that would cause any breach of the covenants without the prior written consent of the Bank.

Interest only is payable on the above capital loans for the first three monthly installments following Closing.

### 8. SERIES A DEBENTURES

	September 30, 2006
Series A Debentures	\$ 8,883,750
Series A Debentures – equity component	1,116,250
	<u>\$ 10,000,000</u>
Accretion expense of Series A Debentures – equity component *	27,906
	<u>\$ 10,027,906</u>

\* Accretion expense calculated for the period of August 15, 2006 to September 30, 2006.

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

As outlined in the Prospectus, at maturity the Fund shall repay the outstanding principal amount of the Series A Debentures, or at the Fund's sole option, convert the Series A Debentures into such number of Units as is determined within the Prospectus. Subject to restrictions outlined in the Prospectus, the Fund may redeem the Series A Debentures at any time after August 15, 2008.

Subject to restrictions outlined in the Prospectus, each Series A Debenture is convertible into Units at the option of the holder at the conversion price of \$4.20 per Unit at any time prior to the maturity. The restrictions on conversion include anti-dilution provisions.

As outlined in the Prospectus, the Series A Debentures rank senior to the Units, pari passu in all respects with any other Series A Debentures issued from time to time, and are subordinate to senior security and permitted encumbrances.

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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### 9. FUND UNITS

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts and in the net assets of the Fund in the event of termination or winding up of the Fund. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the Unitholders thereof to one vote at all meetings of voting Unitholders.

As part of the Offering, the Fund issued 4,571,429 Units at \$3.50 per Unit for net proceeds of \$13,249,266, after deducting expenses of the Offering of \$2,750,734.

The Fund granted the agents of the Offering (the "Agents") the option to purchase additional Units, exercisable for a period of 30 days from Closing (the "Over-Allotment"). Prior to the expiry of the Over-Allotment, the Agents purchased 238,621 additional Units on August 31, 2006, for net proceeds of \$732,208, after deducting expenses of the Over-Allotment of \$102,965.

During the period from August 15 to September 30, 2006 4,810,050 units were issued for \$16,835,174 (from the creation of the Fund on June 14, 2006 to August 14, 2006, 1,600,000 units were issued for \$320,000), excluding offering costs.

The Units are redeemable at any time on demand by the holders thereof, subject to the terms and conditions as outlined in the Prospectus. The total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees of the Fund may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month.

### 10. AGENTS' OPTION

At Closing, the Agents were granted an option to purchase, for additional consideration, that number of Units and principal amount of Series A Debentures equal to 5% of the Units and principal amount of Series A Debentures issued under the Offering at a price equal to the price under the Offering (the "Agents' Option"). The Agents' Option will expire on August 14, 2009.

### 11. COMMITMENTS

#### (a) Operating leases

The Fund has entered into 14 operating lease agreements for vehicles and trailers. The leases require monthly payments ranging from \$554 to \$2,490 and have maturity dates ranging to April 6, 2011.

#### (b) Minimum rental commitments

The Fund leases its premises under a lease agreement requiring annual payments of \$132,000, payable in monthly instalments of \$11,000. The current lease agreement expires on November 30, 2006 and has been renewed for a further period of five years, commencing December 1, 2006 and ending November

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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30, 2011. The new lease requires annual rental payments of \$168,000, payable in monthly instalments of \$14,000.

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

### 12. FINANCIAL INSTRUMENTS

#### (a) Fair value

Financial instruments consist of cash, operating loan, accounts receivable, accounts payable, distributions payable, banker's acceptance and capital loans. The carrying values of the financial instruments, except for the capital loans, are considered to approximate their fair values due to their short term nature. The fair values of the capital loans are considered to approximate their carrying values as the instruments bear interest at floating rates.

#### (b) Interest rate risk

The Fund's operating loan and capital loans payable bear interest at variable rates. The Fund uses short-term derivative instruments to reduce its exposure to interest rate risk.

#### (c) Foreign exchange risk

As at September 30, 2006, the Fund's balance sheet included the following U.S. currency denominated balances which were converted at the September 30, 2006 Bank of Canada closing exchange rate of 1.1177:

<i>expressed in US\$</i>	September 30, 2006
Cash	\$ 509
Due from Vendor	23,917
Accounts payable	(120,394)
	<u>\$ (95,968)</u>

The Fund does not use derivative instruments to reduce its exposure to foreign exchange risk.

#### (d) Credit risk

The Fund is exposed to credit risk with respect to its accounts receivable. The Fund follows 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 historical losses have been within management's expectations.

### 13. SEGMENTED INFORMATION

Through its indirect ownership of WEQ Production Equipment LP, the Fund currently operates in one industry segment: the renting, selling and servicing of quality high reach and material handling equipment and the provision of logistical support to its customers in British Columbia.

# WesternOne Equity Income Fund

## Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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### 14. RELATED PARTY TRANSACTIONS

The Fund has not entered into any related party transactions.

### 15. SUBSEQUENT EVENTS

#### *(a) Proposed tax ruling*

On October 31, 2006, the federal Minister of Finance announced a proposal that, if enacted, would tax publicly-traded income trusts on distributions of income to their unitholders. Existing publicly-traded income trusts would not be subject to the proposed tax until their 2011 taxation years.

The rate of the proposed tax on distribution of income would approximate the combined federal and provincial tax rate applicable to income earned by Canadian public corporations. The applicable rate in 2011 would be based on tax rates at that time. Currently, based on information released by the federal Department of Finance in conjunction with the announcement of the proposed tax, the rate in 2011 would be 31.5%, but this is subject to changes in tax rates between now and 2011.

The proposed tax that would be imposed on income trusts may result in a reduction in the level of distributions made to their unitholders. Distributions subject to the proposed tax and received by unitholders of income trusts would be characterized as eligible dividends from a Canadian public corporation. Generally, individual unitholders resident in Canada would be subject to tax based on the enhanced gross-up and dividend tax credit and, consequently, would receive an after-tax return from their now reduced distribution of income approximately equal to the after-tax return if pre-tax income of the income trust had been distributed directly to the investor and taxed in the hand of the investor. However, reduced distributions will be an absolute cost to other types of investors including pension funds, Registered Retirement Savings Plans (RRSPs) and non-residents who would not benefit from characterization of the distribution as dividends.

Draft legislation implementing this proposal has not yet been released. It is not possible at this time for the Fund to determine whether the proposal will be enacted as proposed, or at all, and, if enacted, what impact this proposal would have on the Fund or its Unitholders. As more information becomes available, the Fund will assess the strategic and economic issues arising from this proposal.

#### *(b) Information systems*

On November 17, 2006, the Fund entered into an agreement with Solutions by Computer to provide new rental management software and infrastructure for WEQ Production Equipment LP. This system is scheduled for installation and implementation in January 2007.

#### *(c) Collective Agreement*

The Fund has a collective agreement with the International Union of Operating Engineers, Local 115, which stipulates the hours, wages and benefits for certain of the Fund's employees. The current agreement expires June 30, 2007.

## WesternOne Equity Income Fund

### Notes to the Unaudited Interim Consolidated Financial Statements

For the 47-day period from August 15, 2006 to September 30, 2006

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*(d) Previously announced acquisition*

As disclosed in the Prospectus, the Vendors signed a letter of intent, dated May 26, 2006, to purchase the rental assets of two general rental companies, with locations in Abbotsford and Mission, British Columbia. The purchase price indicated on the letter of intent was \$1,175,000, which was expected to be funded through loans payable. During the period, the Fund determined not to pursue this transaction for strategic reasons.