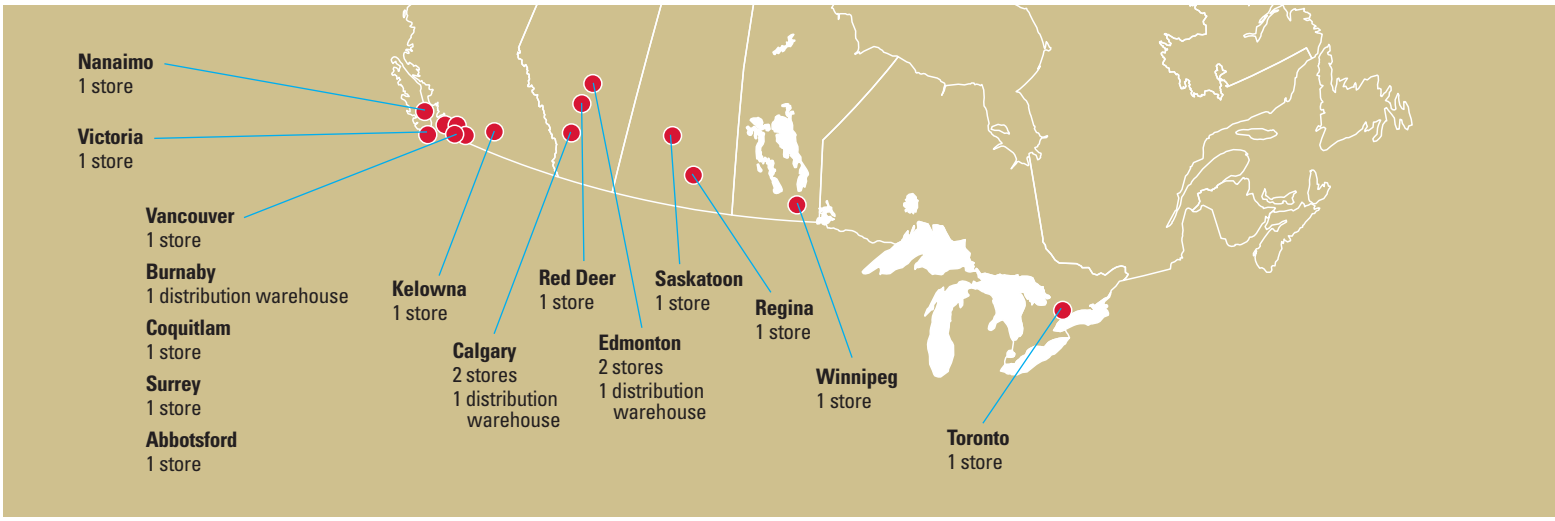
Coast Wholesale Appliances Income Fund

Annual Report

2010



Coast Wholesale Appliances Inc.

Coast Wholesale Appliances Inc. (Coast) was established on January 1, 2011 with the conversion of Coast Wholesale Appliances Income Fund to a publicly-traded, dividend paying corporation. Shares of Coast began trading on the Toronto Stock Exchange under the symbol "CWA" on January 6, 2011.

Coast is a leading independent supplier of major household appliances and accessories.

Founded in 1978, we 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, we combine our multi-family and single-family business, including contract sales to developers and builders, with direct retail sales 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 our shareholders, we plan to:

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

Report to Unitholders 2 : Management's Discussion and Analysis 6 :
Consolidated Financial Statements 25 : Notes to the Statements 31
Unitholder Information Back Cover

Performance Highlights : Q4 2010

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

	2010 Q4	2009 Q4	2008 Q4	2010 Fiscal Year	2009 Fiscal Year	2008 Fiscal Year
Sales	32,790	35,617	36,077	135,251	144,050	146,750
Gross margin	8,186	8,768	9,200	33,606	34,132	36,766
As a percentage of sales	*25.0%*	*24.6%*	*25.5%*	*24.8%*	*23.7%*	*25.1%*
Income before non-controlling interest	1,212	1,670	1,959	5,621	6,962	8,993
Basic and diluted net income per unit	0.121	0.166	0.195	0.560	0.694	0.896
EBITDA before conversion costs	2,099	2,587	3,356	8,919	10,472	12,702
EBITDA margin before conversion costs	*6.4%*	*7.3%*	*9.3%*	*6.6%*	*7.3%*	*8.7%*
EBITDA per unit before conversion costs	0.209	0.258	0.334	0.889	1.044	1.266
EBITDA	1,887	2,587	3,356	8,321	10,472	12,702
EBITDA margin	*5.8%*	*7.3%*	*9.3%*	*6.2%*	*7.3%*	*8.7%*
EBITDA per unit	0.188	0.258	0.334	0.829	1.044	1.266
Maintenance capital expenditures	124	123	171	280	725	912
Adjusted distributable cash	1,588	2,172	2,876	7,091	8,468	10,731
Adjusted distributable cash per unit	0.158	0.216	0.287	0.707	0.844	1.070
Distribution per unit	0.125	0.166	0.250	0.499	0.582	1.173
Adjusted distribution ratio	*78.8%*	76.9%	87.2%	70.6%	69.0%	109.6%

To Our Shareholders

We are pleased to report that we significantly strengthened our balance sheet in 2010 with the repayment of $4.0 million of our term debt. However, we are disappointed with our financial results, which reflect the year's generally uncertain business environment and the slowing of the economic recovery in Canada in the second half.

Managing through a challenging economic climate

The retail segment of our business benefited from increasing consumer optimism in the first half of 2010, but consumer confidence declined significantly through the third and fourth quarters. As a result, we saw considerably reduced retail traffic in our stores, particularly in British Columbia. In the contract segment, our business was negatively impacted by a generally reduced flow of new projects. While we benefited from increased sales to single-family projects in Alberta and Saskatchewan, the reduced rate of economic growth slowed the development of some larger multi-family projects.

As a result of these factors, our 2010 revenue of $135.3 million was down by 6.1% from the 2009 level, with our sales blend continuing to favour retail business. In British Columbia, the softening of our contract sales and moderation of our retail business brought our revenues down considerably year-over-year. Sales in Alberta and Saskatchewan benefited from the increase in single-family home construction activity, rising above the 2009 levels. Sales in Manitoba decreased slightly from the 2009 level, and sales at Coast's Greater Toronto Area (GTA) store were also below the prior year level.

The reduction in our annual sales revenues drove a relatively modest decrease in our gross margin in dollar terms. However, as a percentage of sales, gross margin increased to 24.8% from 23.7% in 2009. The 1.1% improvement in 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.

EBITDA for the 12 months was negatively impacted by the revenue decrease, and the resulting reduction in gross margin dollars, and a year-over-year increase in our selling, warehouse, facility, and general and administrative (SG&A) expenses. Before the $0.6 million of costs related to our conversion to a corporation that we incurred during the 2010, EBITDA was $8.9 million. This was down by $1.6 million from the $10.5 million we reported in 2009. Our EBITDA margin decreased to 6.6% from 7.3% in 2009. EBITDA after conversion costs of $8.3 million represented an EBITDA margin of 6.2%.

The higher SG&A expenses were due to a number of factors. Chief among these were an added investment in sales and marketing initiatives at our GTA store, the relocation

of our Edmonton North store in late 2009, which added to our rental costs, and rent increases in conjunction with lease renewals at six stores in June 2010. In addition, expenses were also impacted by the consolidation of our Vancouver and Burnaby warehouses in the second quarter of 2010. Bringing the two warehouses together will create future efficiencies in both inventory management and workforce utilization.

The decrease in gross margin dollars, increase in SG&A expenses and conversion costs collectively drove a $1.4 million year-over-year reduction in our net income before non-controlling interest. Net income for 2010 declined to $5.6 million, or 4.2% of sales, from $7.0 million, or 4.8% of sales, in 2009.

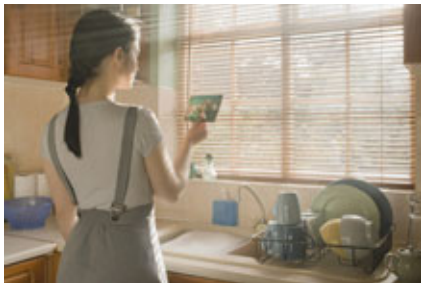
Positioning Coast for the future

During the year, we expanded our product offering with the introduction of the Bosch and Thermador brands at selected locations. We expect that the addition of these products will generate incremental revenues in both the contract and retail segments of our business. As part of our ongoing strategy to enhance profitability by increasing sales from our existing stores, we completed a minor upgrade to our Calgary South location in the fourth quarter of 2010.

The repayments of the $2.0 million remaining balance on our acquisition term debt in the second quarter and an additional $2.0 million of term debt in the third quarter decreased our interest expense in the second half of 2010 and will reduce our interest costs going forward under our newly adopted corporate structure.

As you know, we completed the conversion of Coast Wholesale Appliances Income Fund (the Fund) to a publicly traded, dividend paying corporation as planned on January 1, 2011. Under the plan of arrangement for the Fund's conversion, unitholders received common shares of Coast on a one-for-one basis for each unit of the Fund held. Similarly, CWAL Investments Ltd. (CWAL), the previous owner of the business, received one share of Coast for each combined exchangeable unit of Coast Wholesale Appliances LP and special voting unit of the Fund held. The common shares of Coast were listed and posted for trading on the Toronto Stock Exchange on January 6, 2011 under the symbol "CWA" in substitution for the trust units of the Fund, previously traded under the symbol "CWA.UN", which were delisted at that time.

In conjunction with the conversion, we established new credit facilities with a three-year term commencing January 1, 2011, reducing our term debt to $13 million and increasing the limit on our operating line of credit to $20 million.



Moving from Cash Distributions to Dividends

For each of the months from January through November 2010, the Fund declared and paid distributions in the amount of $0.0416 per unit. In addition, a special one-time distribution in the same amount was declared in November 2010. From the Fund's inception in June 2005 to December 31, 2010, a total of 65 consecutive monthly cash distributions were paid to public unitholders, and equivalent cash distributions to the non-controlling interest retained by CWAL.

For the 12 months of 2010, adjusted distributable cash (before non-controlling interest) of $7.1 million, or $0.71 per unit, was down from $8.5 million, or $0.84 per unit, in 2009. With the February 2009 reduction in our per-unit monthly distribution amount, 12-month distributions decreased in 2010 to $5.0 million, or $0.50 per unit, from $5.8 million, or $0.58 per unit, in 2009.

The Fund's adjusted payout ratio for 2010 increased to 70.6% from 69.0% in 2009. On a cumulative basis, from the Fund's inception to our conversion to a corporation, the Fund's adjusted payout ratio was 90.2%.

On February 16, 2011, we declared our first monthly cash dividend in the amount of $0.035 per share, which was paid March 7, 2011 to shareholders of record on February 28, 2011. We declared a second dividend in the same amount, on March 15, 2011, payable April 5, 2011 to shareholders of record on March 29, 2011. Coast's dividend policy is subject to the discretion of our Board of Directors, who will take into account our financial performance, as well as our current and anticipated future business needs, when determining our dividends.

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 continues to be cautious as we expect that economic growth in Canada will remain sluggish through 2011. On the retail side, we anticipate that consumers will remain careful about major purchases and that the retail pricing environment will remain extremely competitive, putting downward pressure on our sales and margins. In the contract segment, while the numbers of building permits issued and new housing starts have improved year-over-year, we do not expect any significant improvement in our contract sales until the second half of 2011.

We expect to continue to benefit from strong sales to single-family builders in Alberta and Saskatchewan in 2011, and to begin to see a return from our added investment in sales and marketing in the GTA in the latter part of the year. With Canadian credit markets remaining fairly stable, our builder and developer customers should benefit from an improved ability to finance both their current and future projects.

We are now in the process of conducting a replacement search for former President and CEO Blain Lawson, who left the company on February 18, 2011. We appreciate all of Blain's contributions over the past four years and wish him well in his future endeavours. A Transition Committee of the Board is working closely with management to oversee the operation of Coast's business until a permanent replacement is named.

Over the short-term, we anticipate that we will 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 dividends will allow us to maintain the balance sheet strength we require to continue to manage through the present uncertain business climate. Looking over the longer-term, we remain confident in 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 our Board of Directors, we extend our gratitude to all of our partners in success – our employees across Western Canada and in Ontario, our suppliers and our customers – and our appreciation to you, our shareholders for your continued support of our business.

We look forward to reporting back to you on our progress over the coming months.

Sincerely,

Harlow B. Burrows
Interim President and CEO, Director
Coast Wholesale Appliances Inc.

Patrick B. Dennett
Chairman of the Board of Directors
Coast Wholesale Appliances Inc.

Management's Discussion and Analysis of Financial Conditions and Operations

For the year ended December 31, 2010

This management's discussion and analysis (MD&A) has been prepared by Coast Wholesale Appliances Inc. (Coast), formerly Coast Wholesale Appliances Income Fund (the Fund), as of March 15, 2011. The financial results discussed in the MD&A are the results of the Fund. The MD&A should be read in conjunction with Coast's consolidated financial statements and accompanying notes for the year ended December 31, 2010 (which are also available at www.sedar.com *or* www.coastwholesaleappliancesinc.com*).*
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

This report presents our financial results for the year ended December 31, 2010, which represents our 2010 fiscal year.

Forward-looking Statements

This report includes forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "may", "plan", "will", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to, comments with respect to the sustainability of our dividends in the future. Forward-looking statements are included in, but are not limited to, the sections titled Fiscal 2010 Summary, Economic and Industry Factors, Working Capital and Liquidity 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; changes in consumer confidence in the economy; maintenance of profitability and management of changes to our business; competition; increases to interest rates; 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 long-term supplier agreements; reliance on key personnel; and foreign exchange rates as they relate to imported products.

Although the forward-looking statements contained in this report are based upon what management believes to be reasonable assumptions, Coast 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 Coast. 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: slow economic growth during 2011 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 2011; continuing cautious credit markets for our major builder customers to obtain financing for their current and future building activities; weak consumer confidence due to the slow economic recovery, which may be reflected in lower retail sales; and modest growth in new home construction activity in 2011, reflected in higher levels of new building permits issued and housing starts compared to 2010. These forward-looking statements are made as of the date of this report and Coast assumes no obligation to update or revise them to reflect new events or circumstances, other than as required by law.

Fiscal 2010 Summary

Financial highlights

- Annual revenues of $135.3 million were down by 6.1% from the 2009 level.
- Retail sales were strong in the first half of the year but softened in the second half, in total slightly exceeding the 2009 amount.
- Contract business with developers and builders was down year-over-year, due to a reduced flow of new projects, particularly in British Columbia.
- Gross margin percentage improved to 24.8% from 23.7% in 2009, due mainly to our proportionally higher retail sales.
- Selling, warehouse, facility, and general and administrative expenses of $24.6 million were up by $1.0 million over 2009, due mainly to higher facility costs as a result of rent increases at the end of Q2 2010 and increased sales and marketing expenditures at our Greater Toronto Area (GTA) store.
- EBITDA before costs of $0.6 million associated with our conversion to a corporation declined to $8.9 million from $10.5 million in 2009.
- Term debt was reduced by $4.0 million.
- Cash distributions to public unitholders and the non-controlling interest totalled $0.50 per unit for the year.
- Our adjusted annual payout ratio increased slightly to 70.6% from 69.0% in 2009.

Operating highlights

- To streamline our warehousing and delivery processes in British Columbia, we consolidated our Vancouver and Burnaby warehouse operations at the Burnaby site in the second quarter.
- Building on the sales success we experienced with the introduction of the Miele product line at the beginning of 2009, we added 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 completed a minor upgrade to our Calgary South store in the fourth quarter.
- At the end of 2010, we completed the conversion of Coast from an income trust to a publicly traded corporation.
- In conjunction with the conversion, we established new credit facilities with a three-year term commencing January 1, 2011, reducing our term debt to $13 million and increasing the limit on our operating line of credit to $20 million.

Business environment

- The growth exhibited by the Canadian economy since late 2009 slowed in the second half of 2010.
- Our retail business softened as a result of decreasing consumer confidence and was negatively impacted in both BC and Ontario by generally more cautious spending following the introduction of the HST on July 1, 2011.
- Low interest rates persisted through 2010 and credit markets remained relatively stable for our builder and developer customers, allowing access to financing for new projects.
- Housing starts and the numbers of building permits issued for new home construction remained up from prior year levels.
- Our contract sales benefited from strong growth in the single-family building sector in the Alberta and Saskatchewan markets.
- The Canadian dollar fluctuated throughout the year but remained stronger than in 2009, finishing 2010 near parity with the US dollar.

Conversion to a Corporation

On January 1, 2011, we completed the conversion of the Fund from an income trust to a dividend-paying, publicly traded corporation. The Fund was 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. It commenced operations on June 23, 2005, with the completion of an initial public offering of trust units and acquisition of 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. (CWAL). In 2009, the business was expanded geographically into Ontario. The Fund held, indirectly, 65.03% of the outstanding Class A Limited Partnership Units of Coast Wholesale Appliances LP (Coast LP), a limited partnership established under the laws of the Province of Manitoba, and its results were entirely dependent on the operating results of Coast LP.

The conversion resulted in unitholders of the Fund receiving shares of Coast on a one-for-one basis for each unit of the Fund held. Similarly, CWAL received one share of Coast for

each combined Coast exchangeable unit of Coast LP and special voting unit of the Fund held. The conversion was accounted for as a continuity of interests of the Fund since Coast continued to operate the business of the Fund and there was no change in ownership. The Fund and its direct and indirect subsidiaries were wound up or dissolved as applicable and the business continued under Coast. As noted earlier, the financial results discussed in this MD&A are the results of the Fund.

The shares of Coast trade on the Toronto Stock Exchange under the symbol CWA. For a more complete description of the conversion, see the section entitled Fund Units and Conversion to a Corporation later in this report.

Economic and Industry Factors

In general, the economic and industry conditions impacting our business have deteriorated from those described in our 2009 annual report, dated March 17, 2010 (available at www.sedar.com or www.coastwholesaleappliancesinc.com). Although most of the world's major economies recorded growth in the first half of 2010, economic growth rates in Canada and elsewhere slowed in the second half of 2010 and we expect economic growth to remain sluggish through 2011. The risk of further economic setbacks is ever present, particularly in the United States and Europe, and an uncertain business environment persists globally. However, on a positive note, Canadian credit markets remain relatively stable, improving the ability of our builder and developer customers to finance both their current and future projects. The Canadian dollar has retained strength relative to the US dollar, reaching near parity in the first and fourth quarters of 2010, and trading at approximately par in the early months of 2011. To date, however, we have seen only limited benefits from our US-based suppliers as prices from these suppliers have not been significantly adjusted.

Our contract business continued to be negatively impacted in 2010 by significantly reduced new home construction activity across Canada. The numbers of building permits issued have steadily increased year-over-year since late 2009, primarily for single-family and smaller multi-family projects, with particularly strong growth in the single-family building sector in the Alberta and Saskatchewan markets during 2010. However, development of larger multi-family projects has been slowed by the reduced rate of economic recovery. As a result, we do not expect any significant improvement in our contract sales until the second half of 2011.

Consumer confidence in the Canadian economy improved through the first half of 2010 but declined significantly during the second half of the year. As a consequence, the steady increase in retail traffic we saw in the first half of the year slowed in the third and fourth quarters. The reduction in footsteps at our stores in the second half of 2010 is reflected in the modest growth in our customer deposits year-over-year. We anticipate that the retail pricing environment will remain very competitive in 2011.

Seasonality

As with our previous distribution policy, Coast establishes an annual dividend rate and the monthly dividends paid to shareholders are averaged through the year. This payment pattern may not correlate to our net 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 Coast's consolidated financial statements for the year ended December 31, 2010. It should be read in conjunction with these financial statements and accompanying notes (available at www.sedar.com or www.coastwholesaleappliancesinc.com).

Operating Results

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

	3 months ended Dec 31 2010	3 months ended Dec 31 2009	3 months ended Dec 31 2008	12 months ended Dec 31 2010	12 months ended Dec 31 2009	12 months ended Dec 31 2008
Sales	32,790	35,617	36,077	135,251	144,050	146,750
Cost of sales	24,604	26,849	26,877	101,645	109,918	109,984
Gross margin	8,186	8,768	9,200	33,606	34,132	36,766
As a percentage of sales	*25.0%*	*24.6%*	*25.5%*	*24.8%*	*23.7%*	*25.1%*
Expenses [1]	6,057	6,152	5,822	24,568	23,555	23,979
Amortization of leasehold inducements (netted with facility expenses)	30	29	22	119	105	85
EBITDA [2] before conversion costs	2,099	2,587	3,356	8,919	10,472	12,702
As a percentage of sales	*6.4%*	*7.3%*	*9.3%*	*6.6%*	*7.3%*	*8.7%*
Conversion costs	212	–	–	598	–	–
EBITDA [2]	1,887	2,587	3,356	8,321	10,472	12,702
As a percentage of sales	*5.8%*	*7.3%*	*9.3%*	*6.2%*	*7.3%*	*8.7%*
Interest	176	285	293	933	1,252	1,115
Interest rate swap	–	(148)	787	(345)	(442)	787
Future income taxes (recovery)	27	103	(356)	27	47	(660)
Amortization	472	677	673	2,085	2,653	2,467
Net income before non-controlling interest	1,212	1,670	1,959	5,621	6,962	8,993
As a percentage of sales	*3.7%*	*4.7%*	*5.4%*	*4.2%*	*4.8%*	*6.1%*
Non-controlling interest	424	584	685	1,966	2,435	3,145
Net income	788	1,086	1,274	3,655	4,527	5,848
Net income per unit (basic & diluted)	0.121	0.166	0.195	0.560	0.694	0.896
Cash distributions per unit	0.125	0.166	0.250	0.500	0.583	1.172
EBITDA [2] per unit	0.188	0.258	0.334	0.829	1.044	1.266
Total assets	127,873	132,720	130,563	127,873	132,720	130,563
Total long-term financial liabilities [3]	15,497	24,953	22,561	15,497	24,953	22,561

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

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

(3) 2009 total long-term financial liabilities include term debt classified as a current liability.

Sales

Sales of $32.8 million for the three months ended December 31, 2010 were down by $2.8 million, or 7.9%, from the $35.6 million we reported in the fourth quarter of 2009. Our retail sales dropped off somewhat from the prior quarter and were also down from the robust retail sales recorded in the fourth quarter of 2009. Although our retail business benefited from increasing consumer confidence in the first half of 2010, the slowing of economic growth through the year reduced retail traffic at our stores in the second half. In the contract segment, sales to builders of single-family homes were strong in the Alberta and Saskatchewan markets. However, the slowdown in our contract sales to developers and builders that began in the final quarter of 2009 persisted through the fourth quarter of 2010. Consequently, our business mix continued to favour retail sales over contract business.

In BC, as in the first three quarters of 2010, the softness of contract sales and moderation of our retail business brought our overall sales down from the amount recorded in the fourth quarter of 2009. In Alberta and Saskatchewan, sales for the three months continued to benefit from the increase in single-family home construction activity, improving from the 2009 level. Sales in Manitoba were down slightly from 2009. Finally, our GTA store continued to perform below expectations, with sales below the prior year level.

For the year ended December 31, 2010, sales of $135.3 million were down by $8.8 million, or 6.1%, from the $144.1 million we reported in 2009. On a regional basis, annual sales were consistent with the fourth quarter results, decreasing in BC, Manitoba and the GTA, and increasing in Alberta and Saskatchewan.

Cost of sales and gross margin

Cost of sales for the three months ended December 31, 2010 was $24.6 million, or 75.0% of sales. This resulted in a gross margin of $8.2 million, or 25.0% of sales. By comparison, in the fourth quarter of 2009, cost of sales was $26.8 million, or 75.4% of sales, providing a gross margin of $8.8 million, or 24.6% of sales. The 0.4% improvement in our gross margin percentage was mainly due to the continued shift in our sales mix in favour of retail business, which typically generates a higher margin than our contract sales to developers and builders.

Cost of sales for the year ended December 31, 2010 was $101.6 million, or 75.2% of sales. This resulted in a gross margin of $33.6 million, or 24.8% of sales. By comparison, in the same period of 2009, cost of sales was $109.9 million, or 76.3% of sales, providing a margin of $34.1 million, which equalled 23.7% of sales. As with the quarterly result, the 1.1% gross margin improvement was driven by the shift in our business mix in favour of retail sales.

Expenses

Selling, warehouse, facility, and general and administrative expenses (SG&A expenses) for the three months ended December 31, 2010 were $6.1 million, or 18.5% of sales. This compares to SG&A expenses of $6.2 million or 17.3% of sales in the fourth quarter of 2009.

Selling costs were up by $0.1 million, due mainly to increased costs at our GTA store, where we added senior personnel to our contract sales team in the first quarter of 2010. Our facility costs were up slightly from the fourth quarter of 2009, due to rent increases following the renewal of six of our leases in June 2010 at higher rates. Our warehousing costs were approximately equal to the costs incurred for the same period of 2009. Finally, our administrative costs were down by $0.2 million year-over-year, mainly due to lower wage and benefit costs, and reduced legal expenses.

For the 12 months, SG&A expenses of $24.6 million, or 18.2% of sales, were up from $23.6 million, or 16.4% of sales, in 2009. As with the quarterly result, the increase in our annual SG&A expenses was mainly driven by higher selling costs, with a $0.6 million increase over 2009. Our GTA store accounted for approximately two-thirds of the added costs. Facilities costs increased by $0.3 million, due to the relocation of our Edmonton North store and increased rental rates, as discussed above. Warehousing costs, including the costs associated with our Vancouver - Burnaby warehouse consolidation in the second quarter, were up by $0.1 million, due both to increased wage and benefit costs, and higher than normal maintenance costs. Administrative costs were down slightly from 2009.

Our SG&A expenses for 2010 included $0.6 million in costs associated with our conversion from an income trust to a corporation, $0.2 million of which were incurred in the final quarter of the year.

EBITDA

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

Table 1: Reconciliation of net income to EBITDA

(in thousands of dollars except percentages)

	3 months ended Dec 31 2010	3 months ended Dec 31 2009	3 months ended Dec 31 2008	12 months ended Dec 31 2010	12 months ended Dec 31 2009	12 months ended Dec 31 2008
Net income	788	1,086	1,274	3,655	4,527	5,848
Non-controlling interest	424	584	685	1,966	2,435	3,145
Interest	176	285	293	933	1,252	1,115
Interest rate swap	0	(148)	787	(345)	(442)	787
Future income taxes (recovery)	27	103	(356)	27	47	(660)
Amortization	472	677	673	2,085	2,653	2,467
EBITDA (1)	1,887	2,587	3,356	8,321	10,472	12,702
EBITDA margin (1)	*5.8%*	*7.3%*	*9.3%*	*6.2%*	*7.3%*	*8.7%*

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

Fourth quarter EBITDA, before conversion costs of $0.2 million, was $2.1 million, down by $0.5 million from the $2.6 million we reported in 2009, while our EBITDA margin declined to 6.4% from 7.3% last year. The decrease in EBITDA was due to the decline in total sales and resulting reduction in gross margin dollars. EBITDA after conversion costs was $1.9 million, representing an EBITDA margin of 5.8%.

For the 2010 fiscal year, EBITDA before conversion costs of $0.6 million was $8.9 million. This was down by $1.6 million from the $10.5 million we reported for the same period of 2009. Our annual EBITDA margin decreased to 6.6% from 7.3% in 2009. The reduction in EBITDA was due to the decline in total sales and resulting reduction in gross margin dollars, and the year-over-year increase in SG&A expenses. EBITDA after conversion costs was $8.3 million, representing an EBITDA margin of 6.2%.

Interest

Fourth quarter interest expense of $0.2 million was down by $0.1 million year-over-year. The decrease was due mainly to the reduction in the interest rate on our term debt after our interest rate swap matured in July and we moved to a floating rate based on prime. In addition, our term debt during the quarter averaged $4.0 million less than in 2009 as a result of the repayments made in the second and third quarters of 2010.

For the 12 months, interest expense of $0.9 million was down by $0.4 million from $1.3 million in 2009. The reduction in interest expense was mainly due to the lower interest rate on our term loan, the repayment of $4.0 million of our term debt during 2010 and reduced use of our operating line of credit.

Amortization

Amortization for the three months ended December 31, 2010 was $0.5 million, down from the $0.7 million we recorded in the fourth quarter of 2009. The main reasons for the decrease were the change in amortization period for computer hardware and software from three years to five years, a more appropriate useful life for these assets, and the completion of the amortization of certain intangible assets in the first half of 2010.

For the 2010 fiscal year, amortization was $2.2 million, down from $2.8 million in 2009, for the same reasons noted for the fourth quarter of 2010.

Net income before non-controlling interest

Net income before non-controlling interest for the fourth quarter of 2010 was $1.2 million, compared to $1.7 million in 2009. This amount equalled 3.7% of sales, compared to 4.7% in 2009. The $0.5 million reduction was mainly due to the decline in total sales and resulting reduction in gross margin dollars, and the conversion costs that were incurred during the quarter.

For the year ended December 31, 2010, net income before non-controlling interest was $5.6 million, or 4.2% of sales, compared to $7.0 million, or 4.8% of sales, in 2009. The $1.4 million decrease was mainly due to the reduction in gross margin dollars, the increase in total expenses and our conversion costs.

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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	32,790	34,947	37,061	30,454	35,617	37,341	37,913	33,179
Gross margin	8,186	8,575	9,375	7,471	8,768	8,813	8,828	7,723
Gross margin percentage	25.0%	24.5%	25.3%	24.5%	24.6%	23.6%	23.3%	23.3%
Income before non-controlling interest	1,212	1,817	1,863	728	1,670	2,241	2,001	1,050
Net income	788	1,182	1,212	473	1,086	1,457	1,301	683
Basic and diluted net income per unit	0.121	0.181	0.186	0.073	0.166	0.223	0.199	0.105
Distributions per unit	0.125	0.125	0.125	0.125	0.166	0.125	0.125	0.166

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 Dec 31 2010	3 months ended Dec 31 2009	12 months ended Dec 31 2010	12 months ended Dec 31 2009
Accounts receivable	1,320	2,438	(289)	5,664
Inventory	3,195	(592)	2,499	(1,479)
Prepaid expenses	149	(5)	49	(13)
Accounts payable and accrued liabilities	(796)	(1,538)	(1,087)	3,160
Customer deposits	74	(474)	490	347
Deferred warranty revenue	91	225	415	444
Change in non-cash working capital	4,033	54	2,077	8,123

Cash flow from operating activities for the three months ended December 31, 2010 was $5.7 million, up from $2.4 million in the fourth quarter of 2009. Our net income and resulting cash flow before changes in non-cash working capital was $1.7 million, compared to $2.3 million in 2009. In 2010, we recorded a $4.0 million increase in our non-cash working capital, compared to a $0.1 million increase in non-cash working capital in 2009. The most significant changes year-over-year were a $3.2 million reduction in inventory, compared to a $0.6 million increase in 2009, and a $0.8 million decrease in our accounts payable and accrued liabilities, compared to a $1.5 million reduction in 2009.

For the 12-month period, cash flow from operating activities was $9.5 million, down from $17.4 million in 2009. Our net income and resulting cash flow before changes in non-cash working capital was $7.4 million, compared to $9.3 million in 2009. Our non-cash working capital increased by $2.1 million, compared to an increase of $8.1 million in 2009. Specific changes in our non-cash working capital items are detailed in the table above. Among the most significant changes year-over-year were a $2.5 million decrease in inventory, compared to an increase of $1.5 million in 2009, and a $1.1 million decrease in accounts payable and accrued liabilities, compared to an increase of $3.2 million in 2009. In addition, we recorded a minor increase in our accounts receivable in 2010, compared to a $5.7 million decrease in 2009. The decrease in our 2009 accounts receivable was driven by a reduction in trade receivables from our contract business as a result of the slowing of this segment of our business in the latter part of 2009. Our contract business remained slow through 2010, resulting in a continued reduction in our trade receivables.

Capital Expenditures

Table 4: Capital expenditures

(in thousands of dollars)

	3 months ended Dec 31 2010	3 months ended Dec 31 2009	12 months ended Dec 31 2010	12 months ended Dec 31 2009
Total capital	124	128	312	980
Less proceeds on disposal of assets	–	–	32	–
Less tenant inducements	–	5	–	184
	124	123	280	796
Less:				
Growth capital	–	–	–	71
Maintenance capital[1]	124	123	280	725

(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 expenditures on computer hardware and software. These capital 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 for the fourth quarter of 2010 of $124,000 was virtually unchanged from the same period of 2009 and related to our computer hardware and software, and signage at three of our existing store locations. For the year ended December 31, 2010, capital expenditures totalled $280,000 and related to leasehold improvements for store enhancements, signage, and computer hardware and software.

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
July 2010	July 30, 2010	August 16, 2010	0.0416	271,440
August 2010	August 31, 2010	September 15, 2010	0.0416	271,440
September 2010	September 30, 2010	October 15, 2010	0.0416	271,440
October 2010	October 29, 2010	November 15, 2010	0.0416	271,440
November 2010	November 30, 2010	December 15, 2010	0.0832	542,880
			0.4992	3,257,280

Prior to converting to a corporation, the Fund made 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 year ended December 31, 2010, distributions of $0.50 per unit were paid to public unitholders, totalling $3.3 million. In addition, distributions of $0.50 per unit were paid to the non-controlling interest held by the former owner of the Coast business, totalling $1.8 million.

From the Fund's inception on June 23, 2005 through December 31, 2010, distributions totalling $5.28 per unit, or $34.5 million, were paid to public unitholders. Equivalent per-unit distributions were paid to the non-controlling interest during this period, totalling $18.5 million.

With our conversion to a corporation, Coast expects to pay cash dividends on a monthly basis. The first such dividend was declared on February 16, 2011 in the amount of $0.035 per share, to be paid March 7, 2011 to shareholders of record on February 28, 2011. A dividend in the same amount was subsequently declared on March 15, 2011, to be paid April 5, 2011 to shareholders of record on March 29, 2011.

Coast's dividend policy is subject to the discretion of our Board of Directors, who will take into account the company's financial performance, as well as our current and anticipated business needs, at the time a dividend is being considered. The amount and timing of any future dividends may vary depending on, among other things, Coast's earnings, financial requirements, the satisfaction of solvency tests imposed by the Canada Business Corporations Act for the declaration of dividends and other relevant factors.

Standardized Distributable Cash

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

Table 6: Standardized distributable cash

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

	3 months ended Dec 31 2010	3 months ended Dec 31 2009	12 months ended Dec 31 2010	12 months ended Dec 31 2009
Cash from operations	5,746	2,364	9,486	17,380
Other capital	–	–	–	(71)
Maintenance capital [1]	(124)	(123)	(280)	(725)
Standardized distributable cash	5,622	2,241	9,206	16,584
Distributions	1,252	1,670	5,009	5,844
Standardized distributable cash per unit	0.560	0.223	0.917	1.653
Distributions per unit	0.125	0.166	0.499	0.582
Standardized payout ratio	*22.3%*	*74.5%*	*54.4%*	*35.2%*

Cumulative since the initial public offering on June 23, 2005	
Standardized distributable cash	60,654
Distributions	53,028
Standardized payout ratio	*87.4%*

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

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.

For the 12 months ended December 31, 2010, using the standardized distributable cash calculation, our standardized payout ratio was 54.4%, compared to 35.2% at December 31, 2009. Using the adjusted distributable cash calculation described below, the Fund's 12-month payout ratio at December 31, 2010 was 70.6%, up slightly from 69.0% at December 31, 2009.

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

Adjusted Distributable Cash

Historically, we have considered distributable cash to be our cash flows from operating activities before changes in non-cash working capital, less maintenance capital (see Non-GAAP Measures), less the non-cash component of interest expense. The table below uses this calculation method to set out our adjusted distributable cash for the three and 12 months ended December 31, 2010 and December 31, 2009.

Table 7: Adjusted distributable cash

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

	3 months ended Dec 31 2010	3 months ended Dec 31 2009	12 months ended Dec 31 2010	12 months ended Dec 31 2009
Cash flow from operations - before changes in non-cash working capital	1,712	2,311	7,409	9,257
Non-cash interest charges netted with interest		(16)	(38)	(64)
Maintenance capital [(1)]	(124)	(123)	(280)	(725)
Adjusted distributable cash [(1)]	1,588	2,172	7,091	8,468
Distributions to unitholders & non-controlling interest	1,252	1,670	5,009	5,844
Adjusted distributable cash per unit [(1)]	0.158	0.216	0.707	0.844
Distributions per unit	0.125	0.166	0.499	0.582
Adjusted payout ratio	*78.8%*	*76.9%*	*70.6%*	*69.0%*

Cumulative since the initial public offering on June 23, 2005	
Adjusted distributable cash [(1)]	58,758
Distributions	53,028
Adjusted payout ratio	*90.2%*

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

Our quarterly adjusted distributable cash payout ratio has historically varied 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 fourth quarter of 2010, our adjusted payout ratio of 78.8% was up slightly from the 76.9% we reported for the same period of 2009, despite a $0.4 million year-over-year reduction in distributions. The reduction in distributions was offset by the costs incurred during the fourth quarter of 2010 related to our conversion to a corporation and reduced cash flow from operations, before changes in non-cash working capital, resulting in approximately the same distribution ratio for the two periods.

For the year ended December 31, 2010, our adjusted payout ratio increased slightly to 70.6% from 69.0% at December 31, 2009. Adjusted distributable cash for the 12-month period was $7.1 million, compared to $8.5 million in 2009. During the 2010 fiscal year, total distributions were down by $0.8 million from 2009. As with the fourth quarter of 2010, this reduction was offset by the costs incurred during the year related to our conversion to a corporation and reduced cash flow from operations, before changes in non-cash working capital, resulting in approximately the same distribution ratio year-over-year.

On a cumulative basis, from the Fund's inception at June 23, 2005 to December 31, 2010, our adjusted payout ratio was 90.2%.

Table 8: Reconciliation of standardized distributable cash to adjusted distributable cash

	3 months ended Dec 31 2010	3 months ended Dec 31 2009	12 months ended Dec 31 2010	12 months ended Dec 31 2009	Since Jun 23 2005
Standardized distributable cash	5,622	2,241	9,206	16,584	60,654
Change in non-cash working capital	(4,034)	(53)	(2,077)	(8,123)	(3,809)
Non-cash interest charges netted with interest	0	(16)	(38)	(64)	1
Growth capital [(1)]	–	–	–	71	1,912
Adjusted distributable cash [(1)]	1,588	2,172	7,091	8,468	58,758

(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 December 31, 2010

(in thousands of dollars)

	Operating leases	Term loan
Less than one year	3,748	5,650
One to three years	7,204	2,300
Four to five years	6,577	10,050
After five years	8,233	–
	25,762	18,000

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 converted from an income trust to a corporation. At that time, we completed the restructuring of our credit facilities with the same lender for a three-year term. The new credit facilities include a $13.0 million term facility amortized over ten years with a repayment schedule starting in September 2011 of $325,000 per quarter. At the same time, our revolving operating line was increased to $20.0 million and $5.0 million was transferred onto the operating line from the term loan. Interest rates and security are substantially the same as the credit facilities that were in place in 2010, as detailed below.

At December 31, 2010, the $5.0 million portion of the term loan to be transferred to the operating loan and the scheduled 2011 term loan repayments were classified as current liabilities on our balance sheet.

The term loan was made available for the financing of capital assets and working capital. Advances under the term loan bear interest at prime plus 0.25% 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 Coast, subject to the security provided to a major supplier (see Note 8 of the December 31, 2010 consolidated financial statements). No principal repayments were required during the term of the loan. Terms of the new credit facility are set out below.

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. When the swap transaction matured, the term loan was placed into direct borrowings.

In July 2007, we added a revolving term facility in the amount of $13.5 million to facilitate anticipated future business acquisitions. As part of the first quarter 2010 negotiations to extend our term loan, we reduced the limit of the revolving term facility to $2.0 million, the balance of that loan at that time. In the second quarter of 2010, we repaid this revolving term facility in full. The terms of the revolving term 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 stood at $2.0 million at December 31, 2010.

Operating leases are in place for all premises. We paid total basic rent of $0.9 million for the three months ended December 31, 2010, compared to $0.8 million for the same three months of 2009. For the 12-month period, total basic rent was $3.5 million, compared to $3.2 million in 2009. During the second quarter, we completed the renewal of nine 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)

	Dec 31 2010	Dec 31 2009
Working capital	12,240	(2,846)
Working capital, excluding term loans	17,890	19,133
Total assets	127,873	132,720
Total liabilities	39,811	45,270
Total long term liabilities, including term loans	15,497	24,953

Working capital, excluding the Fund's term loans (which, as discussed above, were classified as current liabilities and reflect the changes made on January 1, 2011), was $17.9 million at December 31, 2010. This was down by $1.2 million from $19.1 million at December 31, 2009. During 2010, we utilized $4.0 million of working capital to repay term debt. The major changes in our working capital items were a $2.5 million decrease in inventories, and a $1.1 million reduction in our accounts payable and accrued liabilities.

In 2010, in addition to working capital, we had available a $10 million revolving loan, which was increased to a limit of $20 million on January 1, 2011. 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 was 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 December 31, 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 dividend 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 December 31, 2010 were $127.9 million, compared to total assets at December 31, 2009 of $132.7 million. The two main changes in our assets were a $2.5 million reduction in our inventories and a $1.9 million reduction in the net book value of our fixed assets and intangible assets, which resulted mainly from our annual amortization.

Inventory at December 31, 2010 was $23.4 million, compared to $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. During 2010, we worked our inventory down to levels appropriate for ongoing business activity.

Table 11: Accounts receivable

(in thousands of dollars)

	Dec 31 2010	Dec 31 2009
Accounts receivable - trade	6,844	8,321
Supplier rebates and other	4,259	2,493
	11,103	10,814

Although our total accounts receivable of $11.1 million at December 31, 2010 was only up $0.3 million from the $10.8 million we recorded at December 31, 2009, there was a shift in the make-up of the accounts. The year-over-year reduction in our contract sales to developers and builders

brought our trade accounts receivable down to $6.8 million from $8.3 million in 2009. Increased support from our suppliers in light of the very competitive retail market brought our supplier rebates and charge backs up to $4.3 million from $2.5 million in 2009.

Total liabilities

Total liabilities at December 31, 2010 were $39.8 million, compared to $45.3 million at December 31, 2009. The main change in total liabilities relates to the $4.0 million of term debt repaid during 2010. As well, our distributions payable were reduced by $0.8 million to nil at December 31, 2010, as there were no distributions payable, and our accounts payable were reduced by $1.1 million.

Accounts payable and accrued liabilities at December 31, 2010 were $13.0 million, compared to $14.0 million at December 31, 2009. Customer deposits at December 31, 2010 were $4.6 million, up by $0.5 million from $4.1 million at December 31, 2009 and slightly higher than at September 30, 2010, reflecting the continued strength of our retail business compared to the same period of 2009.

Total deferred warranty revenue (combined current and non-current) at December 31, 2010 was $3.5 million, up from $3.1 million at December 31, 2009.

Deferred lease inducements of $0.7 million at December 31, 2010 were down slightly from December 31, 2009, due to the ongoing amortization of these amounts.

Long-term incentive plan

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

At December 31, 2010, the prepaid compensation balance was nil as the remaining balance, in relation to the LTIP for fiscal 2007, of approximately $9,000 was amortized to expense in the fourth quarter of 2010. No further amounts were accrued under the LTIP during the period 2008 to 2010 as the distributable cash thresholds were not attained.

The LTIP has been continued under the new corporate structure.

Fund Units and Conversion to a Corporation

At December 31, 2010, the Fund had 6,525,000 units issued and outstanding, for an aggregate amount of $59,835,000, which was unchanged from December 31, 2009. In addition, there were 3,509,166 exchangeable units of Coast LP issued and outstanding, exchangeable on a one-for-one basis for units of the Fund at the option of the holder, CWAL, the former owner of the Coast business. For additional information on the Fund units issued and the exchangeable units, refer to Notes 9 and10 of the December 31, 2010 consolidated financial statements.

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 Canada 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.

Under the Arrangement, which closed January 1, 2011, unitholders received common shares of Coast on a one-for-one basis for each unit of the Fund held. Similarly, CWAL received one share of Coast for each combined exchangeable unit of Coast and special voting unit of the Fund held. The conversion was accounted for as a continuity of interests of the Fund since Coast continued to operate the business of the Fund and there was no change in ownership. The Fund and its direct and indirect subsidiaries were wound up or dissolved as applicable and the business continued under Coast.

On January 6, 2011, the common shares of Coast were listed and posted for trading on the Toronto Stock Exchange under the symbol "CWA" in substitution for the trust units of the Fund, previously traded under the symbol "CWA.UN", which were delisted at that time.

At January 1, 2011, there were a total of 10,034,166 shares issued and outstanding, which was unchanged as of the date of this report, March 15, 2011.

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 Coast consist of cash, accounts receivable, accounts payable and accrued liabilities, customer deposits, and accrued dividends or distributions payable. 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 Coast 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 Note 13 to our consolidated financial statements for the year ended December 31, 2010.

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	Other financial liabilities	Amortized cost
Term loans	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Customer deposits	Other financial liabilities	Amortized cost
Dividends or distributions payable	Other financial liabilities	Amortized cost

To fix the interest rate on our original $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. This was included as an unrealized loss on interest rate swap on the balance sheet. The unrealized loss was realized over the term of the interest rate swap. During 2010, $345,000 of the unrealized loss was realized and is reflected in our income statement. The balance of the unrealized loss is now nil as the swap instrument expired during the third quarter of 2010 and was not extended.

Off Balance Sheet Arrangements

Coast has not entered into any off balance sheet arrangements.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). 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 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, intangible assets, and leaseholds and equipment, 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 Coast are described in Note 2 of our consolidated financial statements for the year ended December 31, 2010. 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 IFRS. 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 adopted 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 have finalized our January 1, 2010 opening balance sheet, in regards to both financial statement formats and disclosures with the exception of our income tax accounting, which will be completed during our year-end review process. The financial statement note disclosures have been drafted and procedures implemented to ensure all relevant data is available. As part of our year-end and first quarter 2011 review process, we will review these financial statements with our external auditors and make any required adjustments. The first quarter 2011 financial statement will be drafted after these reviews.

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. During the third quarter of 2010, our Board of Trustees, the members of which now serve on our Board of Directors, received appropriate training to familiarize them with our IFRS conversion. 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.

The changes to accounting policies and reporting disclosures have been reviewed and approved by Coast's Audit Committee. The Audit Committee will continue to receive ongoing updates on the status of the IFRS 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 information required for the additional reporting requirements under IFRS and the minor accounting differences between IFRS and our current policies and reporting.

Financial statement impact on conversion to IFRS

We expect that there will be no adjustments to balances in our financial statements on conversion to IFRS as at January 1, 2010, the opening balance sheet for IFRS reporting, nor are there expected to be any adjustments to financial statement balances and results as at and for the year ended December 31, 2010.

As part of our IFRS transition process, we reviewed the useful lives of our leaseholds and equipment and determined that the useful life of our computer hardware and software should be increased from three years to five years. This change was made on a prospective basis in 2010, reducing our annual amortization on these assets by $0.2 million (as discussed below).

We also reviewed the accounting treatment for the operating leases for our current facilities and leases renewed during 2010. We determined that, beginning in 2011, we will accrue for future lease rent increases over the term of the lease. This change will increase our annual facility costs by approximately $160,000 per year but will not impact our cash flow. Although in the past this had not been material, leases renewed in 2010 contained step rents which resulted in a more material amount for 2011 going forward.

We continue to review our goodwill and intangible asset valuations under the IFRS impairment requirement.

Adoption of New Accounting 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. We have adopted these policies effective January 1, 2011

Revenue recognition

Coast 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. Coast 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.

Coast 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 our Board of Directors. 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.

Coast's goodwill was evaluated as at December 31, 2010. No adjustment for impairment was required.

Valuation of intangible assets, leaseholds and equipment

We review the valuation of our intangible assets, leaseholds and equipment 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. In 2010, we increased the amortization period for our computer hardware and software from three years to five years on a prospective basis to better reflect the useful life of this group of assets. This change resulted in a $0.2 million reduction in amortization expense in 2010, approximately $50,000 of which was recorded in the fourth quarter of the year.

Our long-lived assets and certain identified recorded intangibles were evaluated as at December 31, 2010. No adjustments for impairment were required.

Inventory valuation

Inventory is valued at the lower of cost, determined on a weighted average basis, and net realizable value. Coast 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 all of the Fund's taxable income and taxable capital gains were effectively allocated to unitholders, the Fund was not subject to current income taxes in 2010 or in prior years. The distributions we paid to our unitholders were taxed as income in our unitholders' hands. With our conversion to a corporation on January 1, 2011, Coast's taxable income will now be subject to current income tax. Going forward, our dividends will be paid from our after tax income and treated as taxable dividends by our shareholders.

The Fund accounted 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 was 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. Under our new corporate structure, Coast will follow the asset and liability method of accounting for income taxes whereby future tax assets and liabilities are recognized for differences between the bases of assets and liabilities used for financial statement and income tax purposes. Future income taxes will be determined based on these differences at the tax rate expected to be in place when the differences are expected to be reversed.

Coast 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 Coast's taxable income at the rate of approximately $3.0 million to $4.0 million per year going forward.

Related Party Transactions

Coast leases six store locations 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 of 2010 for periods ranging from five to eight years. The lease for the Vancouver warehouse was not renewed as warehousing in the Greater Vancouver area was consolidated at an expanded facility in Burnaby, BC. The lease renewal rates were consistent with fair market lease rates, as per the terms of the original lease. For the year ended December 31, 2010, our lease payments totalled $1.2 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 Coast in annual, interim or other filings is collected and reported to Coast's management in a timely manner that facilitates the required reporting. Due to the inherent limitations of control systems, an evaluation can only provide reasonable assurance over the effectiveness of the controls. Coast'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 December 31, 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 Coast are responsible for establishing and maintaining these controls. Under the supervision of and with the participation of the CEO and CFO, management 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 Coast'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 December 31, 2010.

There were no changes in internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, Coast'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 this management's discussion and analysis, and by the section entitled Risks and Uncertainties that follows this Outlook.

In 2010, the Fund paid distributions totalling $0.50 per unit to both public unitholders and the non-controlling interest. On January 1, 2011, we completed the Fund's conversion to a corporation, declaring our first monthly dividend on February 16, 2011 in the amount of $0.035 per share, payable March 7, 2011 to shareholders of record on February 28, 2011. A second monthly dividend in the same amount was declared on March 15, 2011, payable April 5, 2011 to shareholders of record on March 29, 2011.

In 2010, the rate of distributions paid and relative stability of our business enabled us to strengthen our balance sheet. During the year, we repaid $4.0 million on our term loan, reducing our term debt to $18.0 million. Although these payments resulted in usage of our operating line during the fourth quarter, they allowed us to reduce overall interest costs for 2010 and going forward.

Given the slowing of the Canadian economy through the second half of 2010, the current uncertain economic climate and the low economic growth rates that management expects for 2011, the outlook for our business remains cautious.

Our contract sales to developers and builders in 2010 were negatively impacted by the reduced level of building permits issued from late 2008 through the fourth quarter of 2009 and an increasingly uncertain economic climate. We expect that our contract sales in the first half of 2011 will remain sluggish and will not improve over 2010 levels. However, 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 throughout 2010, we should begin to see an improvement in our contract business in the second half 2011. We anticipate that we will continue to see strong sales to single-family builders in Alberta and Saskatchewan in 2011. In the GTA market, we continue to make inroads on acquiring new contracts with single-family and multi-family builders for projects with delivery in 2011 and 2012. Accordingly, we expect to begin to see a return for our added investment in sales and marketing in the second half of 2011.

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. In the second half of 2010, decreasing consumer confidence in the Canadian economy resulted in much more cautious consumer spending. This was reflected in a slowing of our retail sales and a decrease in our customer deposits from the high levels recorded in the second quarter of 2010. We anticipate that the current cautious consumer and competitive retail pricing environment will persist in 2011.

In light of these market challenges, we have continued to focus on streamlining our non-selling functions in order to increase our operating efficiency as we aggressively pursue additional sales opportunities. The consolidation of our Vancouver and Burnaby warehouses at the expanded Burnaby site was completed in the third quarter and will enable us to reduce warehouse overhead costs in the Greater Vancouver area.

We have also continued to refine our product offering. The addition of the Bosch and Thermador brands at selected locations early in the third quarter of this year has been well received by our customers. We expect that the introduction of these higher-end product lines will create new sales opportunities and generate incremental revenues in both the contract and retail segments of our business.

We reduced our inventory at December 31, 2010 by $2.5 million from the prior year end and inventory is now

at appropriate levels to support our business. We anticipate that we will continue to experience upward pressure on our inventory levels as our suppliers change and update their product lines. In addition to introducing technological advances and streamlined designs, the updated lines respond to consumer demands for increased energy efficiency in major home appliances.

The acquisition of the Morley's Appliance Centre business in the GTA 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 did not meet our expectations in 2010, mainly due to the ongoing weak economic conditions in that market, we remain optimistic about the future potential of the GTA location. The experience, contacts and market knowledge of our expanded contract sales team has resulted in significant growth in our backlog of contract business and positions us to capitalize on additional new business opportunities 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 though 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.

In conjunction with our conversion to a corporation, we renewed our credit facilities on January 1, 2011, adjusting our term loan to $13.0 million and increasing the limit on our operating line of credit to $20.0 million. The $5.0 million reduction in the term loan was transferred to our line of credit. This will allow us to utilize our temporary cash balances to effectively reduce our interest costs. We believe these credit facilities and ongoing cash flow from operations will be sufficient to allow us to meet ongoing requirements for capital expenditures, including investments in working capital and dividends to shareholders. However, Coast'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 our control.

We are currently conducting a replacement search for former President and CEO Blain Lawson, who left Coast on February 18, 2011. Harlow Burrows, one of the original founders of the Coast business and its former President and CEO, will serve as interim President and CEO until a permanent replacement is named.

Risks and Uncertainties

Coast 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 we sell 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 Coast's financial performance. 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 current growth in the number of new building permits may slow and the completion of housing projects may be delayed, which could negatively impact our contract sales during 2011.
- 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.
- Increases in interest rates, which would increase Coast's and our customers' costs, and the resultant impact on the availability of credit to both builders and purchasers of homes, which may impact the housing market and may reduce 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 and margins.
- The July 1, 2010 introduction of a harmonized sales tax (HST) in BC and Ontario negatively impacted our sales in both provinces. The ongoing uncertainty about the future of the HST in BC may have a negative impact on our contract customers' project sales and thus may unfavourably 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.
- Future changes in tax legislation, which may impact certain aspects of our business model and our shareholders' investment in Coast.
- Other factors as described 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 for the period in which Coast operated as an income fund. We considered 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 Coast's operating performance. 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 Coast, including our Annual Information Form and other public filings, is available on SEDAR at www.sedar.com and on Coast's website at www.coastwholesaleappliancesinc.com.

Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

Coast maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and is comprised of independent Directors. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Deloitte & Touche LLP in accordance with Canadian generally accepted auditing standards. Their report expresses their opinion on the consolidated financial statements of Coast.

Anthony Soda
Director

March 15, 2010

Independent Auditor's Report

To the Unitholders of
Coast Wholesale Appliances Income Fund

We have audited the accompanying consolidated financial statements of Coast Wholesale Appliances Income Fund, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Coast Wholesale Appliances Income Fund as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Vancouver, British Columbia

March 15, 2011

Consolidated Balance Sheets

As at December 31, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash	1,777,526	2,415,392
Accounts receivable	11,102,665	10,813,675
Inventory	23,433,895	25,932,305
Prepaid expenses	239,695	288,896
	36,553,781	39,450,268
Leaseholds and equipment (Note 6)	3,405,870	3,997,332
Future income taxes (Note 16)	652,000	679,000
Intangible assets (Note 7)	12,968,122	14,300,580
Goodwill (Note 5)	74,292,968	74,292,968
	127,872,741	132,720,148
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	12,955,045	14,042,067
Accrued distributions payable to unitholders	–	542,880
Accrued distributions payable to non-controlling interest	–	291,963
Customer deposits	4,617,803	4,128,025
Current portion of deferred warranty revenue	1,090,711	967,062
Unrealized loss on interest rate swap (Note 8 (b))	–	345,000
Term debt (Note 8)	5,650,000	21,979,021
	24,313,559	42,296,018
Term debt (Note 8)	12,350,000	–
Long-term portion of deferred warranty revenue	2,449,563	2,157,920
Deferred lease inducements	697,665	816,363
	39,810,787	45,270,301
Non-controlling interest (Note 9)	30,794,109	30,580,164
Unitholders' equity	57,267,845	56,869,683
	88,061,954	87,449,847
	127,872,741	132,720,148

Commitments (Note 11)

Subsequent events (Note 8(e) and 20)

Approved on behalf of the Board of Directors

Patrick Dennett, *Director* Anthony Soda, *Director*

See accompanying notes to the consolidated financial statements

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2010 and 2009

	2010 $	2009 $
Sales	135,251,497	144,049,873
Cost of sales (Note 19)	101,644,642	109,917,863
Gross margin	33,606,855	34,132,010
Expenses		
Selling	11,356,287	10,749,763
General and administrative	5,914,822	5,930,582
Facilities	5,209,529	4,923,537
Warehousing	2,087,373	1,951,328
	24,568,011	23,555,210
Income before under noted items	9,038,844	10,576,800
Conversion costs (Note 20(a))	598,117	–
Amortization:		
Leaseholds and equipment	871,619	1,356,022
Intangible assets	1,332,457	1,402,455
Interest	933,487	1,251,520
Interest rate swap	(345,000)	(442,000)
Income before future income taxes and non-controlling interest	5,648,164	7,008,803
Future income tax expense (Note 16)	27,000	47,000
Income before non-controlling interest	5,621,164	6,961,803
Non-controlling interest (Note 9)	1,965,721	2,434,543
Net income and comprehensive income	3,655,443	4,527,260
Basic and diluted net income per unit	0.560	0.694
Basic weighted average number of units outstanding	6,525,000	6,525,000
Diluted weighted average number of units outstanding	10,034,166	10,034,166

See accompanying notes to the consolidated financial statements

Consolidated Statements of Unitholders' Equity

	Fund units (Note 10) $	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	–	3,655,443	–	3,655,443	3,655,443
Distributions	–	–	(3,257,281)	(3,257,281)	(3,257,281)
Balance, December 31, 2010	59,835,000	31,916,814	(34,483,969)	(2,567,155)	57,267,845

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010 $	2009 $
Operating activities		
Net income	3,655,443	4,527,260
Items not involving cash		
Amortization	2,204,076	2,758,477
Non-controlling interest	1,965,721	2,434,543
Deferred finance costs (Note 8)	20,979	35,963
Amortization of deferred lease inducements	(118,698)	(104,525)
(Gain) on interest rate swap	(345,000)	(442,000)
Future income taxes (Note 16)	27,000	47,000
	7,409,521	9,256,718
Change in non-cash working capital (Note 15)	2,076,669	8,123,384
	9,486,190	17,380,102
Investing activities		
Acquisition of Morley's Appliance Centre (Note 5)	–	(5,248,415)
Purchase of leaseholds and equipment	(312,062)	(979,855)
Lease inducement received	–	184,110
Proceeds from sale of fixed assets	31,905	–
	(280,157)	(6,044,160)
Financing activities		
Operating loan (Note 8)	–	(3,459,677)
Revolving term loan (Note 8)	(2,000,000)	5,243,058
Term loan repayments (Note 8)	(2,000,000)	(3,300,000)
Distributions paid to unitholders	(3,800,160)	(3,801,465)
Distributions paid to non-controlling interest	(2,043,739)	(2,044,438)
	(9,843,899)	(7,362,522)
Net cash (outflow) inflow	(637,866)	3,973,420
Cash (cheques issued in excess of funds on deposit), beginning of period	2,415,392	(1,558,028)
Cash, end of period	1,777,526	2,415,392
Supplemental cash flow information:		
Interest paid	950,498	1,280,561
Income taxes paid	–	–

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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.

On January 1, 2011 the Fund completed its planned conversion from an income trust structure to a corporate structure, Coast Wholesale Appliances Inc. (Coast Inc.) (Note 20 (a)).

2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Consolidation

These 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) Measurement uncertainty

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") 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 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 the valuation of goodwill and intangible assets, allowance for doubtful accounts, inventory valuation, amounts for accrued liabilities, deferred warranty revenue, contingencies and income taxes. Actual results could differ from these estimates.

(c) Inventory

Inventory is stated at the lower of cost, determined on a weighted average basis, and net realizable value.

Incentives and rebates received from suppliers are treated as a reduction in the prices of the suppliers' products and are accounted for as a reduction in the related inventory cost and cost of sales when sold.

(d) Leaseholds and equipment

Leaseholds and equipment are carried at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware and software	5 years
Forklifts	15 years
Trucks	5 years
Furniture and fixtures	10 years
Equipment	10 years

Leasehold improvements are amortized using the straight-line method over the term of the lease.

In 2010 the amortization period for computer hardware and software was increased from three years to five years on a prospective basis to better reflect the useful life of this group of assets. The increase in the amortization period reduced the 2010 amortization by $213,875.

Leaseholds and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the expected undiscounted future cash flows from the asset's use and eventual disposition. The impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. The Fund has not identified any impairment write-down for the years ended December 31, 2010 and 2009.

(e) Deferred lease inducements

Deferred lease inducements consist of lease incentive funds received from landlords and rent free lease periods. The lease inducements are deferred and amortized over the initial term of the lease as a reduction of rent expense.

(f) Deferred financing costs

Financing costs incurred to obtain new credit facilities were previously included in the amount of the financial instrument to which they related and amortized over the original life of the debt using the effective interest method. In 2010, this policy was changed and these costs are now expensed when they are incurred. The costs related to the refinancing completed on January 1, 2011 in the amount of $125,432 (Note 8(e) and Note 20(b)) were included in conversion costs.

(g) Intangible assets

Certain identifiable intangible assets are carried at cost less accumulated amortization. Amortization is provided using the

straight-line method over the estimated useful lives of the intangible assets as follows:

Supplier relationships	10 years
Customer backlog at acquisition	18 months
Customer relationships - builders/developers	10 to 15 years
Customer relationships - property managers	15 years
Retail customer list	10 years
Favourable leases	34 to 117 months

Finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the expected undiscounted future cash flows from the assets use and eventual disposition. The impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

The Coast brand name is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. If the Coast brand name is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value.

The Fund has not identified any impairment write-downs for the years ended December 31, 2010 and 2009.

(h) Asset retirement obligation

The Fund recognizes legal obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. These obligations, if material and if they can be reasonably estimated, are recorded at fair value, capitalized and amortized as part of the cost of the related asset. The Fund has determined that it has no material asset retirement obligations as at December 31, 2010 and 2009.

(i) Goodwill

Goodwill is recorded at cost and is not amortized. Goodwill is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. If goodwill is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value.

The Fund has not identified an impairment write-down for the years ended December 31, 2010 and 2009.

(j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to the Canadian dollar equivalent at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated to Canadian dollars at the rates of exchange in effect at the time of the transaction. Exchange gains and losses are included in the statement of income in the period in which they occur.

(k) 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 deferred 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.

(l) Net income per unit

Basic net income per Unit is calculated by dividing net income by the weighted average number of Units outstanding during the reporting period. Diluted net income per Unit is calculated by the application of the if-converted method for convertible securities. As the conversion of Exchangeable Class A units would not have a dilutive effect on earnings per Unit, diluted and basic earnings are the same amount.

(m) Income taxes

The Fund allocates all of its taxable income and taxable capital gains to Unitholders, and thus is not subject to current income taxes until 2011. In 2011 after conversion from an income trust structure to a corporate structure (Note 20 (a)), Coast Inc. will be taxable as a corporation. The conversion from a trust to a corporation was done on a tax deferred basis.

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. Future income tax assets are recognized only when management believes it is more likely than not that they will be realized.

(n) Long-term incentive plan

Under the terms of a long-term incentive plan ("LTIP") (note 18), 10% to 20% of distributable cash, as defined therein, in excess of an established threshold is set aside to purchase Units of the Fund, as required for the LTIP participants. The cost is accrued in the period when distributable cash exceeds the thresholds established for the LTIP and amortized to expense over the vesting period of the applicable participant awards. Benefits forfeited under the plan are returned to the Fund.

(o) Financial instruments

The Fund's 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.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Financial Instrument	Category	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Operating loan	Other financial liabilities	Amortized cost
Term loans	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Customer deposits	Other financial liabilities	Amortized cost
Distributions payable	Other financial liabilities	Amortized cost

The Fund classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The required disclosures are included in note 13(g).

(p) Derivative financial instruments

The Fund does not have any derivatives that qualify for hedge accounting. The Fund measures its interest rate swap at fair market value based on quoted market prices for comparable contracts and represent the amount the fund would have received from, or paid to, a counter party to settle the contract at the market rates in effect at the balance sheet date, and the unrealized and realized gains or losses are reported in earnings in the period.

3. Adoption of new accounting policies

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 will adopt these standards with effect from January 1, 2011 with comparative financial statements being restated.

4. 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.

5. Business acquisition

On January 2, 2009 the Fund purchased the operations and business assets of Morley's Appliance Centre Ltd. for $5,248,415 inclusive of acquisition costs. The acquisition was accounted for under the purchase method and the results of operations have been included in the Fund's consolidated statement of income and comprehensive income from the date of the acquisition. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

	$
Accounts receivable	839,021
Inventory	2,003,741
Prepaid expenses	21,210
Customer deposits	(328,946)
Accounts payable	(162,078)
Net working capital acquired	2,372,948
Leaseholds and equipment	179,018
Other limited life intangible assets	485,000
Net assets acquired	3,036,966
Goodwill	2,211,449
Cash consideration inclusive of acquisition costs	5,248,415

The goodwill and intangible assets are deductible for tax purposes as eligible capital expenditures.

6. Leaseholds and equipment

	December 31, 2010			December 31, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Leasehold improvements	4,316,563	2,461,601	1,854,962	4,247,985	1,947,486	2,300,499
Forklifts and trucks	510,069	244,446	265,623	541,974	163,979	377,995
Furniture and fixtures	536,781	167,464	369,317	436,219	119,511	316,708
Equipment	660,041	284,347	375,694	647,073	218,804	428,269
Computer hardware and software	2,772,955	2,232,681	540,274	2,643,001	2,069,140	573,861
	8,796,409	5,390,539	3,405,870	8,516,252	4,518,920	3,997,332

7. Intangible assets

	December 31, 2010			December 31, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Coast brand name	3,369,000	–	3,369,000	3,369,000	–	3,369,000
Supplier relationships	3,129,000	1,727,903	1,401,097	3,129,000	1,415,003	1,713,997
Customer relationships - builders/developers	10,260,000	3,743,582	6,516,418	10,260,000	3,052,910	7,207,090
Customer relationships - property managers	1,900,000	699,511	1,200,489	1,900,000	572,839	1,327,161
Retail customer list	688,000	473,940	214,060	688,000	356,144	331,856
Favourable leases	640,000	372,942	267,058	640,000	288,524	351,476
	19,986,000	7,017,878	12,968,122	19,986,000	5,685,420	14,300,580

8. Credit facilities

	Dec 31, 2010 $	Dce 31, 2009 $
Operating loan (a)	–	–
Term loan (b)	18,000,000	20,000,000
Revolving term loan (c)	–	2,000,000
Deferred financing costs	–	(20,979)
Term debt	18,000,000	21,979,021

(a) Operating loan

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 rates are the same as for the Term Loan described below. A standby fee of 0.30% to 0.40%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis, is charged on any unutilized portion of the facility. Interest payments are due monthly.

(b) Term loan

The Fund has utilized a $20,000,000 non-revolving loan (the Term Loan) which was repaid on January 1, 2011 and partially replaced with new term facility. 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 0.25% 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. The weighted average interest rate during 2010 was 4.52% (2009 – 5.41%).

As a part of the Fund's hedging strategy, on August 28, 2008 the Fund entered into an interest-rate swap transaction to fix the effective rate of interest on the Term Loan until July 30, 2010 at 3.53% plus 1.75% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. On July 30, 2010 the swap matured and was not extended.

Payments are monthly for interest only. During the third quarter of 2010 $2,000,000 was repaid on the Term Loan leaving a balance of $18,000,000.

(c) Revolving term loan

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 rates are the same as for the Term Loan described above. A standby fee of 0.30% to 0.40%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis, is charged on any unutilized portion of the facility. Payments are monthly for interest only. The weighted average interest rate during 2010 was 2.33% (2009 – 2.79%).

(d) Covenants and security

The financial covenants related to the credit facilities are the maintenance of certain fixed charge coverage ratios (the fixed charges include interest, operating and capital lease payments plus scheduled principal repayments), senior debt to earnings before taxes depreciation and amortization ratios, working capital ratios and capital expenditure limits. The Fund was in compliance with these covenants at December 31, 2010 and 2009.

The credit facilities are secured by a general security agreement covering all assets of the Fund, including a general assignment of accounts receivable and security over inventory, subject to the security provided to a major supplier as noted below.

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 $3,603,491 (2009 - $2,707,350).

(e) Credit facilities renegotiation

As part of the conversion to a corporate structure on January 1, 2011 (Note 20(a)) the term loan was repaid effective on January 1, 2011. A new credit facility was established in Coast Inc. with the same lender, with a three year term. The facility has been restructured into a $13,000,000 term facility with a repayment schedule amortized over ten years starting in September 2011 and a revolving loan with an increased limit of $20,000,000. The $5,000,000 reduction in the term loan was rolled into the revolving loan. Advances bear interest at the lender's prime rate plus 0.25% 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.

The principal repayment requirements:

12 months ended December 31	$
2011	5,650,000
2012	1,300,000
2013	1,300,000
2014	9,750,000
2015	–
	18,000,000

The covenants and security are substantially the same as noted above.

9. Non-controlling interest

(a) Coast Exchangeable Units

	$
Non-controlling interest - December 31, 2008	30,189,711
Interest in earnings	2,434,543
Distributions to non-controlling interest	(2,044,090)
Non-controlling interest, December 31, 2009	30,580,164
Interest in earnings	1,965,721
Distributions to non-controlling interest	(1,751,776)
Non-controlling interest, December 31, 2010	30,794,109

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.

As part of the conversion to a corporate structure on January 1, 2011 (Note 20(a)) the Coast Exchangeable Units were exchanged for common shares of Coast Inc. on a one-for-one 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.

As part of the conversion to a corporate structure on January 1, 2011 (Note 19(a) the Special Voting Units were cancelled.

10. 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 December 31, 2010 and December 31, 2009	6,525,000	59,835,000

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Unit entitles the holder thereof to one vote at all meetings of voting Unitholders.

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

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

As part of the conversion to a corporate structure on January 1, 2011 (Note 20(a)) the Units were exchanged for common shares of Coast Inc. on a one-for-one basis.

11. Commitments

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

12 months ended December 31	$
2011	3,747,945
2012	3,660,422
2013	3,543,766
2014	3,488,395
2015	3,089,210
2016 and beyond	8,233,011
	25,762,749

12. Capital risk management

The Fund's objectives when managing capital are:

a) to safeguard the Fund's ability to continue as a going concern, so that it can continue to provide returns for Unitholders and benefits for other stakeholders

b) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk

In the management of capital, the Fund includes Unitholders' equity, non-controlling interest and credit facilities in the definition of capital. The Fund manages the capital structure and may make adjustments to it in light of changes in economic conditions or business opportunities. In order to maintain or adjust the capital structure the Fund may alter its credit facilities, issue additional units or adjust distributions. The Fund has established a term revolving facility (Note 8) to assist with the financing of business acquisitions.

The Fund's Board of Trustees determines the level of distributions. To date the strategy has been to maintain a consistent level of monthly distributions to maximize the cash return to the Unitholders while retaining an appropriate amount of capital to fund business growth and ongoing investments in leaseholds and equipment. The Board of Trustees adjusts the annual distribution rate to maintain the capital of the Fund at an appropriate level.

The Fund uses temporary bank financing during the year as cash flows are required to finance the cyclical nature of our business. The Fund is required to comply with certain financial covenants under its credit facilities (Note 8). At December 31, 2010 and 2009, the Fund was in compliance with these financial covenants.

13. Financial instruments

(a) Fair value

The fair value of cash, accounts receivable, accounts payable, accrued distributions payable to Unitholders and accrued distributions payable to non-controlling interests, approximates their carrying value due to their short term nature. The operating and term loans approximate fair value because they carry market interest rates.

(b) Credit risk

The Fund is exposed to credit risk with respect to uncertainties as to the timing of collectability of accounts receivable. The majority of accounts receivable are from established corporations and are mainly located throughout Western Canada, with no material concentration. The Fund mitigates credit risk through standard credit reference checks, registering security documents where appropriate and ongoing monitoring of the customers' financial condition. An allowance has been made to provide for the possible non-collection of accounts which are considered to be doubtful. Trade receivables are aged as follows:

	Dec 31, 2010	Dec 31, 2009
Current	3,725,741	3,945,717
Past due accounts		
less than 31 days	2,450,058	3,375,789
31 to 60 days	511,879	886,205
61 to 90 days	197,861	213,303
91 days or more	358,418	241,568
	7,243,957	8,662,582
Allowance for doubtful accounts	399,946	341,425
	6,844,011	8,321,157

Movements in allowance for doubtful accounts during the year:

	Dec 31, 2010	Dec 31, 2009
Balance, beginning of the year	341,425	436,143
Charged to expenses	150,000	152,403
Amounts written off	(118,563)	(371,321)
Amounts recovered	27,084	124,200
Balance, end of the year	399,946	341,425

Included in accounts receivable are $4,258,654 in other receivables (2009 - $2,492,518) which are mainly due from our suppliers as a result of product rebate programs.

(c) Interest rate risk

The Fund's bank financing arrangements (Note 8) bear interest based on the bank prime lending rates and are subject to fluctuations in that rate.

Interest on the operating loan and the term loans has not been fixed and therefore fluctuates with changes in the bank prime lending rate. At current utilization levels for these loan facilities, there is a potential annual increase or decrease in the Fund's net income of approximately $180,000 with each 1% change in the bank prime rate.

(d) Currency risk

The Fund is exposed to minimal financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The amount of foreign currency purchases is less than 2% of our cost of sales, therefore the Fund considers this risk to be low.

(e) Concentration risk

During the 12-month period ended December 31, 2010, purchases by the Fund from its three largest suppliers totaled approximately $73,300,000 or 72% of cost of sales (2009 - $81,800,000 or 74%). At December 31, 2010 amounts payable to these suppliers included in accounts payable and accrued liabilities net of rebates receivable totaled $6,274,809 (2009 - $7,434,113).

Management believes the Fund has alternative options that would ensure continued product supply, should it encounter problems with any of its three largest suppliers.

(f) Liquidity risk

The Fund has a planning and budgeting process to determine the cash flow required to support the Fund's normal operating and expansion plans. The Fund reviews the cash flows and adjusts the annual distribution to Unitholders accordingly. The Fund ensures that there are sufficient committed loan facilities (Note 8) in place to meet its short-term business requirements taking into account its anticipated cash flows from operations and planned distributions to Unitholders. The $10 million operating loan can be drawn upon at any time to fund general operating costs.

(g) Fair value measurement

The following fair value hierarchy reflects the significance of the inputs used in making measurements of the Fund's financial instruments carried at fair value.

	Dec. 31 2010 $	Level 1 $	Level 2 $	Level 3 $
Financial assets at fair value				
Cash	1,777,526	1,777,526	–	–
Total	1,777,526	1,777,526	–	–

14. Related party transactions

The Fund leases six of its branch locations from a company affiliated with the former principal shareholders of the acquired business and who hold the non-controlling interest in the Fund (Note 9). The total amount paid to these related parties for the twelve months ended December 31, 2010 was $1,172,199 (2009 - $1,137,084). Each of these leases was modified as part of the Initial Public Offering, to provide for a term of five years from June 23, 2005 with two consecutive options to renew at the option of the Fund at the greater of the existing rent or the fair market rent at the time of the renewal. In June, 2010 these leases were extended for periods from five to eight years. The amounts were measured at the exchange amount which was the consideration agreed upon between the related parties.

15. Net change in non-cash working capital

	2010 $	2009 $
Accounts receivable	(288,990)	5,664,025
Inventory	2,498,410	(1,479,087)
Prepaid expenses	49,201	(13,262)
Accounts payable and accrued liabilities	(1,087,022)	3,159,851
Customer deposits	489,778	347,813
Deferred warranty revenue	415,292	444,044
	2,076,669	8,123,384

16. Future income taxes

	2010 $	2009 $
Income before future income taxes and non-controlling interest	5,648,164	7,008,803
Combined federal and provincial tax rate	28.5%	30.0%
Computed expected tax expense	1,609,727	2,102,641
Decreased by: Current year's earnings not taxable	(1,609,727)	(2,102,641)
Other	27,000	47,000
Total tax expense	27,000	47,000

The tax effect of the temporary differences that give rise to the future income tax balance are as follows:

	2010 $	2009 $
Timing differences on recognition of deferred warranty revenue	892,000	689,000
Timing differences related to the tax base for intangible and tangible assets	(240,000)	(10,000)
Future income taxes	652,000	679,000

17. Segmented information

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

18. Long-term incentive plan

The Fund adopted a long-term incentive plan ("LTIP") in 2007. As at

December 31, 2010, the Fund has no prepaid compensation balances in respect of the LTIP (2009 - $14,889) and has recorded an $14,889 (2009 - $11,882) expense in the period for the awards which were vested during the period. For the years ended December 31, 2010 and 2009 the Fund made no accrual in respect of the LTIP.

19. Cost of sales

Included in cost of sales for the twelve months ended December 31, 2010 are inventory costs in the amount of $92,903,682 (2009 - $101,034,739).

20. Subsequent events

(a) Conversion to a corporate entity

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 Canada 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. The Arrangement was completed on January 1, 2011 and the common shares of the new public entity, Coast Inc. began trading on the Toronto Stock Exchange under the symbol "CWA".

Under the Arrangement, unitholders received shares of Coast Inc. on a one-for-one basis for each unit of the Fund held. Similarly, CWAL Investments Ltd. received one share of Coast Inc. for each combined Coast Exchangeable Unit of Coast Wholesale Appliances LP and special voting unit of the Fund held (Note 9).

(b) Renewal of credit facilities

As part of the conversion to a corporate structure on January 1, 2011 (Notes 19(a)) the term loan (Note 8) was repaid. A new credit facility was established in Coast Inc. with the same lender, with a three year term. The facility has been restructured into a $13,000,000 term facility with a quarterly repayment schedule amortized over ten years starting in September 2011. The revolving loan limit was increased to $20,000,000. Advances bear interest at the lender's prime rate plus 0.25% 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 revolving loan. The credit facility is secured by a general security agreement covering all the assets of Coast Inc.

(c) Dividends

On February 16, 2011 Coast Inc. declared a dividend in the amount of $0.035 per share payable to shareholders of record on February 28, 2011, to be paid March 7, 2011.

On March15, 2011 Coast Inc. declared a dividend in the amount of $0.035 per share payable to shareholders of record on March 29, 2011, to be paid April 5, 2011.

Coast Wholesale Appliances Inc.
Board of Directors

Harlow B. Burrows

Patrick B. Dennett
Chairman of the Board of Directors

Maurice E. Paquette

Donald J.A. Smith, CA
Chair of Governance, Nominating and
Corporate matters Committee and
Chair of Compensation Committee

Anthony L. Soda, CA
Chair of Audit, Finance and Risk Committee

Management

Harlow B. Burrows
Interim President and Chief Executive Officer

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

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

Marc E. Bourne
Vice President, Sales and Marketing – Multi-Family

Shareholder Information

Investor Relations
604.301.3400
invest@coastappliances.com
www.coastwholesaleappliancesinc.com

Auditors
Deloitte & Touche LLP
Vancouver, BC

Shares Listed
Toronto Stock Exchange
Trading Symbol: CWA

Registrar and Transfer Agent
Computershare Investor Services Inc.

Head Office:

8488 Main Street
Vancouver, BC
V5X 4W8

Coast Wholesale Appliances Inc.

The Annual General Meeting
of Coast Wholesale Appliances Inc.
will be held at:
The Metropolitan Hotel Vancouver
645 Howe Street
Vancouver, BC
10:30 am