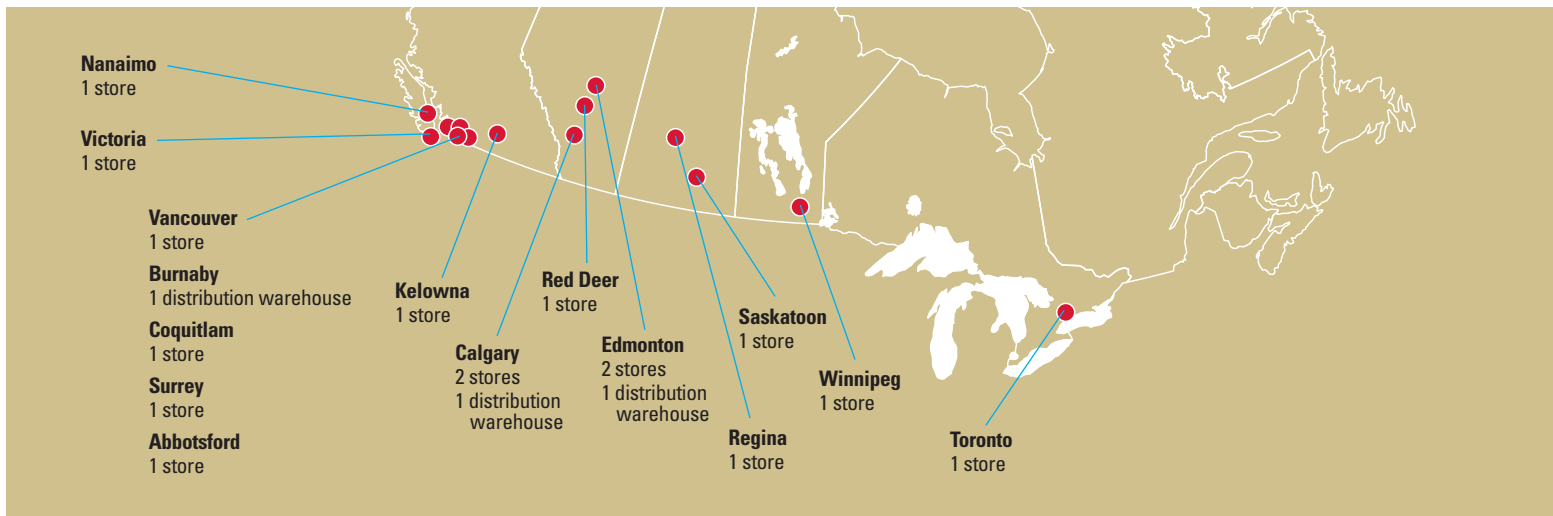

Q2 Coast Wholesale Appliances Income Fund

Report to Unitholders
Six Months Ended
June 30, 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 growth opportunities as they arise;
2. Increase sales from our existing stores; and
3. Continue to enhance our profitability.

Performance Highlights

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

	2010 Q2	2009 Q2	2008 Q2	2010 YTD	2009 YTD	2008 YTD
Sales	37,061	37,913	38,250	67,514	71,092	72,126
Gross margin	9,375	8,828	9,414	16,845	16,551	17,880
<i>As a percentage of sales</i>	25.3%	23.3%	24.6%	25.0%	23.3%	24.8%
Income before non-controlling interest	1,863	2,001	2,741	2,591	3,051	4,682
Basic and diluted net income per unit	0.186	0.199	0.273	0.258	0.304	0.467
EBITDA before conversion costs	2,916	2,780	3,542	4,398	4,769	6,391
<i>EBITDA margin before conversion costs</i>	7.9%	7.3%	9.3%	6.5%	6.7%	8.9%
EBITDA per unit before conversion costs	0.291	0.277	0.353	0.439	0.475	0.637
EBITDA	2,571	2,780	3,542	4,012	4,769	6,391
<i>EBITDA margin</i>	6.9%	7.3%	9.3%	5.9%	6.7%	8.9%
EBITDA per unit	0.256	0.277	0.353	0.400	0.475	0.637
Maintenance capital expenditures	91	100	385	124	143	566
Adjusted distributable cash	2,198	2,347	2,906	3,321	3,961	5,321
Adjusted distributable cash per unit	0.219	0.234	0.290	0.331	0.395	0.530
Distribution per unit	0.125	0.125	0.308	0.250	0.291	0.615
<i>Adjusted distribution ratio</i>	57.0%	53.3%	106.2%	75.4%	73.8%	116.0%

To Our Unitholders

We are happy to report that we continued to deliver robust retail sales in the second quarter. We also added 2% to our gross margin. As expected, our contract business with developers and builders continued to be negatively affected by a decreased flow of new projects, reducing overall revenues for the three months by a relatively modest 2.2%. The stability of our business during the quarter enabled us to continue to strengthen our balance sheet by repaying the final \$2.0 million of our acquisition term debt. This was our fourth consecutive quarter with no use of our operating line of credit.

Second Quarter Results

The Canadian economy continued to grow in the second quarter of 2010, but at a more moderate rate than in the early months of the year. As a result, the business climate remained uncertain. Our retail customers continued to be cautious about making major purchases, and the retail pricing environment remained very competitive. Credit markets continued to be reasonably stable for our builder and developer customers, who benefited from greater access to financing for new projects. However, despite year-over-year increases in the numbers of building permits issued and new housing starts, construction activity did not pick up momentum as quickly as expected, particularly in the multi-family segment of the market.

Together, these factors reduced our second quarter revenue by \$0.8 million to \$37.1 million. In British Columbia, the softening of our contract business was partially offset by the strong retail sales, but overall revenues declined year-over-year. Business in Alberta benefited from strong growth in single-family home construction, which helped to drive sales well above the 2009 level. Increased activity in the single-family building sector also drove sales growth in Saskatchewan, but at a more modest rate than in the first quarter of the year. Our sales in Manitoba declined from the 2009 level, and our Greater Toronto Area (GTA) store continued to perform below our expectations, due to the particularly challenging economic conditions that persist in Southern Ontario.

With the continued shift of our business mix in favour of retail sales, our second quarter gross margin percentage improved to 25.3% from 23.3% last year, as our retail business generates a

higher margin than sales to developers and builders. Our gross margin was also positively affected by supplier rebates related to purchase volumes that we attained during the quarter.

The gross margin improvement drove a modest increase in EBITDA before taking into account costs associated with the Fund's planned conversion to a corporation. The gain was achieved despite this year's somewhat higher selling, warehouse, facility, and general and administrative expenses. This brought our EBITDA margin before conversion expenses up to 7.9% from 7.3% last year. After conversion costs, EBITDA was \$2.6 million, representing an EBITDA margin of 6.9%. Our second quarter net income before non-controlling interest of \$1.9 million was in line with the \$2.0 million we reported last year.

During the quarter, in support of our on-going focus on increasing operating efficiency, we completed the consolidation of our Vancouver and Burnaby warehouses at the Burnaby site. We have expanded the Burnaby facility to accommodate the expected increase in product flow. Bringing the two warehouses together will create efficiencies in both inventory management and workforce utilization.

Another key strategy in recent quarters has been to strengthen our balance sheet. The repayment of the outstanding balance on our acquisition term loan in May 2010 brought our total term debt down to \$20.0 million and will reduce our future interest expense. Our cash position remains strong, with a cash balance of \$2.6 million at June 30, 2010.

First-Half Performance

Our revenue for the six months ended June 30, 2010 of \$67.5 million was down by 5.0% from the \$71.1 million we reported in 2009, while our gross margin improved to 25.0% from 23.3% in 2009. As with the quarterly result, the gross margin improvement was driven by the shift in our business mix in favour of retail sales and the supplier rebates.

First-half EBITDA before conversion costs was \$4.4 million, down by \$0.4 million from the 2009 level, bringing our EBITDA margin down to 6.5% from 6.7% in 2009.

The reduction in six-month EBITDA was due to this year's higher SG&A expenses. EBITDA after conversion costs was \$4.0 million, representing an EBITDA margin of 5.9%. Net income before non-controlling interest was \$2.6 million, compared to \$3.1 million in the first half of 2009. As with the quarterly result, the reduction in net income was mainly due to the conversion costs we have incurred since the beginning of the year.

Cash Distributions

For each of April, May and June 2010, the Fund declared and paid monthly 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 July 2010. Since the Fund's inception, we have paid a total of 60 consecutive monthly cash distributions to public unitholders, and equivalent cash distributions to the non-controlling interest held by CWAL.

During the second quarter, the Fund generated adjusted distributable cash (before non-controlling interest) of \$2.2 million, or \$0.22 per unit. This compares to \$2.3 million, or \$0.23 per unit, in 2009. The amount distributed and accrued for payment to unitholders and the non-controlling interest remained consistent in both quarters at \$1.3 million, or \$0.13 per unit.

In the first six months of the year, adjusted distributable cash (before non-controlling interest) of \$3.3 million, or \$0.33 per unit, was down from \$4.0 million, or \$0.40 per unit. With the February 2009 reduction in our per-unit monthly distribution amount, first-half distributions decreased in 2010 to \$2.5 million, or \$0.25 per unit, from \$2.9 million, or \$0.29 per unit, in 2009.

The Fund's adjusted payout ratio for the second quarter increased slightly to 57.0% from 53.3% in 2009, while our payout ratio for the first half increased to 75.4% from 73.8% last year. The higher payout ratios in 2010 were due mainly to the impact of conversion costs on our net income. On a cumulative basis, from our inception, the Fund's adjusted payout ratio is 91.9%.

Conversion to Corporation

We are happy to report that the Plan of Arrangement (the Arrangement) for the Fund's conversion to a publicly traded corporation was approved by unitholders at our annual and special meeting on June 23, 2010. The Arrangement has also received the necessary approvals from the Supreme Court of British Columbia and is expected to close on or about January 1, 2011. Following the closing, common shares of the new public entity, Coast Wholesale Appliances Inc. (Coast Inc.), will begin trading on the Toronto Stock Exchange under the symbol "CWA". Unitholders will receive shares of Coast Inc. on a one-for-one basis for each unit of the Fund held. Similarly, CWAL will receive one share of Coast Inc. for each combined exchangeable unit of Coast Wholesale Appliances LP and special voting unit of the Fund held.

We expect to continue to pay unitholders a monthly cash distribution of \$0.0416 per unit up to the November 2010 distribution payable on December 15, 2010. Beginning in 2011, we anticipate that the new entity will pay a monthly dividend approximately equal to 50% of net income. Initially, we expect this will translate to a monthly payment of \$0.035 (\$0.42 per annum) per share. These dividends should provide most investors who hold the shares directly with an after-tax return similar to, and in some cases better than, what they currently receive in distributions from the Fund, depending on their tax bracket.

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 Coast's business remains cautious. On the retail side, although our sales have steadily increased, consumers remain cautious about major purchases and we expect that the retail pricing environment will remain very competitive, putting downward pressure on our margins. In the contract segment, while the numbers of building permits issued and

new housing starts have improved year-over-year, construction activity has not increased as quickly as expected. Given the slowing in the growth of the Canadian economy that occurred in the second quarter, there is a significant risk that economic improvement will be further moderated in the second half of the year.

We are pleased with our strong retail sales performance in the first half of the year. In the contract segment, while the majority of the product we sold during the first and second quarters went into single-family and smaller multi-family projects, we are now starting to see increased construction activity in the larger multi-family development sector. We expect that the favourable impact of the resurgence in construction of larger-scale projects will be reflected in our contract revenues beginning in the final quarter of the year.

In the third quarter, building on the sales success we experienced with the introduction of the Miele product line in 2009, we will be adding the Bosch and Thermador brands at selected stores. We expect that the introduction of these popular higher-end products will generate incremental revenues in both the contract and retail segments of our business. As part of our on-going strategy to enhance profitability by increasing sales from our existing stores, we are also proceeding with a minor upgrade to our Calgary South location, to be completed in the third quarter.

Over the short-term, we expect to continue to benefit from our balanced business model, as well as the essential nature of the products we sell. We believe 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. Looking 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.

On behalf of Coast's management and the Fund's Board of Trustees, we take this opportunity to acknowledge Kenneth Crump, who stepped down in June as Chair of the Fund and of Coast Wholesale Appliances GP Inc. due to other commitments. We thank Ken for his wise counsel and the significant contribution he has made over the past four years. The Board of Trustees is pleased to welcome Maurice Paquette as a trustee of the Fund. Maurice brings Coast the benefit of more than 35 years of wholesale distribution experience, as well as a number of years of public company senior management experience.

Finally, 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 third quarter.

Sincerely,



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



Patrick Dennett
Chairman of the Board of
Trustees of Coast Wholesale
Appliances Income Fund
and Chairman of Coast Wholesale
Appliances GP Inc.

Management's Discussion and Analysis of Financial Conditions and Operations

For the period ended June 30, 2010

This management's discussion and analysis has been prepared by Coast Wholesale Appliances Income Fund (the Fund) as of August 4, 2010. It should be read in conjunction with the Fund's unaudited interim consolidated financial statements and accompanying notes for the six-month period ended June 30, 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 June 30, 2010.

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 Second Quarter 2010 Summary, 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; reliance on suppliers and their ability to supply product for sale on a timely basis; 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; 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 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; 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; and the successful completion of the Fund's conversion from a trust structure to a corporation on or before January 1, 2011. 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.

Second Quarter 2010 Summary

Financial highlights

- Revenues of \$37.1 million were down by 2.2% from the 2009 second quarter level.
- Retail sales continued to improve and exceeded the 2009 second quarter level.
- Contract business with developers and builders was down year-over-year, as anticipated, due to a reduced flow of new projects, a reflection of decreased housing starts in 2008 and the first three quarters of 2009.
- Gross margin percentage improved to 25.3% from 23.3% in 2009, due mainly to our proportionally higher retail sales and attainment of certain volume-driven supplier rebates.
- Selling, warehouse, facility, and general and administrative expenses of \$6.4 million were up by \$0.4 million over 2009, due mainly to increased sales and marketing expenditures at our Greater Toronto Area (GTA) store.
- EBITDA, before costs associated with our planned conversion to a corporation, improved to \$2.9 million from \$2.8 million in 2009.
- Acquisition term debt was eliminated with the repayment of the remaining \$2.0 million balance on our acquisition term loan.
- The Fund's cash position remained strong with no usage of our operating line of credit for the fourth consecutive quarter, and a cash balance of \$2.6 million at June 30, 2010.
- Cash distributions to public unitholders and the retained interest were maintained at \$0.416 per unit per month throughout the quarter, with 60 consecutive monthly distributions paid since June 2005.
- The Fund's adjusted payout ratio increased modestly for the quarter to 57.0% from 53.3% in 2009 and decreased on a trailing 12-month basis to 69.3% from 90.9% at June 30, 2009.

Operating highlights

- In support of our on-going focus on increasing operating efficiency, we completed the planned consolidation of our Vancouver and Burnaby warehouses at the Burnaby site.
- Building on the sales success we experienced with the introduction of the Miele product line at the beginning of 2009, we completed final preparations for the addition

of the Bosch and Thermador brands at selected locations 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 store, to begin in the third quarter.
- The proposed plan of arrangement for the conversion of the Fund to a publicly traded corporation on or before January 1, 2011 was approved by unitholders at our annual and special meeting on June 23, 2010 and by the Supreme Court of British Columbia on June 24, 2010.

Business environment

- The growth exhibited by the Canadian economy since late 2009 began to show signs of slowing.
- Our retail business was favourably impacted by increasing consumer confidence.
- Although we expect interest rates to rise, credit markets remained relatively stable 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 remained up from the prior year levels.
- Our builder sales benefited from strong growth in the single-family building sector in Alberta and Saskatchewan markets.
- The Canadian dollar continued to fluctuate through the quarter, but maintained strength near parity with the US dollar.
- Difficult economic conditions in Southern Ontario continued to negatively impact the performance of our GTA store.

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. In 2009, the business was expanded geographically into Ontario. 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.

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 recorded growth in the first half of 2010, an uncertain business environment persists globally. Economic growth rates have generally slowed in recent months and are expected to continue to decrease in the second half of the year. The risk of further setbacks in the world's economies is ever present, particularly in the United States. In Canada, while the economic outlook has improved, as we experienced growth in both the final quarter of 2009 and the first half of 2010, full economic recovery continues to be slow in coming. As elsewhere, growth in Canada is expected to moderate over the second half of the year. However, Canadian credit markets remain relatively stable, 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 through the second 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 and first quarter of 2010, our contract business remained sluggish in the second quarter of 2010. Due to the significant decrease in starts of multi-family projects 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 late 2009, primarily for single-family and smaller multi-family projects,

and have continued to increase year-over-year. Growth in the single-family building sector was particularly strong in the Alberta and Saskatchewan markets during the second quarter. However, based on the low numbers of permits issued from late 2008 through early 2009 for larger multi-family projects, we anticipate that our contract business will remain slow through the third quarter, and will not begin to increase until the final months 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. This strength is reflected in the growth of our customer deposits. However, we anticipate that the retail pricing environment will continue to 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 six months ended June 30, 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 June 30 2010	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2010	6 months ended June 30 2009	6 months ended June 30 2008
Sales	37,061	37,913	38,250	67,514	71,092	72,126
Cost of sales	27,686	29,085	28,836	50,669	54,541	54,246
Gross margin	9,375	8,828	9,414	16,845	16,551	17,880
<i>As a percentage of sales</i>	25.3%	23.3%	24.6%	25.0%	23.3%	24.8%
Expenses ⁽¹⁾	6,429	6,023	5,851	12,387	11,732	11,447
Amortization of leasehold inducements (netted with facility expenses)	30	25	21	60	50	42
EBITDA ⁽²⁾ before conversion costs	2,916	2,780	3,542	4,398	4,769	6,391
<i>As a percentage of sales</i>	7.9%	7.3%	9.3%	6.5%	6.7%	8.9%
Conversion costs	345			386		
EBITDA ⁽²⁾	2,571	2,780	3,542	4,012	4,769	6,391
<i>As a percentage of sales</i>	6.9%	7.3%	9.3%	5.9%	6.7%	8.9%
Interest	276	325	238	555	651	561
Interest rate swap	(148)	(125)	0	(298)	(143)	0
Future income taxes (recovery)	0	(96)	(55)	0	(116)	(79)
Amortization	580	675	618	1,164	1,326	1,227
Net income before non-controlling interest	1,863	2,001	2,741	2,591	3,051	4,682
<i>As a percentage of sales</i>	5.0%	5.3%	7.2%	3.8%	4.3%	6.5%
Non-controlling interest	651	700	958	906	1,067	1,637
Net income	1,212	1,301	1,783	1,685	1,984	3,045
Net income per unit (basic & diluted)	0.186	0.199	0.273	0.258	0.304	0.467
Cash distributions per unit	0.125	0.125	0.308	0.250	0.291	0.615
EBITDA ⁽²⁾ per unit	0.256	0.277	0.353	0.400	0.475	0.637
Total assets	132,764	133,309	130,349	132,764	133,309	130,349
Total long-term financial liabilities	23,063	27,875	22,316	23,063	27,875	22,316

(1) Expenses include selling, general and administrative, facilities and warehousing expenses.

(2) See definition of EBITDA under Non-GAAP Measures.

Sales

Sales for the three months ended June 30, 2010 were \$37.1 million, down by \$0.8 million, or 2.2%, from the \$37.9 million we reported in the second quarter of 2009. Our retail business continued to show considerable strength in the quarter. Sales surpassed the level recorded in the second quarter of 2009, reflecting growing consumer confidence in the Canadian economy. In the contract segment, sales to builders of single-family homes were particularly strong in the Alberta and Saskatchewan markets. However, as expected with the reduced numbers of new building permits issued for multi-family residential units 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 through the second quarter of 2010. Consequently, our business mix continued to favour retail sales over contract business, but to a lesser extent than in the first quarter of 2010.

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 second quarter of 2009. In Alberta, sales benefited from the increase in single-family home construction activity, rising well above the 2009 level, but remaining below the peak sales achieved in 2008. In Saskatchewan, sales continued to grow year-over-year, but at a more modest rate than in the first quarter of the year, while sales in Manitoba were down compared to the same period of 2009. Our GTA store continued to perform below expectations due to the continued difficult economic conditions in that market.

Sales for the six months ended June 30, 2010 were \$67.5 million, down by \$3.6 million, or 5.0%, from the \$71.1 million we reported for the first half of 2009. On a regional basis, our first half sales were consistent with the second quarter result, decreasing in BC and Manitoba, and increasing in Alberta and Saskatchewan. Similarly, our new GTA store performed below our expectations throughout the six months.

Cost of sales and gross margin

Cost of sales for the three months ended June 30, 2010 was \$27.7 million, or 74.7% of sales. This resulted in a gross margin of \$9.4 million, or 25.3% of sales, in line with our historical margin trend. By comparison, in the second quarter of 2009, cost of sales was \$29.1 million, or 76.7% of sales, providing a gross margin of \$8.8 million, or 23.3% of sales.

The 2.0% improvement in our gross margin percentage was mainly due to the shift in our sales mix in favour of retail business, which typically generates a higher margin than our contract sales to developers and builders. In addition, our gross

margin was positively impacted by supplier rebates, as we achieved certain purchase volume thresholds during the quarter.

Cost of sales for the six months ended June 30, 2010 was \$50.7 million, or 75.0% of sales. This resulted in a gross margin of \$16.8 million, or 25.0% of sales. By comparison, in the second half of 2009, cost of sales was \$54.5 million, or 76.7% of sales, providing a gross margin of \$16.6 million, or 23.3% of sales. As with the quarterly result, the gross margin improvement was driven by the shift in our business mix in favour of retail sales and the attainment of the supplier rebates.

Expenses

Selling, warehouse, facility, and general and administrative expenses (SG&A expenses) for the three months ended June 30, 2010 were \$6.4 million, or 17.3% of sales. This was up by \$0.4 million from the second quarter of 2009, when SG&A expenses of \$6.0 million equalled 15.9% of sales.

More than 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 earlier this year and generally increased our marketing expenditures. In addition, our administrative costs were up by \$0.1 million, due mainly to higher total wage costs and ongoing information technology projects. Our facility costs were also up somewhat, as a result of the relocation of our Edmonton North store in the third quarter of 2009 and the consolidation of our Vancouver and Burnaby warehouses at the Burnaby site during the second quarter. Rent at the Burnaby facility increased at the beginning of the one-month consolidation period due to the additional space added to the lease. Finally, our warehousing costs increased this year as a result of the costs to complete the warehouse consolidation.

During the quarter, we incurred \$345,000 of expenses related to the Fund's conversion to a corporation at the end of 2010.

For the six-month period, SG&A expenses increased to \$12.4 million, or 18.3% of sales, from \$11.7 million, or 16.5% of sales, in 2009. As with the quarterly result, the increase in our first-half SG&A expenses was mainly driven by higher selling costs, which rose by \$0.3 million year-over-year. The marketing expenditures at our GTA store discussed above accounted for approximately two-thirds of this increase. Administrative and facilities costs for the six months respectively increased by \$0.2 million and \$0.1 million, for the reasons described above. Similarly, warehousing costs were up somewhat due to costs associated with our Vancouver - Burnaby warehouse consolidation.

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

	3 months ended June 30 2010	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2010	6 months ended June 30 2009	6 months ended June 30 2008
Net income	1,212	1,301	1,783	1,685	1,984	3,045
Non-controlling interest	651	700	958	906	1,067	1,637
Interest	276	325	238	555	651	561
Interest rate swap	(148)	(125)	–	(298)	(143)	–
Future income taxes (recovery)	–	(96)	(55)	–	(116)	(79)
Amortization	580	675	618	1,164	1,326	1,227
EBITDA ⁽¹⁾	2,571	2,780	3,542	4,012	4,769	6,391
EBITDA margin ⁽¹⁾	6.9%	7.3%	9.3%	5.9%	6.7%	8.9%

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

EBITDA

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

Second quarter EBITDA, before the \$345,000 in conversion costs incurred during the period, was \$2.9 million, up by \$0.1 million from the \$2.8 million we reported in 2009. Our EBITDA margin of 7.9% was up from 7.3% last year. The EBITDA improvement was mainly due to the improvement in our second quarter gross margin, which more than offset the increase in our SG&A expenses for the quarter. EBITDA after conversion costs was \$2.6 million, representing an EBITDA margin of 6.9%.

For the six months, before conversion costs of \$386,000, EBITDA was \$4.4 million, down by \$0.4 million from the \$4.8 million we reported for the first half of 2009. Our EBITDA margin decreased to 6.5% from 6.7% in 2009. The reduction in six-month EBITDA was due to the year-over-year increase in SG&A expenses. EBITDA after conversion costs was \$4.0 million, representing an EBITDA margin of 5.9%.

Interest

Second quarter interest expense was down by \$49,000 year-over-year, due in part to the reduction in our term debt from \$25.3 million at June 30, 2009 to \$20.0 million at June 30, 2010. During the quarter, we repaid \$2.0 million of the Fund's

acquisition term loan, bringing the balance to nil. In addition, for the fourth consecutive quarter, we had no borrowings under our operating line of credit.

For the six-month period, interest expense of \$0.6 million was down by \$0.1 million from 2009, mainly as a result of the repayment of the acquisition term loan and the elimination of borrowings under our operating line.

Amortization

Amortization for the three months ended June 30, 2010 was \$0.6 million, down from the \$0.7 million we recorded in the second quarter of 2009.

For the first half, amortization was \$1.2 million, down from \$1.4 million in 2009.

Net income before non-controlling interest

Net income before non-controlling interest for the second quarter of 2010 was \$1.9 million, compared to \$2.0 million in 2009. As a percentage of sales, this amount equalled 5.0%, compared to 5.3% last year. The reduction is a result of the \$345,000 in conversion costs incurred in the quarter.

For the six-month period, net income before non-controlling interest was \$2.6 million, or 3.8% of sales, compared to \$3.1 million, or 4.3% of sales, in 2009. As with the quarterly result, the reduction in net income was mainly due to the conversion costs incurred during the six-month period.

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	37,061	30,454	35,617	37,341	37,913	33,179	36,077	38,547
Gross margin	9,375	7,471	8,768	8,813	8,828	7,723	9,200	9,686
Gross margin percentage	25.3%	24.5%	24.6%	23.6%	23.3%	23.3%	25.5%	25.1%
Income before non-controlling interest	1,863	728	1,670	2,241	2,001	1,050	1,959	2,352
Net income	1,212	473	1,086	1,457	1,301	683	1,274	1,529
Basic and diluted net income per unit	0.186	0.073	0.166	0.223	0.199	0.105	0.195	0.234
Distributions per unit	0.125	0.125	0.166	0.125	0.125	0.166	0.250	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)

	3 months ended June 30 2010	3 months ended June 30 2009	6 months ended June 30 2010	6 months ended June 30 2009
Accounts receivable	(3,666)	460	(2,641)	2,109
Inventory	407	745	1,841	722
Prepaid expenses	38	(91)	(135)	(211)
Accounts payable and accrued liabilities	4,763	267	1,140	1,783
Customer deposits	612	13	1,349	589
Deferred warranty revenue	101	76	225	124
Change in non-cash working capital	2,255	1,470	1,779	5,116

Cash flow from operating activities for the three months ended June 30, 2010 was \$4.6 million, up from \$3.9 million in the second quarter of 2009. Our net income and resulting cash flow before changes in non-cash working capital was \$2.3 million, compared to \$1.5 million in 2009. This year, we recorded a \$2.3 million increase in our non-cash working capital, compared to a \$2.5 million increase in non-cash working capital in 2009. The most significant changes from the first quarter were a \$3.7 million increase in accounts receivable and a \$4.8 million increase in our accounts payable and accrued liabilities. At June 30, 2010, our operating line of credit remained at nil and we had a cash balance of \$2.6 million.

For the six-month period, cash flow from operating activities was \$5.3 million, down from \$9.3 million in the first half of

2009. Our net income and resulting cash flow before changes in non-cash working capital was \$3.5 million, compared to \$5.1 million for 2009. The cash generated from the change in our non-cash working capital was \$1.8 million in 2010, compared to \$4.1 million in 2009. Specific changes in our non-cash working capital items are detailed on the table above. The most significant changes since the 2009 year-end were: a \$2.6 million increase in our accounts receivable, mainly due to the increased sales in the contract portion of our business; a \$1.8 million reduction in inventories; a \$1.1 million increase in accounts payable and accrued liabilities; and a \$1.3 million increase in customer deposits.

Capital Expenditures

Table 4: Capital expenditures
(in thousands of dollars)

	3 months ended June 30 2010	3 months ended June 30 2009	6 months ended June 30 2010	6 months ended June 30 2009
Total capital	109	100	157	214
Less proceeds on disposal of assets	18	–	33	–
	91	100	124	214
Less:				
Growth capital	–	–	–	71
Maintenance capital ⁽¹⁾	91	100	124	143

(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 second quarter of 2010 was relatively minor at \$0.1 million and related to certain leasehold improvements and computer equipment. We expect that our annual maintenance capital expenditures for 2010 will total approximately \$0.4 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
April 2010	April 30, 2010	May 17, 2010	0.0416	271,440
May 2010	May 31, 2010	June 15, 2010	0.0416	271,440
June 2010	June 30, 2010	July 15, 2010	0.0416	271,440
			0.2496	1,628,640

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 six months ended June 30, 2010, distributions of \$0.2496 per unit were paid to public unitholders, totalling \$1.6 million. This equates to an annualized rate of \$0.50 per unit. In addition, distributions of \$0.2496 per unit were paid to the non-controlling interest held by the former owner of the Coast business, totalling \$0.9 million.

From the Fund's inception on June 23, 2005 through June 30, 2010, distributions totalling \$5.04 per unit or \$32.9 million have been paid to public unitholders. Equivalent per-unit distributions have been paid to the non-controlling interest during this period, totalling \$17.7 million. The accrued distributions payable to unitholders and the non-controlling interest at June 30, 2010 were paid on July 15, 2010.

Standardized Distributable Cash

Table 6: Standardized distributable cash

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

	3 months ended June 30 2010	3 months ended June 30 2009	6 months ended June 30 2010	6 months ended June 30 2009	12-month trailing June 30 2010	12-month trailing June 30 2009
Cash from operations	4,559	3,934	5,255	9,253	13,382	15,683
Other capital	–	–		(71)	–	(71)
Maintenance capital ⁽¹⁾	(91)	(100)	(124)	(143)	(706)	(489)
Standardized distributable cash	4,468	3,834	5,131	9,039	12,676	15,123
Distributions	1,252	1,252	2,504	2,922	5,426	8,515
Standardized distributable cash per unit	0.445	0.382	0.511	0.901	1.263	1.507
Distributions per unit	0.125	0.125	0.250	0.291	0.541	0.849
<i>Standardized payout ratio</i>	<i>28.0%</i>	<i>32.7%</i>	<i>48.8%</i>	<i>32.3%</i>	<i>42.8%</i>	<i>56.3%</i>
Cumulative since the initial public offering on June 23, 2005						
Standardized distributable cash	56,579					
Distributions	50,523					
<i>Standardized payout ratio</i>	<i>89.3%</i>					

(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 above 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 42.8% at June 30, 2010 was improved from the 56.3% we reported at June 30, 2009. Using the adjusted distributable cash calculation described below, the Fund's 12-month trailing payout ratio at June 30, 2010 was 69.3%, down from 90.9% at June 30, 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 June 30 2010	3 months ended June 30 2009	6 months ended June 30 2010	6 months ended June 30 2009	12-month trailing June 30 2010	12-month trailing June 30 2009
Cash flow from operations - before changes in non-cash working capital	2,305	2,463	3,477	4,136	8,598	9,924
Non-cash interest charges netted with interest	(16)	(16)	(32)	(32)	(64)	(64)
Maintenance capital ⁽¹⁾	(91)	(100)	(124)	(143)	(706)	(489)
Adjusted distributable cash ⁽¹⁾	2,198	2,347	3,321	3,961	7,828	9,371
Distributions to unitholders and non-controlling interest	1,252	1,252	2,504	2,922	5,426	8,515
Adjusted distributable cash per unit ⁽¹⁾	0.219	0.234	0.331	0.395	0.780	0.934
Distributions per unit	0.125	0.125	0.250	0.291	0.541	0.849
<i>Adjusted payout ratio</i>	<i>57.0%</i>	<i>53.3%</i>	<i>75.4%</i>	<i>73.8%</i>	<i>69.3%</i>	<i>90.9%</i>
Cumulative since the initial public offering on June 23, 2005						
Adjusted distributable cash ⁽¹⁾	54,988					
Distributions	50,523					
<i>Adjusted payout ratio</i>	<i>91.9%</i>					

(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 above 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 second quarter of 2010, our adjusted payout ratio of 57.0% was up from the 53.3% 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 as a result of the impact of our conversion costs on our net income for the quarter. Adjusted distributable cash for the second quarter decreased to \$2.2 million from \$2.3 million in 2009.

Distributions paid to unitholders in the current quarter were equivalent to the distributions paid in the second quarter of 2009.

For the six months ended June 30, 2010, our adjusted payout ratio increased minimally to 75.4% from 73.8% in the first half of 2009. With the February 2009 reduction in the per-unit monthly distribution amount, 2010 first-half distributions decreased to \$2.5 million from \$2.9 million in 2009. Adjusted distributable cash for the six-month period was \$3.3 million, compared to \$4.0 million in 2009.

On a 12-month trailing basis, our adjusted payout ratio decreased to 69.3% from 90.9% at June 30, 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 91.9%.

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

	3 months ended June 30 2010	3 months ended June 30 2009	6 months ended June 30 2010	6 months ended June 30 2009	12-month trailing June 30 2010	12-month trailing June 30 2009	Since June 23 2005
Standardized distributable cash	4,468	3,834	5,131	9,039	12,676	15,123	56,579
Change in non-cash working capital	(2,254)	(1,471)	(1,778)	(5,117)	(4,784)	(5,759)	(3,510)
Non-cash interest charges netted with interest	(16)	(16)	(32)	(32)	(64)	(64)	7
Growth capital ⁽¹⁾	-	-	-	71	-	71	1,912
Adjusted distributable cash ⁽¹⁾	2,198	2,347	3,321	3,961	7,828	9,371	54,988

(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 June 30, 2010
(in thousands of dollars)

	Operating leases	Term loan
Less than one year	3,756	20,000
One to three years	7,314	-
Four to five years	6,924	-
After five years	9,573	-
	27,567	20,000

In the first quarter of 2010 we extended the maturity date of our loan facility from July 31, 2010 to January 1, 2011, the date on which we expect to convert from our current income trust structure to a corporate structure. We have a commitment from our lending bank to roll our loan facilities into the new corporate entity with a three-year term. The previous facility will be restructured into a \$13.0 million term facility with a repayment schedule starting in September 2011 and repayments amortized over ten years. Our revolving, operating loan has been increased to \$20.0 million. The new structure will enable us to better utilize our temporary cash balances to minimize our borrowings, and hence our interest expense. Interest rates will be equivalent to our current interest rates.

At June 30, 2010, the term loans were classified as current liabilities on our balance sheet as they mature in less than one year.

The Fund has borrowed \$20.0 million under an interest only, non-revolving term loan, 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 June 30, 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 June 30, 2010, the fair value of the swap, on a mark-to-market basis, was an unrealized loss of \$47,000, 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 second 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. We repaid the outstanding balance on this facility in full during the second quarter and, as part of the just completed negotiations to extend our term loan, have reduced the limit of the facility to \$2.0 million. The terms of the revolving 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, which now stands at \$2.0 million.

Operating leases are in place for all premises. We paid total basic rent of \$1.7 million for the six months ended June 30, 2010. This amount is only marginally higher than the rents paid for the same six months of 2009. During the quarter, we completed the renewal of six leases that expired in June 2010, extending the terms for periods ranging from five to eight years (see Related Party Transactions).

Working Capital and Liquidity

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

	June 30 2010	Dec 31 2009
Working capital	(1,567)	(2,846)
Working capital, excluding term loans	18,430	19,133
Total assets	132,764	132,720
Total liabilities	45,227	45,270
Total long term liabilities, including term loans	23,063	24,953

Working capital, excluding the Fund's term loans (which, as discussed above, were classified as current liabilities), was \$18.4 million at June 30, 2010. This was down by \$0.7 million from \$19.1 million at December 31, 2009. The major changes in our working capital items were a \$2.6 million increase in our accounts receivable, a \$1.8 million decrease in our inventories, a \$1.1 million increase in our accounts payable and a \$1.3 million increase in our customer deposits.

In addition to working capital, we have available a \$10 million, 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 June 30, 2010, and was not utilized during the second 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 June 30, 2010 were \$132.8 million, compared to total assets at December 31, 2009 of \$132.7 million. During this period, an increase in accounts receivable was substantially offset by a decrease in inventory.

Inventory at June 30, 2010 of \$24.1 million was down by \$1.8 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 reduced the inventory to levels comparable to last year. Included in inventory is \$0.4 million of showroom display stock from our new suppliers that was added during the second quarter. This inventory was purchased under extended payable terms of approximately one year.

Table 11: Accounts receivable
(in thousands of dollars)

	June 30 2010	Dec 31 2009
Accounts receivable - trade	11,993	9,356
Supplier rebates and other	1,461	1,458
	13,454	10,814

Accounts receivable at June 30, 2010 totalled \$13.5 million, compared to \$10.8 million at December 31, 2009. Our quarter-end trade accounts receivable of \$12.0 million was up \$2.6 million from our 2009 year-end amount as a result of the increased business with our contract and builder customers during the second quarter, as discussed earlier. Our supplier rebates and other receivables at June 30, 2010 was comparable to the balance at December 31, 2009 as we billed additional rebates earned in the second quarter.

Total liabilities

Total liabilities at June 30, 2010 were \$45.2 million, compared to \$45.3 million at December 31, 2009. There was little change in total liabilities as the \$1.2 million increase in accounts payable and \$1.3 million increase in customer deposits recorded during the second quarter were approximately offset by the \$2.0 million repayment of term debt.

Accounts payable and accrued liabilities at June 30, 2010 were \$15.2 million, compared to \$14.0 million at December 31, 2009. The 2009 year-end amount was greater than normal due to the significant inventory we received in the final weeks of the year. The quarter-end balance was higher than usual due to the timing of payments to our major suppliers.

Customer deposits at June 30, 2010 were \$5.5 million, up by \$1.4 million from \$4.1 million at December 31, 2009. Year-over-year, customer deposits increased by \$1.1 million. The growth in our customer deposits in the first half of 2010 is due to increased customer orders and reflects the ongoing strengthening of the retail segment of our business.

Total deferred warranty revenue (combined current and non-current) at June 30, 2010 was \$3.3 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 second 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 \$47,000 and will be fully amortized in the next quarter.

Deferred lease inducements of \$0.8 million at June 30, 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 June 30, 2010, the Fund had a prepaid compensation balance of approximately \$9,000 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 second quarter of 2010, approximately \$6,000 was charged to expense.

Fund Units

At June 30, 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, August 4, 2010, there have been no changes to the issued and outstanding units of the Fund since December 31, 2009.

For additional information on the Fund units issued and the exchangeable units, refer to Notes 5 and 6 of the June 30, 2010 unaudited interim consolidated financial statements.

Conversion to Corporation

At the annual and special meeting of the unitholders, held on June 23, 2010, unitholders approved the Plan of Arrangement under Section 192 of the Canadian Business Corporations Act (the Arrangement) to convert the Fund from an income trust to a publicly traded corporation. The final order of the Supreme Court of British Columbia with respect to the Arrangement was obtained on June 24, 2010. Subsequent to the closing of the Arrangement, which is expected to take place on or about January 1, 2011, common shares of the new public entity, Coast Wholesale Appliances Inc. (Coast Inc.), will begin trading on the Toronto Stock Exchange under the symbol "CWA".

Under the Arrangement, unitholders will receive shares of Coast Inc. on a one-for-one basis for each unit of the Fund held. Similarly, CWAL Investments Ltd, the previous owner of the Coast business, will receive one share of Coast Inc. for each combined exchangeable unit of Coast Wholesale Appliances LP and special voting unit of the Fund held.

For additional information regarding the Arrangement, see the Fund's Information Circular and Proxy Statement and the Plan of Arrangement, dated May 19, 2010, available at www.sedar.com.

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 June 30, 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 second 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 \$47,000 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 in relation 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. We will shortly finalize our January 1, 2010 opening balance sheet, in regards to both 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 required 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.

Any 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.

At the annual and special meeting of the unitholders, held on June 23, 2010, the unitholders approved the Plan of Arrangement to convert the Fund from an income trust to a publicly traded corporation on or about January 1, 2011 (see Conversion to Corporation above for details).

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 change 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 \$43 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. The tax shield will be carried forward to Coast Inc. as part of the conversion process.

For the period ended June 30, 2010, the future income tax expense was nil.

Related Party Transactions

Since the inception of the Fund, we have leased 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. Leases for these facilities expired on June 23, 2010. All were renewed during the second quarter for periods ranging from five to eight years, with the exception of the lease for one of the warehouses located in Vancouver, as warehousing in the Greater Vancouver area has been consolidated at an expanded facility in Burnaby, BC. In addition, the lease for the other warehouse, a small space adjacent to our Victoria store, was incorporated into the store lease. The lease renewal rates are at the fair market rent, as per the terms of the original lease. For the six months ended June 30, 2010, our lease payments totalled \$0.6 million.

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, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective as at June 30, 2010.

Internal control over financial reporting

Internal control over financial reporting encompasses 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 June 30, 2010.

There were no changes in internal control over financial reporting during the quarter ended June 30, 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 61st consecutive monthly distribution will be paid to public unitholders of record as at July 30, 2010 on August 16, 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.

The current distribution rate and relative stability of our business enabled us to continue to strengthen our balance sheet during the first half of 2010. In the second quarter, we repaid \$2.0 million on our acquisition loan, eliminating this loan balance, and reducing our total term debt to \$20.0 million. We also maintained a strong cash position, with no use of our operating line of credit for the fourth consecutive quarter. 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 the second half of 2010, we expect to see continued, modest growth in the Canadian and worldwide economies. However, given the moderation in the growth of the Canadian economy that occurred in the second quarter, there is a significant risk of further slowing of the current growth trend in the months to come.

Our first-half 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 2010 third quarter contract sales will be similarly affected. Based on the year-over-year increases in the numbers of building permits issued and new housing starts that were recorded in the final quarter of 2009 and first two quarters of 2010, we should begin to see an improvement in our contract business in the final months of the year. However, we expect that new housing activity will proceed at a somewhat slower pace in the second half of the year. We also expect that 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 the remainder of 2010. We anticipate that our sales to single-family builders will continue to grow in the latter part of 2010.

In the retail segment, our sales began to strengthen in the fourth quarter of 2009 and continued to improve through the first half of 2010, as reflected in the high level of customer deposits on our balance sheet. However, consumers remain generally cautious about major purchases and we anticipate that the current competitive retail pricing environment will persist.

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 completed the consolidation of our Vancouver and Burnaby warehouses at the expanded Burnaby site at the end of the second quarter. The consolidation will enable us to reduce inventory levels and warehouse wage costs in the Greater Vancouver area.

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 half 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 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. During the quarter, we added showroom display stock of \$0.4 million, which was purchased under extended payable terms of approximately one year.

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 and fourth quarters 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 the GTA 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 there, we recently expanded our contract sales team with industry veterans, and will continue to focus on developing new business with developers, builders and designers.

In mid-2009, we expanded our sales coverage to the Maritime region under an agreement with a contract sales agent based in Nova Scotia. This opportunistic arrangement is being administered under existing corporate systems, with deliveries flowing through a local third party warehouse, and is allowing Coast to generate incremental contract sales revenue without adding to our fixed costs. As expected, sales in the region remain modest.

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.

The groundwork for the Fund's conversion to a publicly traded corporation has now been successfully completed. Subsequent to the closing of the Plan of Arrangement for the conversion, expected to take place on or about January 1, 2011, common shares of the new public entity, Coast Wholesale Appliances Inc. (Coast Inc.), will begin trading on the Toronto Stock Exchange under the symbol "CWA".

Under the Plan of Arrangement, unitholders will receive shares of Coast Inc. on a one-for-one basis for each unit of the Fund held. Similarly, CWAL Investments Ltd., the previous owner of the Coast business, will receive one share of Coast Inc. for each combined exchangeable unit of Coast Wholesale Appliances LP and special voting unit of the Fund held.

We expect to continue to pay unitholders their regular monthly cash distribution of \$0.0416 per unit, subject to any additional special distributions as determined by the Board, up to the November 2010 distribution which will be payable on December 15, 2010. Beginning in 2011, we anticipate that the

new entity will pay a monthly dividend approximately equal to 50% of its net income. We anticipate that the monthly dividend will initially be \$0.035 (\$0.42 per annum) per share of Coast Inc. This should provide most investors who hold the shares directly with an after-tax return similar to, and in some cases better than, what they currently receive in distributions from the Fund, depending on their respective tax bracket.

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 fragile nature of the current Canadian and global economic recovery. 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 the first three quarters of 2009, which may continue to negatively impact our contract sales during 2010.
- 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.
- 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.
- The July 1, 2010 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 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

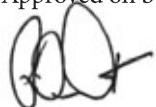
(Unaudited)

	June 30, 2010	December 31, 2009
	\$	\$
Assets		
Current assets		
Cash	2,623,810	2,415,392
Accounts receivable	13,454,513	10,813,675
Inventory	24,090,896	25,932,305
Prepaid expenses	423,859	288,896
	40,593,078	39,450,268
Leaseholds and equipment	3,599,198	3,997,332
Future income taxes	679,000	679,000
Intangible assets	13,599,352	14,300,580
Goodwill	74,292,968	74,292,968
	132,763,596	132,720,148
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	15,181,829	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	5,476,595	4,128,025
Current portion of deferred warranty revenue	1,040,252	967,062
Unrealized loss on interest rate swap	47,000	345,000
Term debt (Note 4)	19,997,093	21,979,021
	42,160,190	42,296,018
Long-term portion of deferred warranty revenue	2,309,373	2,157,920
Deferred lease inducements	757,014	816,363
	45,226,577	45,270,301
Non-controlling interest (Note 5)	30,610,593	30,580,164
Unitholders' equity	56,926,426	56,869,683
	132,763,596	132,720,148

Commitments (Note 7)

Subsequent events (Note 12)

Approved on behalf of the Trustees


Patrick B. Dennett
Trustee

Anthony L. Soda
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 June 30, 2010 \$	3 months ended June 30, 2009 \$	6 months ended June 30, 2010 \$	6 months ended June 30, 2009 \$
Sales	37,060,534	37,912,666	67,514,226	71,092,028
Cost of sales	27,685,837	29,085,001	50,668,796	54,540,773
Gross margin	9,374,697	8,827,665	16,845,430	16,551,255
Expenses				
Selling	3,008,722	2,820,488	5,766,885	5,439,244
General and administrative	1,632,600	1,520,366	3,055,012	2,882,220
Facilities	1,256,036	1,191,211	2,526,347	2,412,405
Warehousing	531,687	491,421	1,038,847	998,013
	6,429,045	6,023,486	12,387,091	11,731,882
Income before under noted items	2,945,652	2,804,179	4,458,339	4,819,373
Conversion costs (Note 6(b))	344,817	–	385,817	–
Amortization:				
Leaseholds and equipment	259,121	348,708	523,036	674,894
Intangible assets	350,614	350,613	701,228	701,227
Interest	275,692	324,973	554,558	651,210
Interest rate swap	(148,000)	(125,000)	(298,000)	(143,000)
Income before future income taxes and non-controlling interest	1,863,408	1,904,885	2,591,700	2,935,042
Future income tax (recovery) expense	–	(96,000)	–	(116,000)
Income before non-controlling interest	1,863,408	2,000,885	2,591,700	3,051,042
Non-controlling interest (Note 5)	651,633	699,709	906,317	1,066,949
Net income and comprehensive income	1,211,775	1,301,176	1,685,383	1,984,093
Basic and diluted net income per unit	0.186	0.199	0.258	0.304
Basic weighted average number of units outstanding	6,525,000	6,525,000	6,525,000	6,525,000
Diluted weighted average number of units outstanding	10,034,166	10,034,166	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	–	1,685,383	–	1,685,383	1,685,383
Distributions	–	–	(1,628,640)	(1,628,640)	(1,628,640)
Balance, June 30, 2010	59,835,000	29,946,754	(32,855,328)	(2,908,574)	56,926,426

See accompanying notes to the unaudited interim consolidated financial statements

Interim Consolidated Statements of Cash Flows

(Unaudited)

	3 months ended June 30, 2010 \$	3 months ended June 30, 2009 \$	6 months ended June 30, 2010 \$	6 months ended June 30, 2009 \$
Operating activities				
Net income and comprehensive income	1,211,775	1,301,176	1,685,383	1,984,093
Items not involving cash				
Amortization	609,735	699,321	1,224,264	1,376,121
Non-controlling interest	651,633	699,709	906,317	1,066,949
Deferred finance costs	9,036	8,991	18,072	17,982
Amortization of deferred lease inducements	(29,675)	(24,940)	(59,349)	(49,881)
(Gain) on interest rate swap	(148,000)	(125,000)	(298,000)	(143,000)
Future income taxes	–	(96,000)	–	(116,000)
	2,304,504	2,463,257	3,476,687	4,136,264
Change in non-cash working capital (Note 9)	2,254,627	1,470,414	1,778,583	5,116,150
	4,559,131	3,933,671	5,255,270	9,252,414
Investing activities				
Acquisition of Morley's Appliance Centre	–	–	–	(5,248,415)
Purchase of leaseholds and equipment	(109,445)	(99,631)	(156,807)	(212,594)
Lease inducement received	–	–	–	(540)
Proceeds from sale of fixed assets	18,095	–	31,905	–
	(91,350)	(99,631)	(124,902)	(5,461,549)
Financing activities				
Operating loan (Note 4)	–	(417,552)	–	(3,459,677)
Revolving term loan (Note 4)	(2,000,000)	–	(2,000,000)	5,243,058
Distributions paid to unitholders	(814,320)	(814,320)	(1,900,080)	(2,172,825)
Distributions paid to non-controlling interest	(437,944)	(437,942)	(1,021,870)	(1,168,551)
	(3,252,264)	(1,669,814)	(4,921,950)	(1,557,995)
Net cash inflow	1,215,517	2,164,226	208,418	2,232,870
Cash (cheques issued in excess of funds on deposit), beginning of period	1,408,293	(1,489,384)	2,415,392	(1,558,028)
Cash, end of period	2,623,810	674,842	2,623,810	674,842
Supplemental cash flow information:				
Interest paid	282,907	332,233	568,988	665,730
Income taxes paid	–	–	–	–

See accompanying notes to the unaudited interim consolidated financial statements

Notes to the Interim Consolidated Financial Statements

Six-month period ended June 30, 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 interim consolidated 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

	June 30 2010 \$	Dec 31 2009 \$
Operating loan (a)	–	–
Term loan (b)	20,000,000	20,000,000
Revolving term loan (c)	–	2,000,000
Deferred financing costs	(2,907)	(20,979)
Term debt	19,997,093	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 \$2,000,000.

a) The Fund has available a \$10,000,000 revolving loan (the Operating Loan) due January 1, 2011. 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. On August 28, 2008, as a part of the Fund's hedging strategy, it 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. During the second quarter of 2010, the Revolving Term Loan was repaid in full. Interest, terms and security are substantially the same as for the Term Loan.

d) As at June 30, 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 committed to the terms for an extension of these credit facilities for three years upon the conversion of the Fund to a corporate structure, expected to occur on or before January 1, 2011. The debt will be restructured into a \$13,000,000 term facility with a repayment schedule starting in September 2011. The repayments are

amortized over 10 years. The revolving loan limit will be increased to \$20,000,000 from \$10,000,000. The resulting \$7,000,000 reduction in the term loan will be rolled into the revolving loan.

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 \$3,336,246 (\$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	906,317
Distributions to non-controlling interest	(875,888)
Non-controlling interest – June 30, 2010	30,610,593

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

(a) 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 June 30, 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.

(b) Trust conversion

At the annual and special meeting of the unitholders, held on June 23, 2010, the unitholders approved the Plan of Arrangement under Section 192 of the Canadian Business Corporations Act (the Arrangement) to convert the Fund from an income trust to a publicly traded corporation. The final order of the Supreme Court of British Columbia with respect to the Arrangement was obtained on June 24, 2010. Subsequent to the closing of the Arrangement, which is expected to take place on or about January 1, 2011, common shares of the new public entity, Coast Wholesale Appliances Inc. (Coast Inc.), will begin trading on the Toronto Stock Exchange under the symbol "CWA".

Under the Arrangement, unitholders will receive shares of Coast Inc. on a one-for-one basis for each unit of the Fund held. Similarly, CWAL Investments Ltd, the previous owner of the Coast business, will receive one share of Coast Inc. for each combined exchangeable unit of Coast Wholesale Appliances LP and special voting unit of the Fund held.

In connection with the conversion from a trust structure to a corporation, costs of \$385,817 were incurred and have been expensed.

7. Commitments

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

12 months ended June 30	\$
2011	3,756,358
2012	3,684,496
2013	3,629,762
2014	3,481,439
2015	3,442,991
2016 and beyond	9,573,185
	<u>27,568,232</u>

8. Related Party Transactions

The Fund leases six of its store 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 six months ended June 30, 2010 was \$568,773 (2009 - \$568,542). The leases expired on June 23, 2010 and, with the exception of the Vancouver warehouse, were renewed for periods from five to eight years at the current fair market rent, as per the terms of the original leases. The Victoria warehouse is adjacent to the Victoria store and its lease has been incorporated into the store lease.

9. Net Change in Non-cash Working Capital

	3 months ended Jun 30, 2010 \$	3 months ended Jun 30, 2009 \$
Accounts receivable	(3,666,239)	460,334
Inventory	406,977	745,118
Prepaid expenses	38,409	(91,243)
Accounts payable and accrued liabilities	4,762,636	266,587
Customer deposits	611,979	13,594
Deferred warranty revenue	100,865	76,024
	<u>2,254,627</u>	<u>1,470,414</u>
	6 months ended Jun 30, 2010 \$	6 months ended Jun 30, 2009 \$
Accounts receivable	(2,640,838)	2,109,174
Inventory	1,841,409	721,662
Prepaid expenses	(134,963)	(210,780)
Accounts payable and accrued liabilities	1,139,762	1,783,611
Customer deposits	1,348,570	588,596
Deferred warranty revenue	224,643	123,887
	<u>1,778,583</u>	<u>5,116,150</u>

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 six months ended June 30, 2010 are inventory costs in the amount of \$46,395,810 (2009 - \$50,826,832).

12. Subsequent Events

On July 21, 2010, the Fund declared its 61st consecutive monthly distribution. The distribution, in the amount of \$0.0416 per unit, was for the period from July 1, 2010 to July 31, 2010 to Unitholders of record of the Fund on July 30, 2010 to be paid August 16, 2010.

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Toronto Stock Exchange
Trading Symbol: CWA.UN

Registrar and Transfer Agent

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