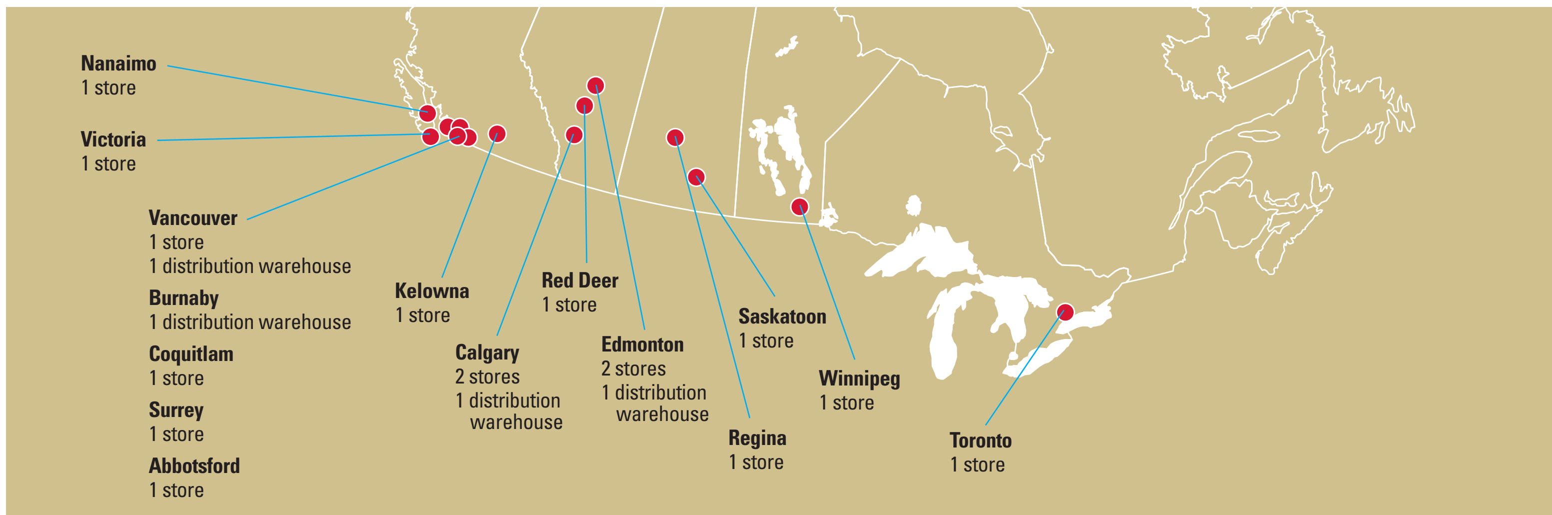
Q1 Coast Wholesale Appliances Income Fund

Report to Unitholders
three months ended
March 31, 2010



Coast Wholesale Appliances Income Fund

Coast Wholesale Appliances Income Fund is an unincorporated, open-ended, limited purpose trust launched on June 23, 2005 with the completion of an initial public offering of 6,525,000 trust units. The Fund was created to acquire and hold a 65% indirect interest in Coast Wholesale Appliances LP (Coast). The remaining 35% interest has been retained by the previous ownership.

Cash distributions, currently paid monthly to public unitholders and the retained interest, are entirely dependent on the performance of Coast.

Coast Wholesale Appliances LP

Coast is a leading independent supplier of major household appliances and accessories to developers and builders of multi-family and single-family housing, and to retail customers.

Founded in 1978, Coast originally operated exclusively as a wholesale supplier to developers and builders in Western Canada, later broadening our focus to include the retail market. In January 2009, we expanded geographically into the Greater Toronto Area (GTA) of Ontario.

Today, our business combines contract sales to developer and builder customers with direct sales to retail customers at 15 stores across the four western provinces and one store in the GTA. At each Coast location, we offer our customers the convenience of one-stop shopping for all of their major household appliance needs across more than 35 major brands.

The exceptional stability our business has shown over the past 32 years is due in large part to the essential nature of the major home appliances we sell. New product innovations and a focus on home décor and energy efficiency have also contributed to our sales results.

Our business strategy has three elements. To create value for the Fund's unitholders, we plan to:

1. Build on our strong market position in Western Canada and explore additional growth opportunities in the Ontario market;
2. Increase sales from our existing stores; and
3. Continue to enhance our profitability.

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Performance Highlights

(in thousands of dollars except percentages and per-unit amounts)

	2010 Q1	2009 Q1	2008 Q1
Sales	30,454	33,179	33,876
Gross margin	7,471	7,723	8,466
As a percentage of sales	*24.5%*	*23.3%*	*25.0%*
Income before non-controlling interest	728	1,050	1,941
Basic and diluted net income per unit	0.073	0.105	0.194
EBITDA	1,442	1,990	2,849
EBITDA margin	*4.7%*	*6.0%*	*8.4%*
EBITDA per unit	0.144	0.198	0.284
Maintenance capital expenditures	33	43	181
Adjusted distributable cash	1,123	1,614	2,415
Adjusted distributable cash per unit	0.112	0.161	0.241
Distribution per unit	0.125	0.166	0.308
Adjusted distribution ratio	*111.5%*	*103.5%*	*127.8%*

To Our Unitholders

We are pleased to report that the Fund continued to deliver strong retail sales performance in what is normally a seasonally slower winter period for Coast. In the contract segment, as expected, our first quarter sales to our developer and builder customers were down due to reduced flow of new projects. Thanks in large part to our balanced business model, we were able to sustain the significant balance sheet improvements we achieved in 2009.

First Quarter Results

While the Canadian economy continued to grow in the early months of 2010, the business environment remained uncertain. Consumer confidence improved through the first quarter; however, our retail customers continued to be very cautious about making major purchases. Consequently, the retail pricing environment remained extremely competitive. Credit markets loosened somewhat for our builder and developer customers, but continued to restrict their ability to finance new projects. Finally, while new home construction activity increased year-over-year, the numbers of housing starts and building permits issued remained significantly below the levels we saw in 2007 and early 2008.

As a result of all of these factors, Coast's first quarter revenue of $30.5 million was down by 8.2% over 2009. In British Columbia, the softening of our contract business was partially offset by the stronger retail sales, but overall revenues declined year-over-year. Business in Alberta and Saskatchewan showed modest growth during the quarter, while revenues in Manitoba were down somewhat from the 2009 level. In the Greater Toronto Area (GTA), the store we added in January 2009 continued to perform below expectations, due to the challenging economic conditions in Southern Ontario.

With the continued shift of our business mix in favour of retail sales, our gross margin percentage improved by 1.2% to 24.5%, as our retail business generates a higher margin than sales to developers and builders. The year-over-year gain was somewhat restrained by the more competitive retail pricing environment. Although the Canadian dollar strengthened through the quarter, eventually achieving parity with the US dollar, we saw only minor benefits as price adjustments from our US-based suppliers always lag favourable changes in exchange rates.

The reduction in our first quarter revenues, and resulting $0.3 million reduction in gross margin dollars, brought our EBITDA down by $0.6 million to $1.4 million from the $2.0 million we reported in 2009. This brought our EBITDA margin down to 4.7% from 6.0% in 2009. In addition, our selling, warehouse, facility and general and administrative expenses for the quarter were up by $0.3 million year over year, due in large part to increased sales and marketing expenditures at our GTA store. To strengthen our position in this key market, we added four new senior members to our local contract sales team in February of this year. Net income before non-controlling interest for the quarter was $0.7 million, or 2.4% of sales, compared to $1.1 million, or 3.2% of sales, in 2009.

At March 31, 2010, the Fund's cash position was significantly improved over the 2009 quarter-end, with no drawings on our operating line for the third consecutive quarter and a cash balance of $1.4 million. This compares favourably to an operating line of $0.4 million and cheques issued in excess of funds on deposit of $1.5 million at March 31, 2009. The elimination of the use of our operating line, together with the repayment of $3.3 million of our acquisition term debt in the third quarter of 2009, allowed us to reduce our interest expense year-over-year.

Cash Distributions

For each of the months of January, February and March 2010, the Fund declared and paid distributions in the amount of $0.0416 per unit, representing an annualized distribution rate of $0.50 per unit. A distribution in the same amount has been declared for the month of April 2010. Since our inception, the Fund has paid a total of 57 consecutive monthly cash distributions to our public unitholders, and equivalent cash distributions to the non-controlling interest held by CWAL Investments Ltd.

During the first quarter, the Fund generated adjusted distributable cash (before non-controlling interest) of $1.1 million, or $0.11 per unit. This compares to $1.6 million, or $0.16 per unit, in the same period of 2009. The amount distributed and accrued for payment to unitholders and the non-controlling interest in the first quarter decreased to $1.3 million, or $0.13 per unit, from $1.7 million, or $0.17 per unit, in 2009. The difference was due to the February 2009 reduction in our distribution amount.

Our adjusted payout ratio for the quarter increased to 111.5% from 103.5% in 2009. The higher payout ratio in 2010 was due mainly to the year-over-year reduction in adjusted distributable

cash, offset somewhat by the reduction in distributions. On a cumulative basis, from our inception, the Fund's adjusted payout ratio is 93.3%.

Outlook

The following discussion is qualified in its entirety by the forward-looking statements proviso at the beginning of the management's discussion and analysis, which follows this letter, and by the section on risks and uncertainties at the end of the management's discussion and analysis.

The outlook for our business remains cautious. While the economic landscape has improved, an uncertain business climate persists. In the contract segment, we expect that our major builder and developer customers will continue to be restricted by tight credit markets, as well as by rising lending rates, throughout 2010. However, we are encouraged by the year-over-year increases in the number of building permits issued and new housing starts that were recorded in both the final quarter of 2009 and first quarter of 2010. Based on these increases, we anticipate that our sales to developers and builders will begin to improve in the second half of the year. Typically, once a building permit has been issued, appliance sales are realized within six to eight months for single-family properties and after approximately 18 months for multi-family developments.

On the retail side, although sales have steadily increased, consumers remain cautious about major purchases. We expect that the retail pricing environment will remain extremely competitive, putting downward pressure on our margins.

To drive sales growth and enhance our profitability, we continue to refine our product offerings. Building on the sales success we experienced with the introduction of the Miele product line at the beginning of 2009, we have entered into an agreement to add the Bosch and Thermador brands at selected locations by early in the third quarter. We expect that the introduction of these products will generate incremental revenues in both the contract and retail segments of our business.

In support of our ongoing focus on increasing operating efficiency, we are now in the final stages of preparing for the consolidation of our Vancouver and Burnaby warehouses at the Burnaby site, which we expect to complete by the end of the second quarter. We are expanding the Burnaby site to accommodate the expected increase in product flow. In Alberta, as part of our ongoing strategy to enhance profitability by increasing sales from our existing stores, we are proceeding with preparations for a minor upgrade to our Calgary South location, to begin later in the year.

As announced on May 5, 2010, subject to unitholder approval at our annual and special meeting of unitholders on June 23, 2010, the Fund intends to convert from an income trust to a corporate structure by the end of the current fiscal year. Given the imminent elimination of the current tax efficiencies on distributions, we believe that the conversion is in the best interests of our unitholders. Under the new tax rules, a corporate structure will also be better suited to both our business model and our growth strategy.

Over the short-term, we expect that the current level of cash distributions will allow us to maintain the balance sheet strength we require to manage through the present uncertain business climate. Over the longer-term, we remain confident of our ability to grow our business when market conditions improve and to continue to deliver solid returns for our investors.

In closing, we extend our gratitude to all of our partners in success – our employees across Western Canada and Ontario, our suppliers and our customers – and our appreciation to you, our unitholders for your continued support of our business. We look forward to reporting back to you at the end of the second quarter.

Sincerely,

R. Blain Lawson
President and CEO,
Coast Wholesale Appliances, LP

Patrick Dennett
Trustee of Coast Wholesale
Appliances Income Fund
and Director of Coast Wholesale
Appliances GP Inc.

Management's Discussion and Analysis of Financial Conditions and Operations

For the period ended March 31, 2010

This management's discussion and analysis has been prepared by Coast Wholesale Appliances Income Fund (the Fund) as of May 5, 2010. It should be read in conjunction with the Fund's unaudited interim consolidated financial statements and accompanying notes for the three-month period ended March 31, 2010 and our audited consolidated financial statements for the year ended December 31, 2009 (available at *www.sedar.com* or *www.coastincomefund.com*). These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

This report presents our financial results for the period from January 1, 2010 to March 31, 2010, which represents the first quarter of our 2010 fiscal year.

Forward-looking Statements

This report includes forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "may", "plan", "will", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to, comments with respect to the sustainability of our distributions and the level of our payout ratio in the future. Forward-looking statements are included in, but are not limited to, the sections titled Economic and Industry Factors, Working capital and liquidity, Capital expenditures and Outlook.

These forward-looking statements reflect current expectations of management regarding future events and operating performance as of the date of this report. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: sensitivity to general economic conditions; maintenance of profitability and management of growth; competition; changes in consumer preferences; changes in the mix of product sales; fluctuations in fuel and commodity pricing, which may impact freight and other costs; usage of extended warranty programs and the costs to deliver these services; changes to planning and supply chain processes; reliance on suppliers; lack of supplier agreements; reliance on key personnel; foreign exchange rates as they relate to imported products; and interest rates.

Although the forward-looking statements contained in this report are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements reflect management's current beliefs and are based on information currently available to the Fund. They speak only as of the date of this report, and reflect current assumptions regarding future events and operating performance. These assumptions include, without limitation: modest economic growth in 2010 in both Western Canada and the Greater Toronto Area (our current market areas); continued fluctuations in exchange rates; low but slowly increasing interest rates as we move through 2010; improved but still cautious credit markets for our major builder customers to obtain financing for their current and future building activities; a continued, gradual improvement in consumer confidence as the economy recovers, reflected in increasing retail sales of major household appliances; and a continuation of the recent resurgence of new home construction activity, reflected in higher levels of new building permits issued and housing starts compared to last year. These forward-looking statements are made as of the date of this report and the Fund assumes no obligation to update or revise them to reflect new events or circumstances, other than as required by law.

First Quarter 2010 Summary

Financial highlights

- Revenues of $30.5 million were down by 8.2% from the 2009 first quarter level.
- Contract business with developers and builders was down year-over-year due to a reduced flow of new projects, a reflection of decreased housing starts in 2008 and the first three quarters of 2009.
- Retail sales continued to improve and exceeded the 2009 first quarter level.
- Gross margin percentage improved to 24.5% from 23.3% in 2009, due mainly to our proportionally higher retail sales.
- Selling, warehouse, facility, and general and administrative expenses of $6.0 million were up by $0.3 million over 2009, due in large part to increased sales and marketing expenditures at our Greater Toronto Area (GTA) store.
- EBITDA of $1.4 million was down from the $2.0 million reported in 2009 due to reduced revenue and increased costs in Q1 2010.
- The Fund's cash position remained strong with no usage of our operating line of credit during the quarter and a cash balance of $1.4 million at March 31, 2010.
- Cash distributions to public unitholders and the retained interest were maintained at $0.416 per unit per month throughout the quarter.
- The Fund's adjusted payout ratio increased for the quarter to 111.5% from 103.5% in 2009 and decreased on a trailing 12-month basis to 68.0% from 104.2% at March 31, 2009.

Operating highlights

- To strengthen our market position in the GTA, we added four new senior members to our contract sales team.
- In support of our ongoing focus on increasing operating efficiency, we proceeded with arrangements towards the consolidation of our Vancouver and Burnaby warehouses at the Burnaby site at the end of the second quarter.
- Building on the sales success we experienced with the introduction of the Miele product line at the beginning of 2009, we entered into an agreement to add the Bosch and Thermador brands at selected locations by early in the third quarter.
- As part of our ongoing strategy to enhance profitability by increasing sales from our existing stores, we proceeded with preparations for a minor upgrade to our Calgary South location, to begin later in the year.

Business environment

- The Canadian economy sustained the improvement seen in the fourth quarter of 2009 and continued to grow through the first three months of 2010.
- Our retail business was favourably impacted by increasing consumer confidence.
- Credit markets improved for our builder and developer customers, allowing greater access to financing for new projects.
- Housing starts and the numbers of building permits issued for new home construction continued to increase.
- The Canadian dollar strengthened through the quarter, achieving parity with the US dollar; however, we saw only minor benefits from our US-based suppliers as prices from these suppliers have not been significantly adjusted.
- As a result of difficult economic conditions in Southern Ontario, our GTA store continued to perform below expectations.

Fund Overview

The Fund is an unincorporated, open-ended, limited-purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. We commenced operations on June 23, 2005, when we completed an initial public offering of trust units and acquired a 65.03% indirect interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan and Manitoba from Coast Wholesale Appliances Ltd., now called CWAL Investments Ltd. The Fund holds, indirectly, 65.03% of the outstanding Class A Limited Partnership Units of Coast Wholesale Appliances LP (Coast), a limited partnership established under the laws of the Province of Manitoba, and our results are entirely dependent on Coast's operating results. In 2009, the business was expanded geographically into Ontario.

Economic and Industry Factors

The economic and industry factors impacting our business have not changed substantially from those discussed in our 2009 annual report, dated March 17, 2010 (available at www.sedar.com or www.coastincomefund.com). Although most of the world's major economies are showing signs of growth as they exit the recession, an uncertain business environment persists globally. The risk of further setbacks in the world's economies is ever present. In Canada, while the economic outlook has improved, and we experienced growth in both the final quarter of 2009 and the first quarter of 2010 in the retail side of our business, the business climate remains somewhat uncertain. However, credit markets have started to loosen, improving the ability of our builder and developer customers to finance both their current and future projects. A stronger Canadian dollar relative to the US dollar has persisted into the first quarter. To date, however, we have seen only limited benefits from our US-based suppliers as prices from these suppliers have not been significantly adjusted.

As in the final quarter of 2009, our contract business continued to slow in the early months of 2010. Due to the significant decreases in new building permits issued and housing starts across Canada that began in mid-2008 and continued into 2009, we had considerably fewer projects coming to completion. Building permits began to rebound in the final quarter of 2009, and have continued to increase year-over-year, but only to the levels seen in 2005 and 2006. Based on the low numbers of permits issued from late 2008 through early 2009, we anticipate that our contract business will remain slow through the first half of 2010, and will not begin to increase until the latter part of the year.

Consumer confidence in the Canadian economy has continued to improve and we have seen a steady increase in our retail traffic and retail sales year-over-year over the past six months. However, we anticipate that the retail pricing environment will remain very competitive.

Seasonality

The Fund establishes an annual distribution rate and the monthly distributions paid to unitholders are averaged through the year. This payment pattern may not correlate to our income, on a monthly basis, as sales of our products are subject to seasonal fluctuations that follow our customers' building activities. Historically, the first quarter has been our slowest, accounting for approximately 22% to 23% of annual sales. Sales are generally relatively evenly distributed in the balance of the year, with a somewhat softer fourth quarter in comparison to the second and third quarters.

Selected Financial Information

The following selected financial information has been derived from the Fund's unaudited interim consolidated financial statements for the three months ended March 31, 2010. It should be read in conjunction with these statements, as well as with our audited consolidated financial statements for the year ended December 31, 2009 (available at *www.sedar.com* or *www.coastincomefund.com*).

Operating Results

(in thousands of dollars except percentages and per-unit amounts)

	3 months ended March 31 2010	3 months ended March 31 2009	3 months ended March 31 2008
Sales	30,454	33,179	33,876
Cost of sales	22,983	25,456	25,410
Gross margin	7,471	7,723	8,466
As a percentage of sales	*24.5%*	*23.3%*	*25.0%*
Expenses (1)	5,999	5,708	5,596
Amortization of leasehold inducements (netted with facility expenses)	30	25	21
EBITDA (2)	1,442	1,990	2,849
As a percentage of sales	*4.7%*	*6.0%*	*8.4%*
Interest	279	326	340
Interest rate swap	(150)	(18)	–
Future income taxes (recovery)	–	(20)	(24)
Amortization	585	652	592
Net income before non-controlling interest	728	1,050	1,941
As a percentage of sales	*2.4%*	*3.2%*	*5.7%*
Non-controlling interest	255	367	678
Net income	473	683	1,263
Net income per unit (basic & diluted)	0.073	0.105	0.194
Cash distributions per unit	0.125	0.166	0.308
EBITDA (2) per unit	0.144	0.198	0.284
Total assets	128,846	134,252	128,786
Total long-term financial liabilities (3)	25,015	27,820	22,277

(1) Expenses include selling, general and administrative, facilities and warehousing expenses.
(2) See definition of EBITDA under Non-GAAP Measures.
(3) Total long-term liabilities include term debt classified as a current liability.

Sales

Sales for the three months ended March 31, 2010 were $30.5 million, down by $2.7 million, or 8.2%, from the $33.2 million we reported in the first quarter of 2009. Our retail business showed considerable strength in the quarter. Sales surpassed the level recorded in the first quarter of 2009, reflecting growing consumer confidence in the Canadian economy. However, as expected with the reduced numbers of new building permits issued and housing starts in the second half of 2008 and the first three quarters of 2009, the slowdown in our contract sales to developers and builders that began in the final quarter of 2009 continued into the early months of 2010. Consequently, our business mix continued to favour retail sales over contract business.

In BC, the continued softening of our contract business was only somewhat offset by the strengthening of our retail sales, resulting in a decline in overall sales compared to the first quarter of 2009. Sales in Alberta showed modest growth over Q1 of 2009 but remained down from the peak levels reached in 2008, when our builder business was much stronger. In Saskatchewan, sales continued to grow year-over-year, while sales in Manitoba were down somewhat when compared to Q1 of last year. Our GTA store continued to perform below expectations due to the continued difficult economic conditions in that market.

Cost of sales and gross margin

Cost of sales for the three months ended March 31, 2010 was $23.0 million, or 75.5% of sales. This resulted in a gross margin of $7.5 million, or 24.5% of sales. By comparison, in the first quarter of 2009, cost of sales was $25.5 million, or 76.7% of sales, providing a gross margin of $7.7 million, or 23.3% of sales.

The 1.2% improvement in our gross margin percentage was mainly due to the shift in our sales mix in favour of retail business, which generates a higher margin than our contract sales to developers and builders. The year-over-year gain was somewhat muted by a more competitive retail pricing environment, as consumers were more cautious and selective in their purchases.

Expenses

Selling, warehouse, facility, and general and administrative expenses (SG&A) for the three months ended March 31, 2010 were $6.0 million, or 19.7% of sales. This was up by $0.3 million from the first quarter of 2009, when SG&A expenses of $5.7 million equalled 17.2% of sales.

Approximately half of the increase in SG&A expenses can be attributed to higher selling costs at our GTA store, where we added senior personnel to our contract sales team and generally increased our marketing expenditures. In addition, our administrative costs were up by $0.1 million, due mainly to information technology projects underway in the first quarter of 2010 and expenditures related to the announced intention to convert the Fund from an income trust to a corporation by the end of the year. Finally, our facility costs were up somewhat as a result of the addition of a new warehouse to serve our two Edmonton stores in February 2009 and the relocation of our Edmonton North store to a higher-traffic area in the third quarter of 2009. Our warehousing costs were consistent with the prior year.

EBITDA

EBITDA and EBITDA margin are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP (see Non-GAAP Measures).

Table 1: Reconciliation of net income to EBITDA
(in thousands of dollars except percentages)

	3 months ended March 31 2010	3 months ended March 31 2009	3 months ended March 31 2008
Net income	473	683	1,263
Non-controlling interest	255	367	678
Interest	279	326	340
Interest rate swap	(150)	(18)	–
Future income taxes (recovery)	–	(20)	(24)
Amortization	585	652	592
EBITDA [1]	1,442	1,990	2,849
EBITDA margin [1]	*4.7%*	*6.0%*	*8.4%*

(1) See definition of EBITDA and EBITDA margin under Non-GAAP Measures.

EBITDA for the three months ended March 31, 2010 was $1.4 million, down by $0.6 million from the $2.0 million we reported in the first quarter of 2009. Our EBITDA margin of 4.7% was down from 6.0% in the same three months of 2009. The EBITDA reduction was mainly due to the $2.7 million decrease in our first quarter sales revenues and resulting $0.3 million reduction in gross margin. In addition, as noted above, our SG&A expenses for the quarter increased by $0.3 million year-over-year.

Interest

First quarter interest expense was down by $47,000 year-over-year, due in part to the reduction in our term debt from $25.3 million in 2009 to $22.0 million in 2010. In addition, for the third consecutive quarter, we had no borrowings under our operating line of credit.

Amortization

Amortization for the three months ended March 31, 2010 was $0.6 million, down from the $0.7 million we recorded in the first quarter of 2009.

Net income before non-controlling interest

Net income before non-controlling interest for the first quarter of 2010 was $0.7 million, compared to $1.1 million in 2009. As a percentage of sales, this amount equalled 2.4%, compared to 3.2% last year.

Summary of Quarterly Results

See the section on seasonality above for a discussion of the impact of seasonality on our quarterly sales levels.

Table 2: Summary of quarterly results
(in thousands of dollars except percentages and per-unit amounts)

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	30,454	35,617	37,341	37,913	33,179	36,077	38,547	38,250
Gross margin	7,471	8,768	8,813	8,828	7,723	9,200	9,686	9,414
Gross margin percentage	*24.5%*	*24.6%*	*23.6%*	*23.3%*	*23.3%*	*25.5%*	*25.1%*	*24.6%*
Income before non-controlling interest	728	1,670	2,241	2,001	1,050	1,959	2,352	2,741
Net income	473	1,086	1,457	1,301	683	1,274	1,529	1,782
Basic and diluted net income per unit	0.073	0.166	0.223	0.199	0.105	0.195	0.234	0.273
Distributions per unit	0.125	0.166	0.125	0.125	0.166	0.250	0.308	0.308

Liquidity and Capital Resources

Cash flow from operating activities

Table 3: Changes in non-cash working capital items (source (use) of cash)
(in thousands of dollars except percentages)

	3 months ended March 31 2010	3 months ended March 31 2009
Accounts receivable	1,025	1,649
Inventory	1,434	(23)
Prepaid expenses	(173)	(120)
Accounts payable and accrued liabilities	(3,623)	1,517
Customer deposits	737	575
Deferred warranty revenue	124	48
Change in non-cash working capital	(476)	3,646

Cash flow from operating activities for the three months ended March 31, 2010 was $0.7 million, down from $5.3 million in the first quarter of 2009. Our net income and resulting cash flow before changes in non-cash working capital was $1.2 million, compared to $1.7 million in 2009. This year, we recorded a $0.5 million reduction in our non-cash working capital, compared to a $3.6 million increase in non-cash working capital in 2009. The most significant changes from the 2009 year-end were a $1.4 million reduction in inventory and a $3.6 million reduction in our accounts payable and accrued liabilities. At March 31, 2010, our operating line of credit remained at nil and we had a cash balance of $1.4 million.

Capital Expenditures

Table 4: Capital expenditures
(in thousands of dollars)

	3 months ended March 31 2010	3 months ended March 31 2009
Total capital	47	114
Less proceeds on disposal of assets	14	–
	33	114
Less:		
Growth capital	–	71
Maintenance capital (1)	33	43

(1) See definition of maintenance capital under Non-GAAP Measures.

Maintenance capital is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP (see Non-GAAP Measures). We consider maintenance capital to include leasehold improvements for existing locations, relocation of existing facilities, furniture and fixture purchases, and computer hardware and software expenditures. These expenditures are required to maintain and enhance our sales capacity, and to sustain our current store configuration.

Growth capital encompasses capital costs related to the opening of new store locations. These expenditures expand our sales capacity and create new sales opportunities.

Maintenance capital during the first quarter of 2010 was relatively minor and related to certain leasehold improvements and computer equipment. We expect our annual maintenance capital expenditures for 2010 to be approximately $0.7 million.

Distributions to Unitholders

Table 5: Distributions to unitholders

Period	Record date	Payment date	Per unit $	Amount $
January 2010	January 29, 2010	February 15, 2010	0.0416	271,440
February 2010	February 26, 2010	March 15, 2010	0.0416	271,440
March 2010	March 31, 2010	April 15, 2010	0.0416	271,440
			0.1248	814,320

The Fund makes monthly distributions to unitholders of record on the last business day of each month, payable on or about the fifteenth of the following month. For the three months ended March 31, 2010, distributions of $0.1248 per unit were paid to public unitholders, totalling $0.8 million. This equates to an annualized rate of $0.50 per unit. In addition, distributions of $0.1248 per unit were paid to the non-controlling interest held by the former owner of the Coast business, totalling $0.4 million.

From the Fund's inception on June 23, 2005 through March 31, 2010, distributions totalling $4.91 per unit or $32.0 million have been paid to public unitholders. Equivalent per-unit distributions have been paid to the non-controlling interest during this period, totalling $17.2 million. The accrued distributions payable to unitholders and the non-controlling interest at March 31, 2010 were paid on April 15, 2010.

Standardized Distributable Cash

Table 6: Standardized distributable cash
(in thousands of dollars except percentages and per-unit amounts)

	3 months ended March 31 2010	3 months ended March 31 2009	12-month trailing March 31 2010	12-month trailing March 31 2009
Cash from operations	696	5,319	12,757	12,978
Other capital	–	(71)	–	(71)
Maintenance capital (1)	(33)	(43)	(715)	(774)
Standardized distributable cash	663	5,205	12,042	12,133
Distributions	1,252	1,670	5,426	10,349
Standardized distributable cash per unit	0.066	0.519	1.200	1.209
Distributions per unit	0.125	0.166	0.541	1.031
Standardized payout ratio	*188.8%*	*32.1%*	*45.1%*	*85.3%*
Cumulative since June 23, 2005 initial public offering				
Standardized distributable cash	52,111			
Distributions	49,271			
Standardized payout ratio	*94.6%*			

(1) See definition of maintenance capital under Non-GAAP Measures.

In 2007, the Canadian Institute of Chartered Accountants (CICA) issued an interpretive release (Standardized Distributable Cash in Income Trusts and other Flow-through Entities) providing guidance on standardized preparation and disclosure of distributable cash for income trusts. The CICA calculation of standardized distributable cash is based on cash flows from operating activities, including the effects of changes in non-cash working capital, less total capital expenditures. The table below uses this calculation method to set out standardized distributable cash.

We believe that the standardized distributable cash calculation distorts the Fund's quarter-to-quarter distributable cash and payout ratios, as our non-cash working capital fluctuates with the seasonality of our business and changes in the timing of the payment of payable transactions, as well as with the management of our inventory levels.

On a 12-month trailing basis, using the standardized distributable cash calculation, our standardized payout ratio of 45.1% at March 31, 2010 was improved from the 85.3% we reported at March 31, 2009. Using the adjusted distributable cash calculation described below, the Fund's 12-month trailing payout ratio at March 31, 2010 was 68.0%, down from 104.2% at March 31, 2009.

The main difference between the two methods is the inclusion of our net changes in non-cash working capital and growth capital expenditures in the standardized calculation.

Adjusted Distributable Cash

Table 7: Adjusted distributable cash
(in thousands of dollars except percentages and per-unit amounts)

	3 months ended March 31 2010	3 months ended March 31 2009	12-month trailing March 31 2010	12-month trailing March 31 2009
Cash flow from operations - before changes in non-cash working capital	1,172	1,673	8,756	10,765
Non-cash interest charges netted with interest	(16)	(16)	(64)	(61)
Maintenance capital (1)	(33)	(43)	(715)	(774)
Adjusted distributable cash (1)	1,123	1,614	7,977	9,930
Distributions to unitholders & non-controlling interest	1,252	1,670	5,426	10,349
Adjusted distributable cash per unit (1)	0.112	0.161	0.795	0.990
Distributions per unit	0.125	0.166	0.541	1.031
Adjusted payout ratio	*111.5%*	*103.5%*	*68.0%*	*104.2%*
Cumulative since June 23, 2005 initial public offering				
Adjusted distributable cash (1)	52,790			
Distributions	49,271			
Adjusted payout ratio	93.3%			

(1) See definition of maintenance capital and adjusted distributable cash under Non-GAAP Measures.

Historically, we have considered distributable cash to be our cash flows from operating activities before changes in non-cash working capital, less maintenance capital (see Non-GAAP Measures), less the non-cash component of interest expense. The table below uses this calculation method to set out our adjusted distributable cash.

Our quarterly adjusted distributable cash payout ratio varies throughout the year according to the seasonality of our business. We expect that the less profitable first half of the year will be offset by historically higher earnings in the second half.

For the first quarter of 2010, our adjusted payout ratio of 111.5% was up from the 103.5% we reported for the same period of 2009. The increase in this ratio was mainly due to a reduction in our adjusted distributable cash year-over-year, offset somewhat by a reduction in distributions. Adjusted distributable cash for the first quarter decreased to $1.1 million from $1.6 million in 2009, due to our reduced net income. Distributions paid to unitholders decreased to $1.3 million from $1.7 million in 2009 as a result of the distribution reduction implemented in February 2009.

On a 12-month trailing basis, our adjusted payout ratio decreased to 68.0% from 104.2% at March 31, 2009. The change was mainly due to the February 2009 reduction in our distribution level.

On a cumulative basis, from the Fund's inception at June 23, 2005, our adjusted payout ratio is 93.3%.

Table 8: Reconciliation of standardized distributable cash to adjusted distributable cash
(in thousands of dollars)

	3 months ended March 31 2010	3 months ended March 31 2009	12-month trailing March 31 2010	12-month trailing March 31 2009	Since June 23 2005
Standardized distributable cash	663	5,205	12,042	12,133	52,111
Change in non-cash working capital	476	(3,646)	(4,001)	(2,213)	(1,256)
Non-cash interest charges netted with interest	(16)	(16)	(64)	(61)	23
Growth capital (1)	–	71	–	71	1,912
Adjusted distributable cash (1)	1,123	1,614	7,977	9,930	52,790

(1) See definition of maintenance capital and adjusted distributable cash under Non-GAAP Measures.

Contractual obligations, commitments and financing

Table 9: Payments due by period as at March 31, 2010
(in thousands of dollars)

	Operating leases	Term loan
Less than one year	2,724	22,000
One to three years	4,960	–
Four to five years	4,535	–
After five years	7,756	–
	19,975	22,000

During the quarter, we extended the maturity date of our loan facility from July 31, 2010 to January 1, 2011, the date by which we expect to convert from our current income trust structure to a corporate structure. The terms and conditions are essentially unchanged except for the reduction in the acquisition term facility described below and minor increases to interest rates. We have a commitment from our lending bank to roll our loan facilities into the new corporate entity with a three-year term. The terms of the renewed agreement will be finalized over the next few months. At March 31, 2010, the term loans were classified as current liabilities on our balance sheet as they mature in less the one year.

The Fund has borrowed $20.0 million under a three-year interest only, non-revolving term loan, now due January 1, 2011. The loan was made available for the financing of capital assets and working capital. Advances under the agreement bear interest at prime plus 0% to 0.5%, when borrowed directly, or at the banker's acceptance rate plus 1.75% to 2.00%, when a banker's acceptance facility is utilized. This is based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, and is calculated on a quarterly basis. The term loan is secured by a general security agreement covering all assets of the Fund, subject to the security provided to a major supplier (see Note 4 of the March 31, 2010 unaudited interim consolidated financial statements). No principal repayments are required during the term of the loan.

The Fund entered into an interest-rate swap transaction on August 28, 2008 to fix the effective rate of interest on the term loan until July 30, 2010 at 3.53% plus 1.75% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. At March 31, 2010, the fair value of the swap, on a mark-to-market basis, was an unrealized loss of $0.2 million, compared to an unrealized loss of $0.3 million at December 31, 2009, and is recorded in the balance sheet as an unrealized loss on interest rate swap. In the first quarter of 2010, $0.1 million of the unrealized loss was realized.

In July 2007, we added a revolving term facility in the amount of $13.5 million to facilitate anticipated future business acquisitions. As part of the just completed negotiations to extend our term loan, we reduced the limit of this revolving term facility to $2.0 million, the current balance of the loan. The terms of this facility are effectively the same as those of the term loan, as described above. A standby fee of 0.30% to 0.40%, based on the ratio described above, is charged on any unutilized portion of the facility.

Operating leases are in place for all premises. We paid total basic rent of $0.8 million for the three months ended March 31, 2010. This amount is only marginally higher than the rents paid for the same three months of 2009. We are in the final stages of the negotiation to renew six leases that are due in 2010, all with one landlord (see Related Party Transactions).

Working capital and liquidity

Table 10: Working capital and liquidity
(in thousands of dollars)

	March 31 2010	Dec 31 2009
Working capital	(2,700)	(2,846)
Working capital, excluding term loans	19,253	19,133
Total assets	128,846	132,720
Total liabilities	41,919	45,270
Total long-term liabilities, including term loans	25,015	24,953

Working capital, excluding the Fund's term loans (which, as discussed above, were classified as current liabilities), was $19.3 million at March 31, 2010. This was up by $0.2 million from $19.1 million at December 31, 2009. The major changes in our working capital items were a $1.0 million reduction in our accounts receivable, a $1.4 million decrease in our inventories, a $3.6 million decrease in our accounts payable and a $0.8 million increase in our customer deposits.

In addition to working capital, we have available a $10 million, three-year committed revolving loan. This operating loan may be used for working capital requirements and general corporate purposes. Advances under the loan bear interest at the lender's prime rate plus 0.25% to 0.50%, or at the banker's acceptance rate plus 1.75% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. A standby fee of 0.30% to 0.40%, based on this ratio, is charged on any unutilized portion of the facility. The operating loan is secured by a general security agreement covering all assets of the Fund, subject to the security provided to a major supplier. The operating loan was nil at March 31, 2010, and was not utilized during the first quarter of 2010.

Our principal sources of liquidity are cash provided by operations and our revolving operating facility. In addition, we review our cash flows on an ongoing basis and can adjust our annual distribution rate accordingly. At this time, we believe that such sources of liquidity will be sufficient to fund future working capital requirements, capital expenditures and our planned growth.

Total assets

Total assets at March 31, 2010 were $128.8 million, compared to total assets at December 31, 2009 of $132.7 million. The decrease was mainly due to the decrease in accounts receivable and inventory during the first quarter of 2010.

Inventory at March 31, 2010 was $24.5 million, down by $1.4 million from $25.9 million at December 31, 2009. Our inventory levels at the end of 2009 were higher than normal as we took advantage of certain purchase opportunities that allowed us to attain rebates and lock in pricing from our suppliers. Since that time, we have worked the inventory levels down to levels comparable to last year.

Table 11: Accounts receivable
(in thousands of dollars)

	March 31 2010	Dec 31 2009
Accounts receivable - trade	9,015	9,356
Supplier rebates and other	773	1,458
	9,788	10,814

Accounts receivable at March 31, 2010 totalled $9.8 million, compared to $10.8 million at December 31, 2009. Our quarter-end trade accounts receivable of $9.0 million was comparable to the 2009 year-end amount but significantly below our historical first quarter levels, due to the slowing of our contract business that began in the last quarter of 2009, as discussed earlier. Consistent with our historical pattern, supplier rebates and other receivables were reduced by $0.7 million from the 2009 year-end, as we collected our annual and year-end rebates from our major suppliers.

Total liabilities

Total liabilities at March 31, 2010 were $41.9 million, compared to $45.3 million at December 31, 2009. The $3.4 million decrease was mainly due to the $3.6 million decrease in accounts payable, offset by a $0.8 million increase in our customer deposits.

Accounts payable and accrued liabilities at March 31, 2010 were $10.4 million, compared to $14.0 million at December 31, 2009. The 2009 year-end amount was greater than normal as we received significant inventory in the final weeks of the year. During the first quarter of 2010, we reduced our inventory levels, which resulted in a reduction of accounts payable.

Customer deposits at March 31, 2010 were $4.9 million, up by $0.8 million from $4.1 million at December 31, 2009. The increase was due to growth in customer orders since the beginning of the year and reflects the strengthening of the retail segment of our business.

Total deferred warranty revenue (combined current and non-current) at March 31, 2010 was $3.2 million, up from $3.1 million at December 31, 2009.

In the fourth quarter of 2008, we recorded an unrealized loss on our interest rate swap in the amount of $0.8 million. This amount will effectively amortize, at a rate based on current interest rates, through to the maturity of the swap agreement in July, 2010. During the first quarter of 2010, $0.1 million of the unrealized loss was realized and is reflected in our income statement. The balance of the unrealized loss is $0.2 million.

Deferred lease inducements of $0.8 million at March 31, 2010 were down slightly from December 31, 2009, due to the ongoing amortization of these amounts.

Long-term incentive plan

The Fund adopted a form of long-term incentive plan (LTIP) in 2007. Under the terms of the LTIP, 10% to 20% of distributable cash in excess of an established threshold is paid to the plan trustee to purchase units of the Fund for the participants. The liability is accrued in the period when distributable cash exceeds the thresholds established for the LTIP and the related cost is amortized to expenses over the three-year vesting period of the applicable participant awards. Benefits forfeited under the plan are returned to the Fund.

At March 31, 2010, the Fund had a prepaid compensation balance of approximately $15,000 in relation to the LTIP for fiscal 2007. This amount will be amortized to expense over the vesting period of the awards. No further amounts were accrued under the LTIP in the 2008 or 2009 fiscal years as the distributable cash thresholds were not attained. During the first quarter of 2010, none of the awards vested and thus there were no charges to expense.

Fund Units

At March 31, 2010, the Fund had 6,525,000 units issued and outstanding, for an aggregate amount of $59,835,000, which was unchanged from December 31, 2009. In addition, there are 3,509,166 exchangeable units of Coast Wholesale Appliances LP issued and outstanding, exchangeable on a one-for-one basis for units of the Fund at the option of the holder, CWAL Investments Ltd. (CWAL), the former owner of our business.

Until such time as CWAL completes the exchange, it has been issued 3,509,166 special voting units of the Fund, the value of which is included in the non-controlling interest. These special voting units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund.

As of the date of this report, May 5, 2010, there have been no changes to the issued and outstanding units of the Fund since March 31, 2010.

For additional information on the Fund units issued and the exchangeable units, refer to Notes 5 and 6 of the March 31, 2010 unaudited interim consolidated financial statements.

Financial Instruments

Financial instruments of the Fund consist of cash and cash equivalents, accounts receivable, accounts payable, term and operating loans, interest rate swaps and accrued distributions payable to unitholders. These financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Fund when the financial instrument is initially recorded, based on the underlying purpose of the instrument. These financial instruments are subject to credit risk, currency risk and concentration risk, as described in the March 31, 2010 unaudited interim consolidated financial statements.

Table 12: Classification and measurement of financial assets and financial liabilities

Financial Instrument	Category	Measurement
Cash	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Operating loan	Held-for-trading	Fair value
Interest rate swap	Derivative	Fair value
Term loan	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Distributions payable	Other financial liabilities	Amortized cost

To fix the interest rate on our $20.0 million term loan, a hedging strategy was established and an economic hedge was executed on August 28, 2008. This interest rate swap transaction fixed the effective rate of interest on the term loan at 3.53% plus 1.75% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes and amortization, calculated on a quarterly basis, until July 30, 2010. At December 31, 2008, the Fund recorded an unrealized loss of $0.8 million to reflect the fair value of the

interest rate swap. During the first quarter of 2010, $0.1 million of the unrealized loss was realized and is reflected in our income statement. The balance of the unrealized loss is now $0.2 million and is included as an unrealized loss on interest rate swap on the balance sheet.

The Fund's financial risk management activities are further outlined in Note 13 to the December 31, 2009 consolidated financial statements.

Off Balance Sheet Arrangements

The Fund has not entered into any off balance sheet arrangements.

Critical Accounting Policies and Estimates

We have prepared our unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles. These require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the unaudited interim consolidated financial statements and the reported amount of revenues and expenses during the period. It is reasonably possible that circumstances may arise which cause actual results to differ from management's estimates. Areas requiring significant management estimates include valuation of goodwill and intangible assets, allowance for doubtful accounts, inventory valuation, amounts for accrued liabilities, deferred warranty revenue, contingencies and accounting for income taxes. Actual results could differ from these estimates.

The significant accounting policies of the Fund are described in Note 2 of our consolidated financial statements for the year ended December 31, 2009, available at *www.sedar.com* or *www.coastincomefund.com*. The policies that we believe are the most critical in aiding a full understanding and evaluation of our reported financial results are summarized below.

New accounting standards issued

Convergence with International Financial Reporting Standards

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. We will be required to provide IFRS comparative information for the previous fiscal year, 2010. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable for our reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS. Our conversion to IFRS is proceeding according to plan in all key areas, as detailed below.

Accounting policies

We have reviewed our current financial statements and accounting policies compared to the IFRS standards. We have also assessed the elections permitted under IFRS. The majority of our current policies and practices are in compliance with IFRS and only minor changes will be required to meet the new requirements. Specifically, there will be some modifications to our disclosures and accounting classifications, which we will adopt prospectively, where appropriate, in 2010 in order to ease our 2011 conversion process and ensure that our comparative information aligns with IFRS. We are tracking the minor accounting differences between IFRS and our current policies in order to facilitate the reporting of any changes to our comparative financial information in 2011. In the second quarter of 2010, we will complete the calculations that are required to finalize our January 1, 2010 opening balance sheet and finalize the financial statement formats and disclosures. The financial statement note disclosures will be completed in the third and fourth quarters of 2010.

Internal controls over financial reporting and disclosure controls and procedures

The key employees in our finance and accounting group have received appropriate training in IFRS and have been involved in the conversion review process. Our internal controls and operating procedures require only minor changes to convert to IFRS, which have now been completed. Continuous reviews of internal controls will ensure that any additional changes in accounting policies are appropriately addressed.

All changes to accounting policies and reporting disclosures will be reviewed and approved by the Audit Committee, which will continue to receive quarterly updates on the status of the conversion process.

Business activities

Critical agreements and contracts have been reviewed to determine the need for any changes to reporting procedures or specific covenants. We have determined that no such changes are required.

IT systems

Our IT systems and operating procedures are compliant with the changes required to convert to IFRS. During 2010, to facilitate comparative reporting after the adoption of IFRS reporting in 2011, we are tracking the minor accounting differences between IFRS and our current policies.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1582, "Business Combinations"; Section 1601, "Consolidated Financial Statements"; and Section 1602, "Non-Controlling Interests". These new sections replace Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and will be applicable to financial statements for fiscal years beginning on or after January 1, 2011. Early adoption is permitted where the three new sections are adopted simultaneously. Together, the new sections establish standards for the accounting for a business combination, the preparation of consolidated financial statements and the accounting for a non-controlling interest in a subsidiary in consolidated financial statements. At this time we have not adopted these changes.

Revenue recognition

The Fund recognizes revenue from the sale of products when a sales arrangement is entered into, the sales price is fixed and determinable, the products are shipped and collection is reasonably assured.

Cash received in advance of the product being shipped is recorded as customer deposits.

Extended warranties are provided on certain products pursuant to warranty contracts. These warranty contracts are in addition to those provided by the manufacturers of the products. The revenue received from the warranty contracts, net of commission expense incurred to earn the revenue, is initially recorded as deferred warranty revenue and is taken into income over the life of the warranty contracts. The costs associated with delivering the related warranty services are expensed as they are incurred during the life of the contracts.

Valuation of goodwill

Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. The Fund compares goodwill to the fair value of the reporting unit to which the goodwill relates. Any impairment is charged to operations in the amount by which the carrying amount of the assets exceeds the fair value of the goodwill.

The Fund determines the fair value of the reporting unit using a discounted cash flow model, corroborated by other valuation techniques, such as market multiples. The process of determining these fair values requires us to make estimates and assumptions, including, but not limited to, projected future sales, earnings and capital investment, discount rates, and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Fund's Board of Trustees. Discount rates are based on an industry weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

The Fund's goodwill was evaluated as at December 31, 2009. No adjustment for impairment was required.

Valuation of long-lived assets

We review long-lived assets and certain identified recorded intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the future undiscounted cash flows from the asset's expected use and eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets designated for disposal are valued at the lower of the carrying amount and the fair value, less costs to sell.

The Fund's long-lived assets and certain identified recorded intangibles were evaluated as at December 31, 2009. No adjustments for impairment were required.

Inventory valuation

Inventory is valued at the lower of cost and net realizable value using the first-in, first-out method. The Fund assesses net realizable value of inventory at each reporting period based on sales patterns of inventory, expected selling prices and the level of inventory on hand. Incentives received from suppliers and any provisions are accounted for as a reduction in the related inventory value and cost of sales.

Income taxes

As we allocate all of our taxable income and taxable capital gains to unitholders, the Fund is not subject to current income taxes until 2011, when new taxation rules for Specified Investment Flow-through (SIFT) trusts such as ours come into effect.

Beginning in 2011, distributions that are currently paid out and taxed in the hands of unitholders will first be taxed at the trust level. The net amount will then be paid out to unitholders, where it will be taxed as equivalent to dividends paid by a Canadian corporation. In the interim period, the federal government has specified that "undue growth" may result in immediate taxation of income trusts that would otherwise not be subject to taxation until 2011.

The Board of Trustees established a special committee to evaluate the Fund's options in response to the upcoming taxation requirements. The special committee's recommendation to the Board of Trustees, which was accepted, was that the Fund take the necessary steps to convert the Fund to a corporate structure. We expect to complete the conversion process by the end of the current fiscal year, subject to unitholder approval at the annual and special unitholder meeting to be held on June 23, 2010 (see the Fund's news release dated May 5, 2010, available at *www.sedar.com* and at *www.coastincomefund.com*).

The Fund accounts for future income taxes in accordance with EIC-167 (Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs). Under these standards, the Fund is required to recognize future income tax assets and liabilities with a corresponding charge to the future income tax expense for the temporary differences between the book and tax bases of assets and liabilities expected to reverse after the tax is imposed.

The Fund currently has an unused tax shield of approximately $45 million. The majority of this tax shield arose in the acquisition of the business in June 2005 and can be utilized to reduce the Fund's taxable income at the rate of approximately $3.0 million to $4.0 million per year going forward.

For the period ended March 31, 2010, the future income tax expense was nil.

Related Party Transactions

We lease six store locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two warehouses from a company affiliated with CWAL, the former owner of the business. For the period ended March 31, 2010, our lease payments for these facilities totalled $0.3 million. Each of the leases was modified as part of our initial public offering to provide for a term of five years from June 23, 2005, with two consecutive five-year options that enable us to renew at the greater of the existing rent or the fair market rent at the time of the renewal. These leases expire in June 2010 and are in the final stages of negotiation.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure controls and procedures

Disclosure controls and procedures are processes designed to provide reasonable assurance that information required to be disclosed by the Fund in annual, interim or other filings is collected and reported to the Fund's management in a timely manner to facilitate the required reporting. Due to the inherent limitations of control systems, an evaluation can only provide reasonable assurance over the effectiveness of the controls. The Fund's CEO and CFO designed and evaluated, or had these functions completed under their direction, the effectiveness and operation of our disclosure controls and procedures. Based on that evaluation, we concluded that the design and operation of these disclosure controls and procedures were effective as at March 31, 2010.

Internal control over financial reporting

Internal control over financial reporting are controls and processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management of the Fund are responsible for establishing and maintaining these controls. The Fund's management, under the supervision of and with the participation of the CEO and CFO, carries out, on an ongoing basis, an assessment of the design of these internal controls. This assessment uses the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). It includes a risk evaluation of internal controls and documentation, and testing of the key processes and controls. Due to the inherent limitations in any control system, an evaluation can only provide reasonable assurance over the effectiveness of the controls, and internal controls are not expected to prevent and detect all misstatements due to error or fraud. Based on our ongoing assessment, the CEO and CFO concluded that the Fund's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes as at March 31, 2010.

There were no changes in internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

Outlook

The following discussion is qualified in its entirety by the forward-looking statements proviso at the beginning of the management's discussion and analysis, and by the section on risks and uncertainties following this outlook.

As previously announced, the Fund's fifty-eighth consecutive

monthly distribution will be paid to public unitholders of record as at April 30, 2010 on May 15, 2010 in the amount of $0.0416 per unit ($0.50 per annum). The distribution to the exchangeable units held by CWAL Investments Ltd. in the amount of $0.0416 per unit will also be paid on the same date. In addition, a special distribution in the amount of $0.0416 per unit was declared in December 2009 and paid on January 15, 2010.

The current distribution rate and relative stability of our business enabled us to significantly strengthen our balance sheet during 2009. During the first quarter of 2010, we maintained a strong cash position and, for the third consecutive quarter, did not utilize our operating line of credit. We believe the present level of distribution will allow us to preserve the balance sheet strength we require to sustain our business.

The outlook for our business remains cautious. As we move through 2010, we expect to see the Canadian and worldwide economies showing continued signs of recovery; however, the strength and sustainability of that recovery remain uncertain.

Our first quarter 2010 contract sales to developers and builders were negatively impacted by the reduced level of building permits issued from late 2008 through the third quarter of 2009. We expect that our second quarter sales will be similarly affected. In the second half of 2010 and into 2011, we should see an improvement in our contract business as a result of the year-over year increases in the number of building permits issued and new housing starts that were recorded in both the final quarter of 2009 and first quarter of 2010. We expect the ability of our major contract customers to finance new projects, although improved over last year, will continue to be restricted by tight credit markets and rising lending rates throughout 2010.

In the retail segment, our sales began to strengthen in the fourth quarter of 2009 and continued to improve in the first quarter of 2010. However, consumers remain generally cautious about major purchases and we anticipate that the current competitive retail pricing environment will persist. As a result, we will continue to experience downward pressure on our margins.

In light of these market challenges, we are continuing to focus on streamlining our non-selling functions in order to increase our operating efficiency as we aggressively pursue additional sales opportunities. To this end, we will be consolidating our Vancouver and Burnaby warehouses at the Burnaby site at the end of the second quarter. The Burnaby site will be expanded to accommodate increased product flow.

We are also continually refining our product offering. The sales success we experienced with the introduction of the Miele product line at the beginning of 2009 has fully met our expectations, with sales growth through the first quarter of 2010. The addition of this line has created new sales opportunities across our business, and particularly in our contract business with developers and builders. During the first quarter, we entered into an agreement to add the Bosch and Thermador brands at selected locations by early in the third quarter of this year. We expect that the introduction of these higher-end product lines will generate incremental revenues in both the contract and retail segments of our business.

Our inventory levels were higher than normal through most of the first quarter of 2010, due in part to additional purchases at the end of 2009 to attain rebates and lock in pricing from certain suppliers. Although we have now reduced inventory to more normal levels, we anticipate that our inventories will continue to be impacted by the full product line changeover commenced by our largest supplier in the third quarter of 2009. In addition to introducing technological advances and streamlined designs, the updated line responds to growing consumer demand for increased energy efficiency in major home appliances. The higher demand from end users is helping to drive sales in both the builder/developer and retail markets.

The acquisition of the Morley's Appliance Centre business in the Greater Toronto Area at the beginning of 2009 has given us a foothold in the largest market in Canada and should significantly enhance our ability to expand our business over the longer term. Although our sales results at this store have not met our expectations, mainly due to the weak economic conditions in that market, we are optimistic about the future potential of this location. We believe that our full-service approach to meeting the needs of developers and builders, and retail consumers is well-suited to the GTA market. To support our growth in the GTA, we have expanded our contract sales team with industry veterans, and will focus on developing new business with developers, builders and designers.

As announced at the end of the second quarter of 2009, we expanded our sales coverage to the Maritime region under an agreement with a contract sales agent based in Nova Scotia. As expected, sales in the region remain modest. This opportunistic arrangement is being administered under existing corporate systems, with deliveries flowing though a local third party warehouse. It will allow Coast to generate incremental contract sales revenue without adding to our fixed costs.

We anticipate that our current credit facilities and ongoing cash flow from operations will be sufficient to allow the Fund to

meet ongoing requirements for capital expenditures, including investments in working capital and cash distributions to unitholders. However, the Fund's needs may change. In such event, our ability to satisfy our obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond the Fund's control.

In early 2010, our Board of Trustees formed a special committee to evaluate the Fund's options in response to the taxation of distributions at the trust level set to begin in 2011. The special committee's recommendation to the Board of Trustees that we convert the Fund from an income trust structure to a corporate structure by the end of the current fiscal year, subject to unitholder approval at the annual and special unitholder meeting to be held on June 23, 2010, was accepted by the Board. The conversion to a corporate structure was predicated by the change in tax rules, as they relate to income trusts, effectively eliminating the tax efficiencies of our distributions.

Risks and Uncertainties

The Fund is subject to a number of risks in addition to the normal business risks associated with supply companies operating within the major home appliances segment in Canada. Demand for the products sold by the Fund is particularly sensitive to the health of the economy in Canada as a whole, and especially in our western and central Canadian marketplace. A number of factors could have a material effect on the financial performance of the Fund. These include but are not limited to the following:

- The current economic recovery is still somewhat fragile both globally and within Canada, any significant setbacks could negatively impact our sales to both retail customers, who may defer or cancel purchase plans, and developer / builder customers, who may defer or cancel projects.
- The impact of current economic conditions on the credit worthiness of our developer / builder customers, and their ability to meet their obligations to us on a timely basis. Slower collection of our trade receivables could result in bad debts in excess of our historical patterns.
- The reduced number of new building permits issued in late 2008 and in 2009, which may continue to negatively impact our contract sales during 2010.
- Interest rates and the availability of credit to both builders and purchasers of homes, which may impact the housing market and may reduce both new home construction and renovation work.
- Any significant change in competition from one or more competitors, as well as competition directly from suppliers, which may impact our sales results as well as the margins on those sales.
- Changes in the financial health of suppliers, changes in the quality of products sourced from suppliers, as well as changes in the ability of our suppliers to meet our supply requirements on a timely basis, which may impact the success of our sales programs. We have attempted to mitigate this risk by working with multiple suppliers who can provide a variety of comparable products.
- The introduction of a harmonized sales tax (HST) in BC and Ontario, which may have a negative impact on our contract customer's project sales and thus may negatively affect our contact business.
- Fluctuations in the Canadian / US dollar exchange rate, which may impact product costs from our major suppliers as well as our gross margins if we are unable to react with appropriate price adjustments. Profitability has not been favourably impacted by the appreciation of the Canadian dollar, now reaching par, as there have been only minor pricing adjustments from our US-based suppliers to date.
- Changes to our product distribution processes, which may impact our ability to both receive and deliver our products on a timely basis. These processes are currently contracted to outside transportation suppliers and alternate suppliers are available.
- Fluctuations in fuel prices, which may drive up inbound and outbound freight costs, as well as other related costs. Higher fuel prices can have a dramatic and rapid impact on our gross margin from freight revenue if our rates are not adequately adjusted.
- Changes in labour costs, labour relations or key personnel, which may impact our overall cost structure.
- Customer service demands on our extended warranty programs. These programs are managed in-house. Increased demand may cause costs to increase beyond historical patterns, resulting in a degradation of gross margin from this component of our business.
- Changes in tax legislation, which may impact certain aspects of our business model and also may impact our unitholders' investment in the Fund.
- Other factors as described earlier under Forward-looking Statements.

Non-GAAP Measures

References to EBITDA are to earnings before non-controlling interest, interest, taxes, depreciation and amortization. The term EBITDA margin refers to the percentage that EBITDA represents in relation to sales. Since many investors use EBITDA to compare issuers on the basis of the ability to generate cash from operations, we believe that, in addition to net income or loss, and statements of cash flow, EBITDA is a useful supplemental measure.

We view adjusted distributable cash as an operating performance measure. We consider adjusted distributable cash to be our cash flow from operations, before changes in non-cash working capital, less maintenance capital and the non-cash component of interest expense.

We consider maintenance capital to include leasehold improvements for existing locations, equipment purchases, furniture and fixture purchases, and computer hardware and software expenditures. Growth capital relates to capital costs associated with opening new locations.

EBITDA and adjusted distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and adjusted distributable cash may not be comparable to similar measures presented by other entities. Readers are cautioned that EBITDA and adjusted distributable cash should not be construed as alternatives to net income or loss determined in accordance with GAAP as indicators of the performance of the Fund or our operating business. Similarly, these should not be seen as alternatives to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. For a reconciliation of EBITDA to net income presented in accordance with GAAP, see Selected Financial Information. For a reconciliation of adjusted distributable cash to standardized distributable cash, see Adjusted Distributable Cash.

Additional Information

Additional information relating to the Fund, including the Fund's Annual Information Form and other public filings, is available on SEDAR at *www.sedar.com* and on the Fund's website at *www.coastincomefund.com.*

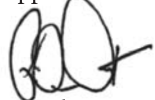
Interim Consolidated Balance Sheets

(Unaudited)

	March 31, 2010 $	December 31, 2009 $
Assets		
Current assets		
Cash	1,408,293	2,415,392
Accounts receivable	9,788,274	10,813,675
Inventory	24,497,873	25,932,305
Prepaid expenses	462,268	288,896
	36,156,708	39,450,268
Leaseholds and equipment	3,766,969	3,997,332
Future income taxes	679,000	679,000
Intangible assets	13,949,966	14,300,580
Goodwill	74,292,968	74,292,968
	128,845,611	132,720,148
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	10,419,193	14,042,067
Accrued distributions payable to unitholders	271,440	542,880
Accrued distributions payable to non-controlling interest	145,981	291,963
Customer deposits	4,864,616	4,128,025
Current portion of deferred warranty revenue	1,008,079	967,062
Unrealized loss on interest rate swap	195,000	345,000
Term debt (Note 4)	21,988,057	21,979,021
	38,892,366	42,296,018
Long-term portion of deferred warranty revenue	2,240,681	2,157,920
Deferred lease inducements	786,689	816,363
	41,919,736	45,270,301
Non-controlling interest (Note 5)	30,396,904	30,580,164
Unitholders' equity	56,528,971	56,869,683
	128,845,611	132,720,148

Commitments (Note 7)
Subsequent events (Note 12)

Approved on behalf of the Trustees



Patrick Dennett
Trustee

Donald J. A. Smith
Trustee

These unaudited interim consolidated financial statements have been prepared by and are the responsibility of the Fund's management. The Fund's independent auditor has not audited nor performed a review of these unaudited interim consolidated financial statements.

See accompanying notes to the unaudited interim consolidated financial statements

Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited)

	3 months ended March 31, 2010 $	3 months ended March 31, 2009 $
Sales	30,453,692	33,179,362
Cost of sales	22,982,959	25,455,772
Gross margin	7,470,733	7,723,590
Expenses		
Selling	2,758,163	2,618,756
General and administrative	1,463,412	1,361,854
Facilities	1,270,311	1,221,194
Warehousing	507,160	506,592
	5,999,046	5,708,396
Income before under noted items	1,471,687	2,015,194
Amortization:		
Leaseholds and equipment	263,915	326,186
Intangible assets	350,614	350,614
Interest	278,866	326,237
Interest rate swap	(150,000)	(18,000)
Income before future income taxes and non-controlling interest	728,292	1,030,157
Future income tax (recovery) expense	–	(20,000)
Income before non-controlling interest	728,292	1,050,157
Non-controlling interest (Note 5)	254,684	367,240
Net income and comprehensive income	473,608	682,917
Basic and diluted net income per unit	0.073	0.105
Basic weighted average number of units outstanding	6,525,000	6,525,000
Diluted weighted average number of units outstanding	10,034,166	10,034,166

See accompanying notes to the unaudited interim consolidated financial statements

Interim Consolidated Statements of Unitholders' Equity

(Unaudited)

	Fund units $	Cumulative income $	Cumulative distributions $	Retained earnings (deficit) $	Total $
Balance, December 31, 2008	59,835,000	23,734,111	(27,425,878)	(3,691,767)	56,143,233
Net income and comprehensive income	-	4,527,260	-	4,527,260	4,527,260
Distributions	-	-	(3,800,810)	(3,800,810)	(3,800,810)
Balance, December 31, 2009	59,835,000	28,261,371	(31,226,688)	(2,965,317)	56,869,683
Net income and comprehensive income	-	473,608	-	473,608	473,608
Distributions	-	-	(814,320)	(814,320)	(814,320)
Balance, March 31, 2010	59,835,000	28,734,979	(32,041,008)	(3,306,029)	56,528,971

See accompanying notes to the unaudited interim consolidated financial statements

Interim Consolidated Statements of Cash Flows

(Unaudited)

	3 months ended March 31, 2010 $	3 months ended March 31, 2009 $
Operating activities		
Net income and comprehensive income	473,608	682,917
Items not involving cash		
Amortization	614,529	676,800
Non-controlling interest	254,684	367,240
Deferred finance costs	9,036	8,991
Amortization of deferred lease inducements	(29,674)	(24,941)
(Gain) on interest rate swap	(150,000)	(18,000)
Future income taxes	–	(20,000)
	1,172,183	1,673,007
Change in non-cash working capital (Note 9)	(476,044)	3,645,736
	696,139	5,318,743
Investing activities		
Acquisition of Morley's Appliance Centre	–	(5,248,415)
Purchase of leaseholds and equipment	(47,362)	(112,963)
Lease inducement received	–	(540)
Proceeds from sale of fixed assets	13,810	–
	(33,552)	(5,361,918)
Financing activities		
Operating loan (Note 4)	–	(3,042,125)
Revolving term loan (Note 4)	–	5,243,058
Distributions paid to unitholders	(1,085,760)	(1,358,505)
Distributions paid to non-controlling interest	(583,926)	(730,609)
	(1,669,686)	111,819
Net cash inflow (outflow)	(1,007,099)	68,644
Cash (cheques issued in excess of funds on deposit), beginning of period	2,415,392	(1,558,028)
Cash (cheques issued in excess of funds on deposit), end of period	1,408,293	(1,489,384)
Supplemental cash flow information:		
Interest paid	286,081	333,497
Income taxes paid	–	–

See accompanying notes to the unaudited interim consolidated financial statements

Notes to the Interim Consolidated Financial Statements

Three month period ended March 31, 2010 (Unaudited)

1. Nature of Operations

Coast Wholesale Appliances Income Fund (the Fund) is an unincorporated, open-ended, limited purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. The Fund holds a 65.03% indirect interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with Canadian GAAP have been condensed or omitted and accordingly, these unaudited financial statements should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2009. The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the unaudited interim consolidated financial statements and the reported amount of revenues and expenses during the period. These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the year ended December 31, 2009. Interim results are not necessarily indicative of the results expected for the fiscal year.

(a) Consolidation

These unaudited interim consolidated financial statements include the accounts of the Fund and its 65.03% interest in Coast Wholesale Appliances LP (Coast). All material inter-company transactions have been eliminated upon consolidation.

(b) Revenue recognition

Revenue from the sale of products is recognized when a sale arrangement exists, the sale price is fixed and determinable, the products are shipped and collection is reasonably assured.

Cash received in advance of the product being shipped is recorded as customer deposits.

The Fund provides product warranties on certain products pursuant to warranty contracts. These contracts are in addition to those provided by the manufacturers of the products. The revenue received from the warranty contracts, net of commission expense, is initially recorded as deferred warranty revenue and is taken into income over the life of the warranty contracts. The costs associated with delivering the warranty services are expensed as they are incurred during the life of the contracts.

(c) Income Taxes

As the Fund allocates all of its taxable income and taxable capital gains to Unitholders, the Fund itself is not subject to current income taxes until 2011.

The Fund accounts for future income taxes in accordance with EIC-167 (Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs). Under these standards the Fund is required to recognize future income tax assets and liabilities with a corresponding charge to the future income tax expense for the temporary differences between the book and tax bases of assets and liabilities expected to reverse after the tax is imposed.

3. Future Accounting Standards

Convergence with International Financial Reporting Standards (IFRS)

In 2008, Canada's Accounting Standards Board announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canadian GAAP. Reporting under IFRS for interim and annual financial statements begins for fiscal years starting on or after January 1, 2011. Accordingly, the Fund will begin reporting in accordance with IFRS in 2011.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the following new Handbook sections: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* which replace Section 1581, *Business Combinations* and Section 1600, *Consolidated Financial Statements*. These new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted to the extent the three new Sections are adopted simultaneously. Together, the new Sections establish standards for the accounting for a business combination, the preparation of consolidated financial statements and the accounting for a non-controlling interest in a subsidiary in consolidated financial statements. The Fund is currently evaluating the impact of these standards.

4. Credit Facilities

	Mar 31 2010 $	Dec 31 2009 $
Operating loan (a)	–	–
Term loan (b)	20,000,000	20,000,000
Revolving term loan (c)	2,000,000	2,000,000
Deferred financing costs	(11,943)	(20,979)
Term loan	1,988,057	1,979,021
Term debt	21,988,057	21,979,021

During the first quarter of 2010 the maturity date of the credit facilities was extended from July 31, 2010 to January 1, 2011. The terms and conditions of the credit facilities are effectively unchanged with the exception of minor increases to certain interest rates and the reduction of the limit of the revolving term loan to the current outstanding balance of $2,000,000.

a) The Fund has available a $10,000,000 3-year revolving loan (the Operating Loan). The Operating Loan is available for working capital requirements, capital expenditures and general corporate purposes. Interest, terms and security are the same as for the Term Loan described below. Payments are monthly for interest only.

b) The Fund has utilized a $20,000,000 non-revolving loan (the Term Loan) due January 1, 2011. The Term Loan was made available for the financing of working capital, leaseholds and equipment. Advances bear interest at the lender's prime rate plus 0% to 0.50%, when borrowed directly, or at the banker's acceptance rate plus 1.75% to 2.00% when a banker's acceptance facility is utilized, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. A standby fee of 0.30% to 0.40%, based on the same ratio, is charged on any unutilized portion of the facility. As a part of the Fund's hedging strategy, on August 28, 2008 the Fund entered into an interest-rate swap transaction to fix the effective rate of interest on the Term Loan until July 30, 2010 at 3.53% plus 1.75% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The Term Loan is secured by a general security agreement covering all assets of the Fund, subject to the security provided to a major supplier as noted below. Payments are monthly for interest only.

c) The Fund has available a $2,000,000 revolving term loan (the Revolving Term Loan) due January 1, 2011. The Revolving Term Loan is available for business acquisitions. Interest, terms and security are substantially the same as for the Term Loan.

d) As at March 31, 2010 the Term Loan and the Term Revolving Loan were classified as a current liability as their maturity date is January 1, 2011. The lender has agreed to the basic terms for an extension of these credit facilities for three years upon the conversion of the Fund to a corporate structure expected to occur by January 1, 2011.

Third party security interest

Accounts payable, net of rebates receivable, due to a major supplier are secured by inventory on hand that was acquired from that supplier and totaled $2,214,164 ($2,851,292 as at December 31, 2009).

5. Non-controlling Interest

(a) Coast Exchangeable Units

	$
Non-controlling interest - December 31. 2009	30,580,164
Interest in earnings	254,684
Distributions to non-controlling interest	(437,944)
Non-controlling interest. March 31, 2010	30,396,904

CWAL Investments Ltd. has retained a 34.97% interest in Coast through ownership of 100% of the issued, and outstanding, Coast Exchangeable Units.

The Class A LP Units of Coast, representing a 65.03% interest in Coast, held indirectly by the Fund, and the Coast Exchangeable Units have economic and voting rights that are equivalent in all material respects.

The holders of the Coast Exchangeable Units, at their option, are entitled to effectively exchange all or a portion of their Coast Exchangeable Units for up to 3,509,166 Units of the Fund, representing 34.97% of the issued and outstanding Units of the Fund on a fully diluted basis.

(b) Special Voting Units

An unlimited number of Special Voting Units may be created and issued pursuant to the Declaration of Trust. The holders of the Coast Exchangeable Units were issued 3,509,166 Special Voting Units of the Fund, the value of which is included in non-controlling interest. The Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Special Voting Unit entitles the holder thereof to one vote at all meetings of voting Unitholders. Such Special Voting Units are to be cancelled on the exchange of Coast Exchangeable Units for Units of the Fund.

6. Fund Units

	Units	Amount $
Units issued on June 23, 2005		
Initial public offering	6,525,000	65,250,000
Expenses of offering		(5,415,000)
Balance as at March 31, 2010 and December 31, 2009	6,525,000	59,835,000

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 or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Unit entitles the holder 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 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.

The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and, until declared payable by the Board of Trustees of the Fund, the Fund has no contractual requirement to pay cash distributions to unitholders of the Fund.

7. Commitments

The Fund leases all its store and warehouse facilities which require the Fund to make the following minimum lease payments in the next five years (exclusive of common area maintenance costs):

12 months ended March 31	$
2011	2,723,663
2012	2,508,305
2013	2,451,801
2014	2,270,719
2015	2,264,694
2016 and beyond	7,755,705
	19,974,887

8. Related Party Transactions

The Fund leases six of its branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two of its warehouses (Vancouver and Victoria) from a company affiliated with the former principal shareholders of the acquired business who have a non-controlling interest in the Fund (Note 5). The total amount paid to related parties for the three months ended March 31, 2010 was $284,271 (2009 - $284,271). Each of these leases was modified as part of the Initial Public Offering, to provide for a term of five years from June 23, 2005 with two consecutive options to renew at the option of the Fund at the greater of the existing rent or the fair market rent at the time of the renewal. The amounts were measured at the exchange amount which was the consideration agreed upon between the related parties.

9. Net Change in Non-cash Working capital

	3 months ended Mar 31, 2010 $	3 months ended Mar 31, 2009 $
Accounts receivable	1,025,401	1,648,840
Inventory	1,434,432	(23,456)
Prepaid expenses	(173,372)	(119,537)
Accounts payable and accrued liabilities	(3,622,874)	1,517,024
Customer deposits	736,591	575,002
Deferred warranty revenue	123,778	47,863
	(476,044)	3,645,736

10. Segmented Information

The Fund operates in one industry segment, that is, the sale and distribution of major household appliances.

11. Cost of Sales

Included in cost of sales for the three months ended March 31, 2010 are inventory costs in the amount of $20,998,004 (2009 - $23,313,903).

12. Subsequent Events

On April 19, 2010 the Fund declared its fifty-eighth consecutive monthly distribution. The distribution, in the amount of $0.0416 per Unit, was for the period from April 1, 2010 to April 30, 2010 to Unitholders of record of the Fund on April 30, 2010 to be paid May 17, 2010.

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Coast Wholesale Appliances Income Fund Board of Trustees

Harlow B. Burrows

C. Kenneth Crump
Chairman of the Board of Trustees

Patrick B. Dennett
Chair of Nominating and Governance Committee,
and Chair of Compensation Committee

Donald J.A. Smith, CA
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President and Chief Executive Officer

Jack G. Peck, CA
Vice President and Chief Financial Officer

Stephen J. Raben
Vice President, Sales and Marketing – Single-Family

William L. Smith
Vice President, Sales and Marketing – Multi-Family

Unitholder Information

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