

# WESTERNONE EQUITY

WESTERNONE EQUITY INCOME FUND

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## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*September 30, 2008*

(Unaudited)

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WESTERNONE 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, 2008 (Unaudited)	As at December 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Equivalents	\$ 3,772,490	\$ 5,514,594
Cash in trust	-	2,015,000
Short term investments	369,913	2,173,062
Accounts receivable	5,481,477	3,112,105
Inventories	1,397,036	1,340,213
Deposits and prepaid expenses	510,510	247,480
	<u>11,531,426</u>	<u>14,402,454</u>
PROPERTY AND EQUIPMENT (Note 4)	31,322,676	19,758,705
INTANGIBLE ASSETS (Note 5)	17,532,888	13,510,782
GOODWILL (Note 13)	5,545,302	2,725,261
FUTURE INCOME TAXES (Note 9)	981,578	1,452,238
	<u>\$ 66,913,870</u>	<u>\$ 51,849,440</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Operating loans (Note 6)	\$ 2,680,952	\$ 1,515,432
Accounts payable and accrued liabilities	3,885,139	996,144
Distributions payable	590,303	587,184
Current portion of equipment financing payable (Note 7)	97,120	95,770
Current portion of mortgage payable (Note 8)	15,507	-
Capital and acquisition loans (Note 6)	17,066,832	4,338,128
	<u>24,335,853</u>	<u>7,532,658</u>
EQUIPMENT FINANCING PAYABLE - NON-CURRENT (Note 7)	115,021	106,652
TERM MORTGAGE - NON-CURRENT (Note 8)	339,354	-
FINANCIAL DERIVATIVES (Note 6)	159,706	-
SERIES A DEBENTURES (Note 10)	8,560,959	8,238,358
	<u>33,510,893</u>	<u>15,877,668</u>
UNITHOLDERS' EQUITY	33,402,977	35,971,772
	<u>\$ 66,913,870</u>	<u>\$ 51,849,440</u>

COMMITMENTS (Note 12)

SUBSEQUENT EVENTS (Note 18)

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 STATEMENT OF UNITHOLDERS' EQUITY

(Unaudited)

	Fund Units (Note 11)	Contributed Surplus (Note 17)	Equity component of convertible debentures (Note 10)	Retained earnings/(deficit)	Total Unitholders' Equity
<b>BALANCE, December 31, 2006</b>	<b>15,484,789</b>	-	<b>1,116,250</b>	<b>210,466</b>	<b>16,811,505</b>
Adjustment to Fund Units and Cumulative earnings under CICA Handbook sec 3855	(129,111)			52,523	(76,588)
Issuance of Units (net of issuance costs)	19,413,210				<b>19,413,210</b>
Net and Comprehensive income for the period				2,588,290	<b>2,588,290</b>
Distributions declared				(3,736,720)	<b>(3,736,720)</b>
<b>BALANCE, September 30, 2007</b>	<b>34,768,888</b>	-	<b>1,116,250</b>	<b>(885,441)</b>	<b>34,999,697</b>
Net and Comprehensive income for the period				2,733,626	<b>2,733,626</b>
Distributions declared				(1,761,551)	<b>(1,761,551)</b>
<b>BALANCE, December 31, 2007</b>	<b>34,768,888</b>	-	<b>1,116,250</b>	<b>86,634</b>	<b>35,971,772</b>
Issuance of Units (net of issuance costs)	532,115		(2,233)		<b>529,882</b>
Net and Comprehensive income for the period				1,394,947	<b>1,394,947</b>
Distributions declared				(3,552,654)	<b>(3,552,654)</b>
<b>BALANCE, June 30, 2008</b>	<b>35,301,003</b>	-	<b>1,114,017</b>	<b>(2,071,073)</b>	<b>34,343,947</b>
Issuance of Units (net of issuance costs)	195,551		(3,908)		<b>191,643</b>
Employee unit-based compensation for the period		11,822			<b>11,822</b>
Equity portion relating to issuance of Series A Debentures			22,533		<b>22,533</b>
Net and Comprehensive income for the period				622,691	<b>622,691</b>
Distributions declared				(1,789,659)	<b>(1,789,659)</b>
<b>BALANCE, September 30, 2008</b>	<b>35,496,554</b>	<b>11,822</b>	<b>1,132,642</b>	<b>(3,238,041)</b>	<b>33,402,977</b>

## WesternOne Equity Income Fund

### INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three-month period ended September 30, 2008	Three-month period ended September, 2007	Nine-month period ended September 30, 2008	Nine-month period ended September, 2007
<b>REVENUE</b>				
Equipment rental	\$ 5,865,919	\$ 4,188,969	\$ 15,460,612	\$ 9,464,347
Equipment sales	1,626,893	1,596,578	4,401,589	4,772,672
Logistical support	493,636	416,538	1,310,730	1,004,066
Parts and service	795,620	369,270	2,823,274	1,073,777
Interest and other income	31,381	78,730	135,970	129,559
	<u>8,813,449</u>	<u>6,650,085</u>	<u>24,132,175</u>	<u>16,444,421</u>
<b>COST OF SALES</b>				
Equipment sold	1,332,490	1,324,849	3,661,330	4,044,543
Commission	279,571	247,200	656,967	646,458
Re-rental	384,304	90,215	791,612	222,734
Other	540,930	169,975	1,879,949	364,672
	<u>2,537,295</u>	<u>1,832,239</u>	<u>6,989,858</u>	<u>5,278,407</u>
<b>GROSS PROFIT</b>	<u>6,276,154</u>	<u>4,817,846</u>	<u>17,142,317</u>	<u>11,166,014</u>
<b>OPERATING EXPENSES</b>				
General and administrative	1,360,111	631,613	3,648,593	1,725,437
Freight	783,790	477,885	2,126,721	1,261,591
Service	820,644	592,080	2,113,157	1,692,866
Sales	526,465	326,913	1,705,647	622,974
Interest	539,049	293,672	1,459,707	934,743
Loss on Derivatives (Note 6)	159,706	-	159,706	-
Amortization and Depreciation	1,189,205	798,282	3,276,725	2,179,196
Accretion of Series A Debentures	55,641	53,639	163,765	160,917
	<u>5,434,611</u>	<u>3,174,084</u>	<u>14,654,021</u>	<u>8,577,724</u>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<u>841,543</u>	<u>1,643,762</u>	<u>2,488,296</u>	<u>2,588,290</u>
<b>FUTURE INCOME TAXES/(RECOVERIES)</b>	<u>218,852</u>	<u>-</u>	<u>470,658</u>	<u>-</u>
<b>NET AND COMPREHENSIVE INCOME</b>	<u>\$ 622,691</u>	<u>\$ 1,643,762</u>	<u>\$ 2,017,638</u>	<u>\$ 2,588,290</u>
Basic weighted average income per unit	\$ 0.05	\$ 0.14	\$ 0.17	\$ 0.30
Diluted weighted average income per unit	0.05	0.14	0.17	0.29
Basic weighted average number of units outstanding	11,911,696	11,742,443	11,865,716	8,749,104
Diluted weighted average number of units outstanding	14,368,128	14,230,538	14,364,088	11,237,199

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, 2008	Three-month period ended September, 2007	Nine-month period ended September 30, 2008	Nine-month period ended September, 2007
<b>OPERATING ACTIVITIES</b>				
Net Income	\$ 622,691	\$ 1,643,762	\$ 2,017,638	\$ 2,588,290
Items not affecting cash -				
Amortization of property and equipment	637,144	386,994	1,781,249	974,156
Amortization of intangible assets	552,062	411,288	1,495,476	1,205,040
Interest expense relating to amortization of transaction costs	57,780	-	144,592	-
Accretion of Series A Debentures	55,641	53,639	163,765	160,917
Future Income Taxes/(Recoveries)	218,852	-	470,658	-
Loss on Derivatives	159,706	-	159,706	-
Unit-Based Compensation	11,822	-	11,822	-
Gain on sale of property and equipment	(77,802)	(51,170)	(206,293)	(257,051)
	2,237,896	2,444,513	6,038,613	4,671,352
Changes in non-cash working capital balances -				
Accounts receivable	(1,261,927)	(721,224)	(216,467)	(596,950)
Inventories	352,001	212,233	174,886	(351,771)
Deposits and prepaid expenses	(210,068)	(63,373)	(232,534)	85,220
Cash held in trust	-	-	2,015,000	-
Accounts payable and accrued liabilities	1,007,761	608,159	1,537,742	538,262
	2,125,663	2,480,308	9,317,240	4,346,113
<b>INVESTING ACTIVITIES</b>				
Purchase of short term investments	(2,313)	5,629,359	1,803,149	(2,823,569)
Purchase of property and equipment	(2,618,614)	(1,863,222)	(7,972,132)	(4,867,282)
Proceeds from the sale of property and equipment	517,660	375,917	1,445,657	1,956,608
Acquisitions (Note 13)	(414,839)	-	(16,004,211)	(8,410,588)
	(2,518,106)	4,142,054	(20,727,537)	(14,144,831)
<b>FINANCING ACTIVITIES</b>				
Distributions paid	(1,786,948)	(1,761,111)	(5,339,194)	(3,539,267)
Units issued for cash (net of expenses)	160,551	30,187	672,665	19,413,210
Debentures issued for cash (net of expenses)	115,900	-	115,900	-
Equipment financing payable	-	(13,327)	-	146,175
Floor plan financing payable	-	(536,244)	-	67,096
Term mortgage payable	(3,674)	-	353,700	-
Loans payable	3,125,091	453,433	13,865,122	(1,489,316)
	1,610,920	(1,827,062)	9,668,193	14,597,898
<b>NET CHANGE IN CASH AND EQUIVALENTS DURING THE PERIOD</b>	<b>1,218,477</b>	<b>4,795,300</b>	<b>(1,742,104)</b>	<b>4,799,180</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>2,554,013</b>	<b>391,277</b>	<b>5,514,594</b>	<b>387,397</b>
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<b>3,772,490</b>	<b>\$ 5,186,577</b>	<b>3,772,490</b>	<b>\$ 5,186,577</b>
Supplemental cash flow information:				
Interest received	\$ 21,438	\$ 78,730	\$ 100,430	\$ 129,559
Interest paid	481,269	293,672	1,315,114	934,743
Conversion of convertible debentures into fund units	35,000	-	55,000	-

See accompanying Notes to the Interim Consolidated Financial Statements

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

September 30, 2008

(Unaudited)

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### 1. ORGANIZATION AND NATURE OF OPERATIONS

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

Through its indirectly owned subsidiaries, the Fund operates equipment rental, sale, and service businesses and provides logistical support to its customers in British Columbia and Alberta.

### 2. BASIS OF PRESENTATION

The Fund has consolidated the assets, liabilities and equity of all subsidiaries after the elimination of inter-entity transactions and balances. The consolidated financial statements include the accounts of the Fund, and its wholly owned subsidiaries, WesternOne Equity GP Inc. and WesternOne Equity Operating Trust. These two subsidiaries in turn include the accounts of their subsidiaries, WesternOne Equity LP, WEQ Production Equipment GP Inc., WEQ Production Equipment LP, WEQ Old Country Rentals GP Inc., WEQ Old Country Rentals LP, WEQ C&N Rentals GP Inc., WEQ C&N Rentals LP, WEQ Deerfoot Rentals GP Inc., and WEQ Deerfoot Rentals 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, 2007. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2007 audited consolidated financial statements, except as noted in note 3 below.

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

### 3. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants’ new Handbook Sections; 1535 “Capital Disclosures”, 3031, “Inventories” 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. Handbook sections 3862 and 3863 replace section 3861 “Financial Instruments – Disclosure and Presentation”. These recommendations have been incorporated into these unaudited interim consolidated financial statements.

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

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*a) Section 1535 – Capital Disclosures*

This section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Fund is required to disclose information that enables users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital (see note 14).

*b) Section 3031 - Inventories*

This section requires inventory to be measured at the lower of cost and net realizable value. This standard provides additional guidance on the types of costs that can be capitalized and requires the reversal and disclosure of previous inventory write-downs if economic circumstances have changed to support higher inventory values. The adoption of this standard did not have any impact on the Fund's interim consolidated financial statements.

*c) Section 3862 – Financial Instruments – Disclosures*

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks (see note 15).

*d) Section 3863 – Financial Instruments – Presentation*

This Section establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of this standard did not have any impact on the Fund's interim consolidated financial statements.

*e) Future accounting changes*

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and intangible assets," which replaces the existing standards. This revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. This standard is effective for the Fund's fiscal year commencing January 1<sup>st</sup>, 2009. The Fund is currently evaluating the impact of adopting this standard on its consolidated financial statements.

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

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### 4. PROPERTY AND EQUIPMENT

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 32,344,453	\$ 3,036,270	\$ 29,308,183
Building	238,154	4,483	233,671
Land	481,133	-	481,133
Tractors and trailers	687,958	120,734	567,224
Furniture, fixtures and equipment	369,948	44,693	325,255
Computer equipment and software	244,608	47,474	197,134
Leasehold improvements	264,049	53,973	210,076
	<u>\$ 34,630,303</u>	<u>\$ 3,307,627</u>	<u>\$ 31,322,676</u>

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 20,657,958	\$ 1,589,737	\$ 19,068,221
Tractors and trailers	497,457	53,248	444,209
Furniture, fixtures and equipment	79,403	13,767	65,636
Computer equipment and software	120,759	15,419	105,340
Leasehold improvements	97,071	21,772	75,299
	<u>\$ 21,452,648</u>	<u>\$ 1,693,943</u>	<u>\$ 19,758,705</u>

### 5. INTANGIBLE ASSETS

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 17,856,857	\$ 3,133,102	\$ 14,723,755
Brand name	999,348	-	999,348
Franchise Agreements	1,076,325	56,059	1,020,266
Non-competition agreements	697,692	204,596	493,096
Supplier agreements	296,423	-	296,423
	<u>\$ 20,926,645</u>	<u>\$ 3,393,757</u>	<u>\$ 17,532,888</u>

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 13,994,697	\$ 1,847,726	\$ 12,146,971
Brand name	999,348	-	999,348
Non-competition agreements	118,595	50,555	68,040
Supplier agreements	296,423	-	296,423
	<u>\$ 15,409,063</u>	<u>\$ 1,898,281</u>	<u>\$ 13,510,782</u>

# WesternOne Equity Income Fund

## Notes to the Interim Consolidated Financial Statements

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(Unaudited)

### 6. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	September 30, 2008	December 31, 2007
Operating loans	\$ 2,680,952	\$ 1,515,432
Capital loans:		
Non-revolving	2,617,544	2,937,554
Revolving	5,550,706	1,400,574
	8,168,250	4,338,128
Acquisition loan	8,898,582	-
Capital and Acquisition loans	17,066,832	4,338,128
Total Credit Facilities	\$ 19,747,784	\$ 5,853,560

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, on an interest only basis. The operating loans are at the Bank's prime rate plus 1.00% per annum and are secured by 50% of inventory and 75% of acceptable accounts receivable, minus priority claims. The operating loan has no stated maturity date.

The capital and acquisition 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 a range of 1.60% to 1.70% above the Bank's banker's acceptance rate. The non-revolving capital loan, unless repaid on demand to the Bank, shall be repaid in full by August 31, 2011. The revolving capital and acquisition loans, unless repaid on demand to the Bank, shall be repaid in full on the 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 loan, resulting in an effective interest rate of 5.45% (2007 - 7.06%) for the capital loans and 6.19% (2007 - n/a) for the acquisition loan. The lending requirements include definitions of the eligibility for assets subject to financing.

On July 2, 2008, the Fund entered into an interest rate swap with the Bank. Under the terms of the swap, the variable-rate acquisition loan, which had an outstanding balance of \$9,027,843 as at September 30, 2008 and of \$9,312,000 at the commencement of the swap, was converted to a fixed rate of 5.78% for a period of three years. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$159,706. The Fund will mark the value of this derivative to market every quarter, and any resulting gains/losses will be recorded in the statement of income and comprehensive income.

The credit facilities have covenants specifying a minimum current ratio<sup>1</sup> of 1.2 to 1.0, a maximum funded debt to earnings ratio of 2.75 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0, a maximum debt to tangible net worth ratio of 4.0 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. As at September 30, 2008 the Fund was in compliance with all bank covenants.

<sup>1</sup> The calculation excludes the portion of the credit facilities that are due longer than one year, unless repaid on demand to the Bank, from the Fund's Current Liabilities.

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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 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, 2008 .....	\$ 566,610
2009 .....	2,395,295
2010 .....	2,532,672
2011 .....	4,593,073
2012 .....	2,134,541
2013 .....	5,008,245
Balance of transaction costs to amortize.....	<u>(163,604)</u>
	<u>\$ 17,066,832</u>

### 7. EQUIPMENT FINANCING PAYABLE

The Fund, through its wholly-owned indirect subsidiaries, assumed seven capital leases relating to rental equipment and operating assets, for a total of \$212,141 of equipment financing payable. The equipment financing payable amounts require monthly payments, at interest rates ranging from 0% to 3.9% per annum, and have maturity dates ranging to December, 2011. The current and non-current portions of the total gross payments are as follows:

October 1 to December 31, 2008 .....	24,681
2009 .....	92,031
2010 .....	67,896
2011 .....	<u>28,067</u>
Total gross payment	\$ 212,675
Less: Imputed interest	<u>(534)</u>
	212,141
Less: Current portion	<u>(97,120)</u>
Non-current portion	<u>\$ 115,021</u>

A security agreement providing a charge over the equipment specifically relating to the financing above has been provided as collateral to the financing company.

As at September 30, 2008, the net book value of the rental equipment and operating assets under equipment financing was \$256,274.

### 8. TERM MORTGAGE

The Fund has obtained, through a wholly-owned indirect subsidiary, a term mortgage, during the year. 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 6.5%, 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<sup>th</sup>, 2012), a principal amount of \$303,349 will remain

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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, using the effective interest method are as illustrated:

October 1 to December 31, 2008 .....	\$ 3,798
2009.....	15,760
2010.....	16,815
2011.....	17,941
2012.....	309,574
Balance of transaction costs to amortize .....	<u>(9,027)</u>
	354,861
Less current portion .....	<u>(15,507)</u>
	<u>\$ 339,354</u>

### 9. FUTURE INCOME TAXES

The temporary differences comprising the future income tax asset/(liability) are estimated as follows:

	September 30, 2008	December 31, 2007
Future income tax asset/(liability):		
Issue Costs	\$ 111,992	\$ 423,249
Intangible Assets	769,070	895,849
Property, Plant and Equipment	125,333	147,817
Others	<u>(24,817)</u>	<u>(14,677)</u>
	<u>\$ 981,578</u>	<u>\$ 1,452,238</u>

Based on a current estimate of the income tax liability at the beginning of 2011, the Fund recognized a future income tax asset and corresponding non-cash future tax recovery to net income in 2007. This non-cash recovery is based on temporary differences between the accounting and tax basis of the Fund's assets and liabilities expected to reverse after January 1, 2011.

For the three months ended September 30, 2008, the estimated future income tax asset was reduced by \$218,852 based on the temporary differences between the accounting and tax basis of the Fund's assets and liabilities as at September 30, 2008 expected to reverse after January 1, 2011.

### 10. SERIES A DEBENTURES

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

At maturity the Fund shall repay the outstanding principal amount of the Series A Debentures, along with any accrued or unpaid interest. At any time after August 15, 2008, providing not less than 30 days' notice and not more than 60 days' notice, the Fund may redeem the Series A Debentures at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption, provided that the Current Market Price (defined as “the weighted average trading price of the units on the Exchange for the 20 consecutive trading days ending on the fifth trading day preceding such date, of the

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units of the day preceding the date”) on which notice of redemption is given is at least 125% of the conversion price.

The holders of Series A Debentures are permitted to convert all or any part of the principal of, and accrued interest on, the Series A Debentures held by them into Units at the conversion price of \$4.20 per Unit at any time prior to the maturity of the Series A Debentures except in respect of the 15 days before an interest payment date or the maturity date, subject to anti-dilution provisions which provide for adjustment to the conversion price in certain circumstances, including a subdivision, redivision, reduction, combination or consolidation of units. In order to convert the Series A Debentures, a holder of Series A Debentures must present the Series A Debentures to Computershare Trust Company of Canada in accordance with the terms of the Series A Debentures.

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

Cash financing costs in the amount of \$1,060,332 were incurred in the issuance of the Series A Debentures. The financing costs were netted against the Series A Debentures and amortized using effective interest method. The effective interest rate for the three months ended September 30, 2008 was 12.6% (2007 – 12.6%).

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2007 and September 30, 2008:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2007	\$ 10,000,000	\$ 8,238,358	\$ 1,116,250
Conversion to Units on May 30, 2008	(20,000)	(17,767)	(2,233)
Conversion to Units on July 11, 2008	(15,000)	(13,325)	(1,675)
Conversion to Units on July 22, 2008	(20,000)	(17,767)	(2,233)
Exercise of Agent's Options on July 30, 2008	115,900	93,367	22,533
Amortization and Accretion		278,093	
Balance as at September 30, 2008	\$ 10,060,900	\$ 8,560,959	\$ 1,132,642

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.

## 11. 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, whether of income, net realized capital gains (other than net realized capital gains

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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. The Units are not subject to future calls or assessments, and entitle the Unitholders thereof to one vote at all meetings of voting Unitholders.

The Units are redeemable at any time on demand by the holders thereof, subject to certain terms and conditions. The 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.

At closing of the Offering, the Fund granted the agents an option to purchase a certain 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 (the "Agents' Option"). The price to purchase the Units and Series A Debentures under the Agents' Option was equal to the price under the Offering (\$3.50 per Unit and \$100.00 per Series A Debenture). The Agents' Option will expire on August 14, 2009.

Since the Fund's financial year ended December 31, 2007, the Fund and/or its subsidiaries have issued the following units:

(a) *January 16, 2008 new issue pursuant to exercise of agent's options*

On January 16, 2008, pursuant to the Agents' Option, the Agents performed a partial exercise of their Agents' Option, whereby 2,500 Units were issued at \$3.50 per Unit, for total net proceeds of \$8,750.

(b) *February 15, 2008 exchangeable unit issuance by Deerfoot LP*

On February 15, 2008, pursuant to the acquisition of the assets of Deerfoot (see note 13), Deerfoot 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.

(c) *May 22, 2008 new issue pursuant to exercise of agent's options*

On May 22, 2008, pursuant to the Agents' Option, the Agents performed a partial exercise of their Agents' Option, whereby 750 Units were issued at \$3.50 per Unit, for total net proceeds of \$2,625.

(d) *May 30, 2008 conversion of Series A Debentures to Units*

On May 30, 2008, pursuant to the terms of the Offering (see note 10, above), a partial exercise of the right of conversion was exercised whereby 200 Debentures with a nominal value of \$20,000, and \$741 in accrued interest were exchanged for 4,938 Units at the exercise price of \$4.20 per unit.

(e) *July 11, 2008 conversion of Series A Debentures to Units*

On July 11, 2008, pursuant to the terms of the Offering (see note 10, above), a partial exercise of the right of conversion was exercised whereby 150 Debentures with a nominal value of \$15,000, and \$40 in accrued interest were exchanged for 3,581 Units at the exercise price of \$4.20 per unit.

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(f) *July 22, 2008 conversion of Series A Debentures to Units*

On July 22, 2008, pursuant to the terms of the Offering (see note 10, above), a partial exercise of the right of conversion was exercised whereby 200 Debentures with a nominal value of \$20,000, and \$105 in accrued interest were exchanged for 4,787 Units at the exercise price of \$4.20 per unit.

(g) *July 30, 2008 new issue pursuant to exercise of agent's options*

On July 30, 2008, pursuant to the Agents' Option, the Agents performed a partial exercise of their Agents' Option, whereby 45,830 Units were issued at \$3.50 per Unit, for total net proceeds of \$160,405.

During the period from the creation of the Fund on June 14, 2006 to September 30, 2008, a total of 11,806,061 Units and 125,000 Exchangeable LP Units were issued for \$39,063,026 excluding offering costs and Agents' Option.

## 12. 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 August, 2009 to August, 2014. The minimum operating lease commitments, over the next five years, are as follows:

October 1 to December 31, 2008 .....	\$ 146,883
2009 .....	572,102
2010 .....	476,709
2011 .....	286,287
2012 .....	164,294
2013 .....	71,683
Thereafter .....	24,066

(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, 2008 .....	\$ 164,852
2009 .....	662,463
2010 .....	657,205
2011 .....	629,603
2012 .....	503,536
2013 .....	470,959
Thereafter .....	3,535,297

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

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### 13. ACQUISITIONS

On January 1, 2008, pursuant to an acquisition agreement dated December 21, 2007, WEQ C&N Rentals LP (“C&N LP”), a limited partnership established under the laws of Manitoba on August 27, 2007, and an indirect subsidiary of the Fund, purchased the assets of C&N Motors Ltd. (“C&N”) from the shareholders of C&N.

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	\$ 219,403
Inventories	203,284
Prepays	16,941
Accounts payable	(125,401)
Property and equipment	1,097,002
Intangible assets	375,692
Goodwill	548,880
	<hr/>
	\$ 2,335,801
Cash position at acquisition	600
	<hr/>
	\$ 2,336,401

Note - For the purposes of the Consolidated Statements of Cash Flows, the investment has been recorded as the net of the consideration of \$2,336,401 less the cash position at acquisition of \$600.

Pursuant to the acquisition agreement dated December 21, 2007, an additional \$300,000 (the “Earnout Provision”) may be paid out to the shareholders of C&N, subject to completion of financial statements for C&N LP for the years ended December 31, 2008 and December 31, 2009 with earnings achieved above a certain threshold that was agreed upon by both parties. Given the contingent nature of the consideration, the Earnout Provision has not been recognized in the purchase price above, or in the Fund’s interim consolidated financial statements for the three and nine months ended September 30, 2008.

On February 15, 2008, pursuant to the acquisition agreement dated February 14, 2008, WEQ Deerfoot Rentals LP (“Deerfoot LP”), a limited partnership established under the laws of Manitoba on January 25, 2008, and an indirect subsidiary of the Fund, purchased the assets of Deerfoot Equipment Rental Inc. (“Deerfoot”) from the shareholders of Deerfoot.

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The purchase price was paid in a combination of cash and through issuance of 125,000 Exchangeable LP Units (see note 11 above). 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	\$ 1,933,503
Inventories	28,424
Prepays	13,554
Accounts payable	(1,225,852)
Property and equipment	5,407,830
Intangible assets	4,824,075
Goodwill	2,272,037
	<hr/>
	\$ 13,253,571
Consideration:	
Cash	\$ 12,753,571
Issuance of Exchangeable LP Units (125,000 units @ \$4.00/unit)	500,000
	<hr/>
	\$ 13,253,571

On July 1, 2008, pursuant to an acquisition agreement dated June 30, 2008, WEQ Production Equipment LP, an indirect subsidiary of the fund, purchased the assets of a private and independent equipment rental company, of Vancouver, British Columbia.

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	
Property and equipment	\$ 80,000
Intangible assets	317,815
Goodwill	17,024
	<hr/>
	\$ 414,839

#### 14. CAPITAL DISCLOSURES

The Fund's capital currently consists of cash and equivalents, short-term investments, credit facilities, debentures and issued unit capital. The Fund's capital management objectives are to (i) safeguard its ability to continue as a going concern; and (ii) ensure liquidity for working capital or other investments required to grow the business, and to pay distributions to its Unitholders, after satisfaction of its debt service and provisions for administration expenses of the Fund. The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Fund's credit facilities have restrictive covenants relating to debt incurrence and distributions to Unitholders. Furthermore, the credit facilities contain financial covenants, as described in note 6 above, that also form the basis for the Fund to monitor its capital on an ongoing basis. The Fund closely monitors the business performance to evaluate compliance with the covenants. In managing the capital structure, the Fund may take such action as adjusting capital spending, adjusting distributions to Unitholders, purchasing Units for cancellation pursuant to normal course issuer bids, issuing new Units, issuing new debt or repaying existing debt. As at September 30, 2008, the Fund is in compliance with the covenants.

# WesternOne Equity Income Fund

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### 15. FINANCIAL INSTRUMENTS

(a) *Comparison of fair value to carrying value*

Financial instruments consist of cash and equivalents, short term investments, accounts receivable, operating loan, accounts payable and accrued liabilities, distributions payable, capital and acquisition loans, and Series A Debentures. The carrying values of the financial instruments, except for the capital and acquisition loans and Series A Debentures, are considered to approximate their fair values due to their short term nature. The carrying values of the capital and acquisition loans are considered to approximate their fair values as the interest rates flow with the prime rate. The carrying value of the financial derivative is equal to their fair value as they are marked to market at each balance sheet date. The fair value of Series A Debenture, as at September 30, 2008, was \$10,060,900 (2007 – 10,100,000 for all outstanding debentures).

(b) *Credit risk*

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

The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry in British Columbia and Alberta due to its concentration of business in that sector. The Fund mitigates the risk by means of a diverse customer base in the construction (residential, commercial, and infrastructure) 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, 2008. 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 historical losses, while minimal, have been within management's expectations.

Aging of receivables is as follows:

	September 30, 2008	December 31, 2007
Trade receivables, gross		
Outstanding 1-30 days	\$ 2,911,593	\$ 1,481,236
Outstanding 30-60 days	1,291,745	812,877
Outstanding over 60 days	665,335	486,207
	4,868,673	2,780,320
Allowance for doubtful accounts	(96,751)	(81,648)
Trade receivables, net	4,771,922	2,698,672
Sales tax and other receivables	709,555	413,433
<b>Accounts Receivable</b>	<b>\$ 5,481,477</b>	<b>\$ 3,112,105</b>

The Fund is also exposed to credit risk with respect to its short-term investments. The Fund mitigates the risk by only investing in money market securities (GICs and bankers' acceptances) with major financial institutions.

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### (c) Liquidity risk

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

The Fund manages its liquidity risk through cash and debt management. As at September 30, 2008, the Fund had available unused approved credit facilities of \$2,069,048 for its operating loans, and \$29,550,712 for its capital and acquisition loans. The Fund also has accounts receivable of \$5,481,477, and cash reserve and short-term investments totalled \$4,142,403. The Fund believes it has sufficient funding to meet foreseeable obligations.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	1 year	2-3 years	4-5 years	beyond 5 years	Total
Accounts payable and accrued liabilities	\$ 3,885,139			\$	3,885,139
Distributions payable	590,303				590,303
Equipment financing payable	97,120	110,443	4,578		212,141
Term mortgage	15,507	34,200	314,181		363,888
Capital and acquisition loans	2,350,259	7,220,976	7,327,249	331,952	17,230,436
Totals	\$ 6,938,328	\$ 7,365,619	\$ 7,646,008	\$ 331,952	\$ 22,281,907

### (d) Interest rate risk

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

The Fund's credit facilities bear interest at variable rates. The Fund has the option to enter into fixed rate interest arrangements in order to reduce its exposure to interest rate risk.

For the three-months ended September 30, 2008, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$20,856, whereas for the nine months ended September 30, 2008 this amounts to \$50,550.

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

The Fund's Series A Debentures bear a fixed interest rate of 9% throughout the five-year term and thus are not exposed to any interest rate risk.

### (e) Foreign exchange risk

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

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

As at September 30, 2008, the Fund's consolidated balance sheet included \$759,990 of accounts payable (2007 - \$33,358) and \$369,881 of net operating loan (net of cash in bank that was U.S. currency denominated) (2007 - \$15,034) which were U.S. currency denominated.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At September 30, 2008 there were no foreign exchange contracts outstanding.

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

The following is a summary of the accounting model the Fund has elected to apply to each of its significant categories of financial instruments outstanding as of September 30, 2008:

Cash .....	Held-for-trading
Short term investments .....	Held-for-trading
Financial Derivatives.....	Held-for-trading
Accounts receivable .....	Loans and receivables
Operating loan .....	Other liabilities
Accounts payable and accrued liabilities .....	Other liabilities
Distributions payable .....	Other liabilities
Capital and Acquisition loans .....	Other liabilities
Series A debentures .....	Other liabilities

### 16. 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 \$24,771 for the three months ended September 30, 2008 (\$288,300 for the nine months ended September 30, 2008). These transactions arose during the normal course of business and have been recorded at fair market value.

#### (b) *Rental Obligation*

The Fund currently rents premises in Calgary, Alberta in which an employee of the fund holds a non-controlling interest. To date, the Fund has paid \$18,229 (entirely in the third quarter of 2008) to the company. The exchange between the parties is at fair market value.

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#### 17. UNIT OPTIONS

At September 30, 2008, 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. The plan was initiated on August 15, 2006. In the period ended September 30, 2008, the Fund recognized \$11,822 in compensation cost.

On July 9, 2008, the Fund granted options to acquire 463,000 units to directors, trustees and other employees. Under this plan, the exercise price of each option is equal to the market value of the unit at the date of grant. These options vest evenly over five years. The expiry of the options is ten years from the date of initial grant.

A summary of the details of the options granted follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding, at January 1, 2008	-	-	-
Granted	463,000	\$ 4.90	\$ 4.90
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, at September 30, 2008	463,000	\$ 4.90	\$ 4.90
Exercisable at September 30, 2008	-		
Weighted average fair value of options granted to September 30, 2008		\$ 0.55	

The following table illustrates the fixed unit options outstanding, as of September 30, 2008:

	Outstanding Options			Options Exercisable	
	Number Outstanding September 30, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable September 30, 2008	Weighted Average Exercise Price
Range of Exercise Prices:					
\$ 4.90	463,000	9.8 years	\$ 4.90	-	-

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

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### 18. SUBSEQUENT EVENTS

*(a) Acquisition of SureFire Propane Ltd., and Davis Heater Service Ltd.*

On October 1, 2008, the Fund, through one of its indirect subsidiaries, announced that it had completed the purchase of the assets and business of SureFire Propane Ltd. and Davis Heater Service Ltd., an equipment rental, construction heat and propane distribution business with locations in Edmonton and Calgary. The purchase price was \$24.4 million, which was financed entirely through debt.

*(b) October 27, 2008 conversion of Series A Debentures to Units*

On October 27, 2008, pursuant to the terms of the Offering, a partial exercise of the right of conversion was exercised whereby 1,590 Debentures with a nominal value of \$159,000, and \$4,649 in accrued interest were exchanged for 38,964 Units at the exercise price of \$4.20 per unit.