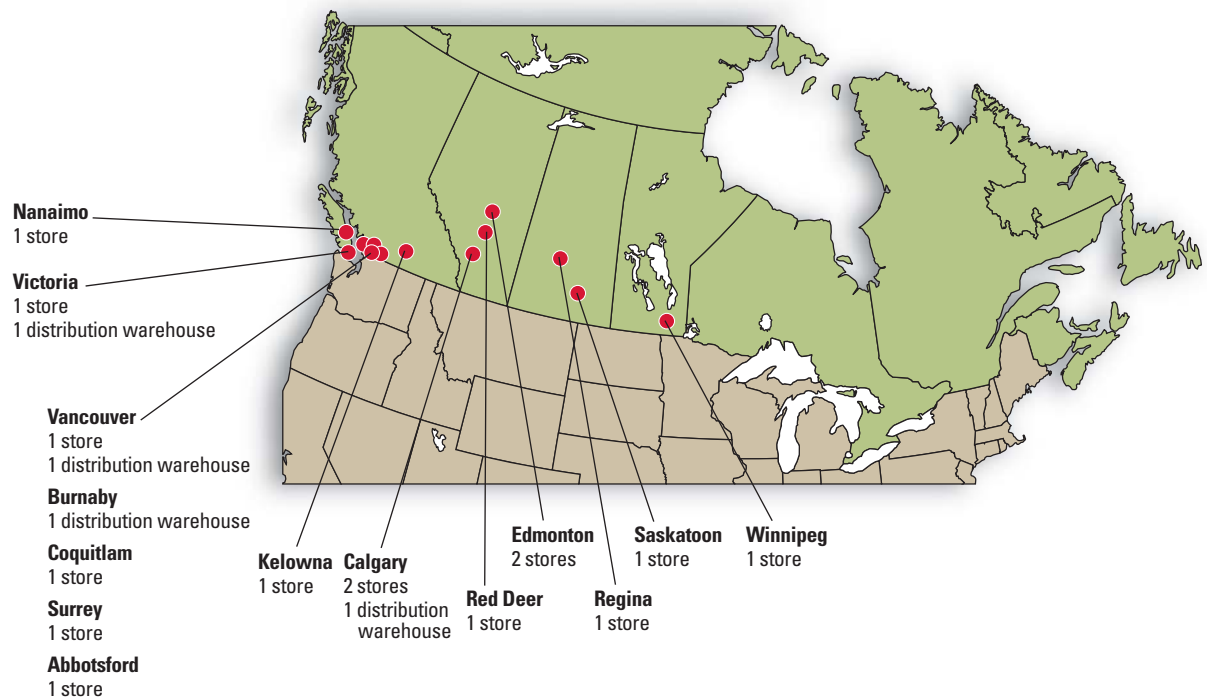


Coast Wholesale Appliances
Income Fund

Q2.2008



**REPORT TO UNITHOLDERS
SIX MONTHS ENDED
JUNE 30, 2008**



Coast Wholesale Appliances Income Fund

Coast Wholesale Appliances Income Fund is an unincorporated, open-ended limited purpose trust launched on June 23, 2005 with the completion of an initial public offering of 6,525,000 trust units. The Fund was created to acquire and hold a 65% indirect interest in Coast Wholesale Appliances LP (Coast). The remaining 35% interest has been retained by the previous ownership. These units were initially subordinated to those of public unitholders, subject to the Fund meeting certain EBITA and cash distribution targets, as set out in our June 15, 2005 prospectus. All of the conditions for removal of the subordination were met during 2007 and the subordination was removed on March 24, 2008.

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

Coast Wholesale Appliances LP

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

Founded in 1978, Coast originally operated exclusively as a wholesale supplier to developers and builders, later broadening our focus to include the retail market. Today, our business combines contract sales to developer and builder customers with direct sales to retail customers.

The exceptional stability our business has shown over the past 30 years is due in large part to the essential nature of the major home appliances we sell. Over the past decade, our industry has also benefited from strong economic growth fundamentals, with new product innovations and an increasing focus on home décor and energy efficiency working to drive up sales.

Coast currently operates 15 stores and four warehouse distribution centres across the four western provinces. We offer our customers the convenience of one-stop shopping for all of their major household appliance needs across more than 30 major brands.

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

1. Enter new markets in Western Canada and explore opportunities to expand into Eastern Canada;
2. Increase sales from our existing stores; and
3. Continue to enhance our profitability.

Performance Highlights

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

	2008 Q2	2007 Q2	2006 Q2	2008 YTD	2007 YTD	2006 YTD
Sales	38,250	36,809	30,802	72,126	67,970	58,519
Gross margin	9,414	9,228	7,710	17,880	16,960	14,370
<i>As a percentage of sales</i>	24.6%	25.1%	25.0%	24.8%	25.0%	24.6%
Net income before non-controlling interest	1,783	3,208	2,317	4,682	5,224	4,160
Basic and diluted net income per unit	0.273	0.320	0.231	0.47	0.52	0.42
EBITDA	3,542	3,883	3,249	6,391	6,676	5,997
<i>EBITDA margin</i>	9.3%	10.5%	10.5%	8.9%	9.8%	10.2%
Maintenance capital expenditures	385	104	192	566	109	242
Adjusted distributable cash	2,906	3,543	2,822	5,321	6,098	5,272
Adjusted distributable cash per unit	0.29	0.35	0.28	0.53	0.61	0.52
Distribution per unit	0.31	0.30	0.30	0.62	0.60	0.60
<i>Adjusted distribution ratio</i>	106.2%	85.0%	106.7%	116.0%	98.7%	114.2%

- Grew second quarter revenues by 3.9% and six-month revenues by 6.1% year-over-year.
- Improved first-half comparable store sales by 4.4% over 2007.
- Improved inventory turnover for the trailing 12 months to June 30, 2008 by 0.8 turns.
- Marked official opening of relocated Abbotsford, BC, store and proceeded with plans for a similar relocation of our existing Regina store to new, larger premises in a higher traffic area in the third quarter.
- Rolled out our new inventory management system in British Columbia.
- Continued to meet all cash distribution commitments to public unitholders and the non-controlling interest.

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To Our Unitholders

On behalf of the Board of Trustees of Coast Wholesale Appliances Income Fund, and all of our employees across Western Canada, we are pleased to report to you on our performance in the three and six months ended June 30, 2008. The three-month period represents the second quarter of our 2008 fiscal year.

During the quarter, we continued to increase our revenues, thanks to sustained robust growth in our contract business with developers and builders, most notably in Alberta, where we again experienced strong contract sales completions.

Second quarter operating results

Coast's revenues of \$38.3 million for the three months ended June 30, 2008 were up by 3.9% from the previous record second quarter of 2007. As in the first quarter of this year, our business mix was skewed slightly in favour of contract sales. Due to more cautious consumer spending, our retail sales were down somewhat from the particularly high levels we experienced in the second quarter of 2007.

Although we achieved a modest year-over-year improvement in our gross margin on product sales during the quarter, the gain was more than offset by the impact of rapidly increasing fuel prices on both our inbound and outbound freight costs. These increased costs eroded our second quarter gross margin by 0.5%. As a result, our gross margin declined to 24.6% from 25.1% in 2007.

Coast's second quarter EBITDA of \$3.5 million was down from \$3.9 million in 2007, while our EBITDA margin of 9.3% was down from 10.5% in the prior year. The reduction in EBITDA margin was due mainly to our generally higher expenses as a result of the two new stores added in the first quarter of 2007 and with the growth of our business. Net income before non-controlling interest was \$2.7 million, or 7.2% of sales, down from \$3.2 million, or 8.7% of sales, in the second quarter of 2007, principally due to our higher expenses.

First-half operating results

Revenues for the six months ended June 30, 2008 of \$72.1 million were up by 6.1% from the first half of 2007. At comparable stores – locations open for more than a year – sales grew by 4.4% over the first half of 2007.

Gross margin for the first half was 24.8%, compared to 25% in 2007. As with the quarterly result, the slight erosion in our six-month gross margin was mainly due to our higher freight costs.

First half EBITDA of \$6.4 million was down from \$6.7 million in the same period in 2007. Our EBITDA margin for the six months was 8.9%, down from 9.8% in 2007. The EBITDA margin reduction was mainly due to Coast's increased expenses and decreased gross margin. The new stores we opened in Alberta during 2007 have contributed positively to our total EBITDA, but have negatively impacted our EBITDA margin. As volume grows in these stores, we expect the increase in total gross margin dollars will result in an increase to their EBITDA margin. Net income before non-controlling interest was \$4.7 million, or 6.5% of sales, down from \$5.2 million or 7.7% of sales in the first half of 2007.

We are pleased with our continued sales growth in the first half of the year, particularly given that our second quarter gain was on top of the record 19.5% sales increase we achieved in the second quarter of last year. We remain focussed on enhancing profitability by streamlining non-selling functions and working to increase sales from our existing stores.

As part of our strategy to drive up our comparable store sales, we relocated our Abbotsford, BC store to a new facility in a higher-traffic area at the end of the first quarter of 2008. The new location marked its official grand opening on April 19, 2008 and will enable us to grow our business in the Abbotsford market. A similar relocation of Coast's Regina, Saskatchewan store is scheduled for September 2008, with a grand opening early the following month. In addition, we have upgraded our inventory management and computer systems to support the future growth and expansion of our business. The new inventory management system was rolled-out in British Columbia during the quarter and will be implemented at our remaining branches over the next few months.

Cash distributions

Distributions in the amount of \$0.1025 per unit were paid for each of April, May and June 2008. This represents an annualized distribution rate of \$1.23 per unit. From our inception until the end of the second quarter, the Fund had paid a total of 36 consecutive monthly cash distributions to our public unitholders, as well as 11 consecutive quarterly cash

distributions and three monthly cash distributions to the non-controlling interest held by the former owner of the Coast business. Effective with the April 2008 distribution, all cash distributions to both public unitholders and the non-controlling interest are now paid monthly.

During the second quarter, the Fund earned \$2.9 million, or \$0.29 per unit, in adjusted distributable cash (before the non-controlling interest). This was down from \$3.5 million, or \$0.35 per unit, in the same period of 2007. With the per-unit monthly distribution increase introduced in October 2007, the amount distributed and accrued for payment to unitholders and the non-controlling interest increased in 2008 to \$3.1 million, or \$0.31 per unit, from \$3.0 million, or \$0.30 per unit, in 2007.

For the first half, adjusted distributable cash (before the non-controlling interest) was \$5.3 million, or \$0.53 per unit, down from \$6.1 million, or \$0.61 per unit, in 2007. The amount distributed and accrued for payment to unitholders and the non-controlling interest increased to \$6.2 million, or \$0.62 per unit, from \$6.0 million, or \$0.60 per unit, in 2007.

The Fund's adjusted payout ratio for the second quarter of 2008 was 106.2%, up from the 85% we reported in 2007, but slightly lower than the 106.7% we reported in 2006. On a 12-month trailing basis to June 30, 2008, our adjusted payout ratio increased to 105.3% from 88.5% a year ago and 100.1% two years ago. The higher payout ratios in 2008 were due to reduced cash flow from operations before changes in non-cash working capital, increased maintenance capital expenditures and the higher monthly distribution amount. Our first-half capital expenditures were primarily for the Abbotsford store relocation, necessary building improvements and other planned expenditures required for normal operations, as well as to support the future growth of the business. On a cumulative basis, from the Fund' inception, our adjusted payout ratio is 96.8%.

Outlook

As we move through 2008, the outlook for our business is cautious given the unsettled fluctuations in fuel and commodity prices, and the resulting impact on consumer discretionary spending. Although single-family housing starts have slowed in Western Canada, the multi-family market

remains robust and total housing starts are still expected to be near the record levels of the past two years.

For the balance of 2008, we expect ongoing sales growth from our existing stores. In the months to come, we will continue to actively review opportunities for expansion by increasing Coast's coverage of Western Canada and potentially entering the eastern Canadian market.

We will also continue to carefully consider the potential impact of the taxation of distributions at the trust level set to begin in 2011. We have been reviewing the draft legislation released last month regarding the conversion of trusts to corporations with our legal and tax counsel, and will continue to work with our advisors to determine the most advantageous course of action for the Fund and our unitholders.

In closing, we extend our thanks to all of our partners in success – our employees, our suppliers and our customers – and our appreciation to our unitholders for your continued confidence in our business. We look forward to reporting to you on our progress over the second half of 2008.



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



C. Kenneth Crump
Chairman of the Board of Trustees of
Coast Wholesale Appliances Income Fund
and Chairman of Coast Wholesale
Appliances GP Inc.

Management's Discussion and Analysis of Financial Conditions and Operations

For the period ended June 30, 2008

Forward-looking Statements

This discussion may contain forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements may relate to future events or future performance and reflect our expectations regarding growth, results of operations, performance, and business prospects and opportunities. Such forward-looking statements reflect our current beliefs, are based on information currently available to the Fund and speak only as of the date of this discussion. They reflect current expectations regarding future events and operating performance, including, but not limited to: a continued strong western Canadian economy, relatively stable interest rates and continuing strength with the issuing of new building permits. 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 indicators of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: sensitivity to general economic conditions; maintenance of profitability and management of growth; competition; fluctuations in fuel and commodity pricing, which may impact freight and other costs; usage of extended warranty programs; changes to planning and supply chain processes; changes in consumer preferences; mix of product sales; reliance on suppliers; lack of supplier agreements; reliance on key personnel; foreign exchange rates as they relate to imported products; and interest rates. The Fund cannot assure investors that actual results will be consistent with these forward-looking statements, and the Fund assumes no obligation to update or revise these forward-looking statements to reflect new events or circumstances.

This management's discussion and analysis has been prepared as of August 7, 2008. It should be read in conjunction with the Fund's unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2008, which appear later in this report, and our audited consolidated financial statements for the year ended December 31, 2007 (available at www.sedar.com or www.coastincomefund.com). These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The Fund commenced operations on June 23, 2005 following the completion of an initial public offering of trust units. This report presents our financial results for the period from January 1, 2008 to June 30, 2008.

Fund Overview

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

Economic and Industry Factors

The economic and industry factors impacting our business have changed from those discussed in the Fund's 2007 Annual Report, dated March 19, 2008 (available at www.sedar.com or www.coastincomefund.com). Rapidly rising fuel and commodity prices have put added pressure on our gross margins and have negatively impacted consumer confidence in the Canadian economy. Slower growth accompanied by higher inflation is expected as rising fuel and food prices take a larger percentage of household spending. Housing starts and permits in Western Canada have slowed in the single family market but multifamily starts have increased substantially in the first six months of 2008.

Seasonality

While we have levelled the Fund's monthly distributions to provide a steady stream of income to unitholders, sales of our products are subject to seasonal fluctuations that follow our customers' building activities. Historically, the first quarter is our slowest, accounting for 21% to 22% of annual sales, and the third quarter is our strongest, representing 27% to 28% of sales. The second and fourth quarters have historically been approximately equal, accounting for 25% to 26% of sales. In 2007, we saw a change in this seasonality. The first quarter was still our slowest, remaining at 21% to 22% of annual sales, while the remaining three quarters were more equal in size, at approximately 26% of annual sales each.

Selected Financial Information

The following selected financial information has been derived from Coast's unaudited interim consolidated financial statements for the six months ended June 30, 2008. This material should be read in conjunction with the unaudited interim consolidated financial statements as well as the annual audited financial statements.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Information

	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$
(in thousands of dollars except percentages)				
Sales	38,250	36,809	72,126	67,970
Cost of sales	28,836	27,581	54,246	51,010
Gross margin	9,414	9,228	17,880	16,960
<i>As a percentage of sales</i>	24.6%	25.1%	24.8%	25.0%
Expenses ⁽¹⁾	5,851	5,328	11,447	10,258
Amortization of leasehold inducements (netted with facility expenses)	21	17	42	26
EBITDA ⁽²⁾	3,542	3,883	6,391	6,676
<i>As a percentage of sales</i>	9.3%	10.5%	8.9%	9.8%
Interest	238	236	561	469
Future income taxes (recovery)	(55)	(128)	(79)	(128)
Amortization	618	567	1,227	1,111
Net income before non-controlling interests	2,741	3,208	4,682	5,224
<i>As a percentage of sales</i>	7.2%	8.7%	6.5%	7.7%
Non-controlling interest	958	1,122	1,637	1,827
Net income	1,783	2,086	3,045	3,397

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

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

Operating Results

Sales

	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$
(in thousands of dollars except percentages)				
Comparable stores ⁽¹⁾	38,250	36,809	70,632	67,625
<i>% increase</i>	3.9%		4.4%	
New stores	0	0	1,494	345
Total	38,250	36,809	72,126	67,970
<i>% increase</i>	3.9%		6.1%	

(1) Comparable stores are locations open for more than one year from the date of this report.

Sales

Sales for the three months ended June 30, 2008 were \$38.3 million, up by \$1.5 million, or 3.9%, from the \$36.8 million we reported in the second quarter of 2007. This increase was on top of the record 19.5% increase we achieved in the second quarter of last year. As in the first quarter of this year, sales in Alberta remained particularly robust as a result of strong contract sales completions with developers and builders.

Our retail sales were down slightly from the second quarter of last year. However, the modest reduction was more than offset by growth in our contract business. As in the last quarter, our business mix was skewed slightly in favour of contract sales.

As part of our ongoing strategy to drive up Coast's comparable store sales, we relocated our Abbotsford store to a new facility in a higher-traffic area at the end of February 2008. The new location marked its official grand opening on April 19, 2008 and will allow for future growth of our business in Abbotsford and the rapidly growing Fraser Valley region of B.C.

Sales for the six months ended June 30, 2008 were \$72.1 million, up by \$4.1 million, or 6.1%, from \$68.0 million in the first half of 2007. At comparable stores, locations open for more than one year from the end of the period covered by this report, sales grew by \$3.0 million, or 4.4%, year-over-year.

Cost of sales and gross margin

Cost of sales for the three months ended June 30, 2008 was \$28.8 million, or 75.4% of sales. This resulted in a gross margin of \$9.4 million, or 24.6% of sales. By comparison, in the second quarter of 2007, cost of sales was \$27.6 million, or 74.9% of sales, providing a gross margin of \$9.2 million, or 25.1% of sales. We achieved a slight year-over-year improvement in our gross margin on product sales; however, the gain was more than offset by rapidly increasing fuel prices, which drove up our costs for both inbound and outbound freight. The increased freight costs eroded our second quarter gross margin by 0.5%. During the quarter we adjusted our delivery freight rates to address these shortfalls on a go forward basis.

Cost of sales for the six months ended June 30, 2008 was \$54.2 million, or 75.2% of sales. This resulted in a gross margin of \$17.9 million, or 24.8% of sales. For the first half of 2007, cost of sales was \$51.0 million, or 75.0% of sales, providing a gross margin of \$17.0 million, or 25.0% of sales. As with the second quarter result, the erosion in margin was due to increased freight costs. The year-to-date negative impact was approximately 0.3%.

Expenses

Selling, warehouse, facility and general and administrative (SG&A) expenses for the three months ended June 30, 2008 were \$5.9 million, or 15.3% of sales. This was up by \$0.6 million from the second quarter of 2007, when SG&A expenses of \$5.3 million equalled 14.5% of sales. The increase was mainly due to the following factors:

- Sales expenses were \$0.1 million higher than in the second quarter of 2007, due to increased wage and benefit costs as a result of our higher sales volumes. Second quarter sales expenses equalled 7.0% of sales in both years.
- Our second quarter facilities costs increased by \$0.2 million over 2007. Our rental costs were up, due mainly to the relocation of our Abbotsford store, and property tax and utility costs have increased across all our facilities.
- Second quarter general and administrative expenses were up by \$0.1 million over 2007. The increase was due mainly to higher administrative wages and benefits, and additional costs to complete the migration of our computer systems to our new hardware and finalize our inventory tracking systems.
- Warehouse costs for the second quarter were up by \$0.2 million over 2007, due mainly to higher wage and benefit expenditures in 2008. Increases to staffing levels and rates of pay accounted for approximately two-thirds of the year-over-year difference. The balance was due to our higher sales volumes and certain extraordinary maintenance work.

SG&A expenses for the six months ended June 30, 2008 were \$11.4 million, or 15.9% of sales. This is up by \$1.1 million from the first half of 2007, when SG&A expenses of \$10.3 million equalled 15.1% of sales. The increase is mainly due to the following factors:

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

- Sales expenses for the year-to-date increased by \$0.4 million over 2007 as a result of higher wage and benefit costs. Approximately half of the increase was due to this year's higher sales volumes. The balance related to the new Edmonton South and Red Deer, Alberta stores we respectively opened in mid-February and late March of 2007.
- Six-month general and administrative expenses were up by \$0.2 million over 2007, due mainly to increased administrative staff and wages.
- Our first-half facilities costs were up by \$0.2 million over 2007, due in part to our increased rental costs in Abbotsford. In addition, we incurred full rental costs for the two new Alberta stores opened in the first quarter of last year, compared to partial rental costs during the 2007 start-up periods. Property tax and utility costs have increased across all our facilities.
- Warehouse costs for the six-month period were up by \$0.3 million over 2007, due mainly to higher wage and benefit expenditures in 2008. As with the second quarter, increases to staffing levels and rates of pay accounted for approximately two-thirds of the year-over-year difference, while the balance was due to our higher sales volumes and certain extraordinary maintenance work.

EBITDA

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

A reconciliation of net income to EBITDA is as follows:

	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$
(in thousands of dollars except percentages)				
Net income	1,783	2,086	3,045	3,397
Non-controlling interest	958	1,122	1,637	1,827
Interest	238	236	561	469
Future income taxes (recovery)	(55)	(128)	(79)	(128)
Amortization	618	567	1,227	1,111
EBITDA ⁽¹⁾	3,542	3,883	6,391	6,676
EBITDA margin ⁽¹⁾	9.3%	10.5%	8.9%	9.8%

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

EBITDA for the three months ended June 30, 2008 was \$3.5 million, down from the \$3.9 million for the second quarter of 2007. Our EBITDA margin of 9.3% for the three months was down from 10.5% in the second quarter of 2007. This was a result of the reduced gross margin percentage and increased expenses in the quarter, as discussed above.

For the six-months ended June 30, 2008, EBITDA was \$6.4 million, down from \$6.7 million in the same period in 2007. Our EBITDA margin of 8.9% for the period was down from 9.8% in 2007. The reduction was mainly due to our increased expenses and decreased gross margin, as discussed above. The new stores we have opened in Alberta, although contributing positively to total EBITDA, have negatively impacted our EBITDA margin. As volume grows in these stores, we expect the increase in total gross margin dollars will result in an increase to their EBITDA margin.

Interest

Interest expense in the second quarter was up marginally from the same period in 2007. Our term loan interest was approximately equal to the prior year. Higher interest on our operating loan, due to increased utilization of the operating line compared to the prior year, was somewhat offset by the amortization of the deferred liability recorded when our swap arrangement became ineffective. Our net cash interest expense in the second quarter was up slightly over the second quarter of 2007.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six-month period, interest expense increased by \$0.1 million over the prior year. In the first quarter of 2008, interest expense was impacted by the accounting treatment of financial instruments. In fiscal 2007, our interest rate swap became ineffective for accounting purposes when we extended the maturity date of our term loan. As a result, we recorded a financial instrument on our balance sheet. Its amortization resulted in a reduction of interest expense in the second quarter of 2008, but effectively increased our first quarter interest expense by \$0.1 million. Without the change, our interest expense would have shown a small increase over the first six months of 2007, due to the increased utilization of our operating line during 2008.

Amortization

Amortization for the three months ended June 30, 2008 was \$0.6 million, up slightly from the amount we recorded in 2007. The small increase was due to the increased amortization related to the addition of fixed assets at the end of fiscal 2007.

Amortization for the six months ended June 30, 2008 was \$1.3 million, up from the \$1.1 million we recorded in 2007. The increase was due to the increased amortization related to the addition of fixed assets at the end of fiscal 2007 and the amortization of assets relating to the two new stores opened in the first quarter of 2007.

Net income before non-controlling interest

Net income before non-controlling interest for the three months ended June 30, 2008 was \$2.7 million, compared to \$3.2 million in the second quarter of 2007. As a percentage of sales, our three-month net income before non-controlling interest was 7.2%, down from 8.7% in the second quarter of 2007. The reduction in this ratio was attributable to the increase in our expenses, as discussed above, combined with the reduction in our second quarter gross margin from 25.1% in 2007 to 24.6% in 2008.

Net income before non-controlling interest for the six months ended June 30, 2008 was \$4.7 million, compared to \$5.2 million for the same period of 2007. As a percentage of sales, our six-month net income before non-controlling interest was 6.5%, down from 7.7% for the same period in 2007. The reduction was attributable to the increase in our expenses, as discussed above, combined with the slight decrease in our gross margin from 25.0% in 2007 to 24.8% in 2008. Our six-month net income before non-controlling interest was also impacted by the increases in interest expense and amortization, as discussed above.

Summary of Quarterly Results

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

	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	38,250	33,876	37,306	37,759	36,809	31,161	32,762	34,674
Gross margin	9,414	8,466	9,316	9,496	9,228	7,732	8,570	8,717
<i>Gross margin percentage</i>	24.6%	25.0%	25.0%	25.1%	25.1%	24.8%	26.2%	25.1%
Net income before non-controlling interest	2,741	1,941	2,227	3,376	3,209	2,015	2,835	3,379
Net income	1,783	1,263	1,448	2,196	2,087	1,310	1,844	2,197
Basic and diluted net income per unit	0.273	0.194	0.222	0.337	0.320	0.200	0.283	0.337
Distributions per unit	0.3075	0.3075	0.3075	0.30	0.30	0.30	0.30	0.30

Refer to the section on Seasonality above for a discussion of the impact of seasonality on our quarterly sales levels. Historically, gross margin percentages have been higher in the fourth quarter of each year due to the inclusion of specific supplier annual volume rebates. In the fourth quarter of 2007, we did not attain the necessary volume levels to receive a rebate from one of our major suppliers, which resulted in a fourth quarter margin more consistent with that achieved in the first three quarters of 2007.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

Cash flow from operating activities

Cash flow from operating activities for the three months ended June 30, 2008 was \$1.2 million, up from the \$1.1 million we reported in the second quarter of 2007. Our net income and resulting cash flow before changes in non-cash working capital was down by \$0.3 million from the prior year. This reduction in cash flow was more than offset by the smaller reduction in our non-cash working capital in 2008, as compared to 2007. The table below details the specific changes in our non-cash working capital items.

For the six months ended June 30, 2008, cash flow from operating activities was \$6.7 million, compared to \$7.6 million in the same period of 2007. Our net income and resulting cash flow before changes in non-cash working capital was down by \$0.4 million over the prior year. The six-month cash flow reduction, combined with a smaller increase in non-cash working capital than in the prior year, accounted for the year-over-year reduction in cash flow from operating activities. The specific changes in our non-cash working capital items are detailed in the table below.

Changes in non-cash working capital items (source/use) of cash):

(in thousands of dollars)	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$
Accounts receivable	(1,058)	(2,382)	(852)	(1,736)
Inventory	(825)	(2,146)	304	(2,585)
Prepaid expenses	46	(59)	(64)	(156)
Accounts payable and accrued liabilities	(1,141)	1,449	(410)	4,709
Customer deposits	826	517	1,822	1,086
Deferred warranty revenue	77	51	104	92
Change in non-cash working capital	(2,075)	(2,570)	904	1,410

Capital expenditures

(in thousands of dollars)	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$
Total capital expenditures	385	245	566	494
Less tenant inducements	0	0	0	147
	385	245	566	347
Less:				
Growth capital expenditures on new stores net of inducements		124		221
Inventory computer project funded separately		17		17
	0	141	0	238
Maintenance capital expenditures ⁽¹⁾	385	104	566	109

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

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 expenditures to include leasehold improvements for existing locations, relocation of current facilities, furniture and fixture purchases, and computer hardware and software expenditures. Growth capital expenditures are capital costs related to the opening of new locations.

Capital expenditures during the first half of 2008 related mainly to the relocation of our Abbotsford store, leasehold improvement work at our Vancouver head office and ongoing capital expenditures necessary for normal operations. The Abbotsford relocation and Vancouver leasehold improvements were completed during the second quarter and were both considered to be maintenance capital. In the first half of 2007, the majority of our capital expenditures were considered growth capital as they related to opening our new Alberta stores.

We anticipate that our annual maintenance capital expenditures will range from approximately \$0.7 million to \$1.0 million during 2008.

Distributions to unitholders

The Fund makes monthly distributions to unitholders of record on the last business day of each month, payable on or about the 15th of the following month. For the six months ended June 30, 2008, distributions of \$0.615 per unit were paid to public unitholders, totalling \$4.0 million. In addition, distributions of \$0.615 per unit were paid to the non-controlling interest held by the former owner of the Coast business, totalling \$2.2 million.

From the Fund's inception on June 23, 2005 through June 30, 2008, distributions totalling \$23.8 million have been paid to public unitholders. Distributions to the non-controlling interest have also been paid in full during this period, totalling \$12.8 million. The subordination period relating to the non-controlling interest ended on March 24, 2008 and thus distributions to the non-controlling interest are now paid on a monthly basis rather than quarterly.

Period	Record date	Payment date	Per unit \$	Amount \$
January 2008	January 31, 2008	February 15, 2008	0.1025	668,812
February 2008	February 29, 2008	March 17, 2008	0.1025	668,812
March 2008	March 31, 2008	April 15, 2008	0.1025	668,812
April 2008	April 30, 2008	May 15, 2008	0.1025	668,812
May 2008	May 30, 2008	June 16, 2008	0.1025	668,812
June 2008	June 30, 2008	July 15, 2008	0.1025	668,812
			0.6150	4,012,872

The accrued distributions payable to unitholders and the non-controlling interest at June 30, 2008 were paid on July 15, 2008.

On July 22, 2008, we announced our thirty-seventh consecutive monthly distribution, in the amount of \$0.1025 per unit for the month of July, which will be paid on August 15, 2008 to unitholders of record on July 31, 2008.

In fiscal 2008, we anticipate that our distributions will be treated for tax purposes as 99% taxable income and 1% return of capital.

Standardized Distributable Cash

On July 18, 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.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Standardized Distributable Cash

<i>(in thousands of dollars except percentages and per-unit figures)</i>	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$	12-month trailing June 30 2008 \$	12-month trailing June 30 2007 \$
Cash from operations	1,229	1,078	6,734	7,617	10,401	13,987
Other capital expenditures		(141)		(238)	(264)	(905)
Maintenance capital expenditures ⁽¹⁾	(385)	(104)	(566)	(109)	(1,137)	(286)
Standardized distributable cash	844	833	6,168	7,270	9,000	12,796
Distributions	3,086	3,010	6,172	6,020	12,268	12,040
Standardized distributable cash per unit	0.084	0.083	0.615	0.725	0.897	1.275
Distributions per unit	0.308	0.300	0.615	0.600	1.223	1.200
<i>Standardized payout ratio</i>	365.6%	361.8%	100.1%	82.8%	136.3%	94.1%
Cumulative since IPO June 23, 2005						
Standardized distributable cash	28,780					
Distributions	36,582					
<i>Standardized payout ratio</i>	127.1%					

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

Management believes 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.

On a 12-month trailing basis, using the standardized distributable cash calculation, our standardized payout ratio of 136.3% at June 30, 2008 was significantly higher than the 94.1% we reported at June 30, 2007. Using the adjusted distributable cash calculation described below, the Fund's 12-month trailing payout ratio at June 30, 2008 was 105.3%, up from 88.5% at June 30, 2007.

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 net income before non-controlling interest and amortization, less maintenance capital expenditures. This is the equivalent of cash flows from operating activities before changes in non-cash working capital, less maintenance capital expenditures (see Non-GAAP Measures), plus the non-cash component of interest expense. The following table uses this calculation method to set out our adjusted distributable cash.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted Distributable Cash

<i>(in thousands of dollars except percentages and per-unit figures)</i>	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$	12-month trailing June 30 2008 \$	12-month trailing June 30 2007 \$
Cash flow from operations before changes in non-cash working capital	3,304	3,647	5,830	6,207	12,652	13,883
Non-cash interest charges netted with interest	(13)		57		135	
Maintenance capital expenditures ⁽¹⁾	(385)	(104)	(566)	(109)	(1,137)	(286)
Adjusted distributable cash ⁽¹⁾	2,906	3,543	5,321	6,098	11,650	13,597
Distributions to unitholders & non-controlling interest	3,086	3,010	6,172	6,020	12,268	12,040
Adjusted distributable cash per unit ⁽¹⁾	0.29	0.35	0.53	0.61	1.16	1.36
Distributions per unit	0.31	0.30	0.62	0.60	1.22	1.20
Adjusted payout ratio	106.2%	85.0%	116.0%	98.7%	105.3%	88.5%
Cumulative since IPO June 23, 2005						
Adjusted distributable cash ⁽¹⁾	37,789					
Distributions	36,582					
Adjusted payout ratio	96.8%					

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

Our adjusted distributable cash payout ratio varies throughout the year according to the seasonality of our business. While the Fund has levelled distributions to provide a regular stream of income to unitholders, we expect that the less profitable first half of the year will be offset by historically higher earnings in the second half.

For the second quarter of 2008, our adjusted payout ratio of 106.2% was up from the 85.0% we reported for the same period of 2007. The year-over-year difference was due to:

- this year's \$0.3 million reduction in cash flow from operations, before changes in non-cash working capital;
- the \$0.3 million increase in our second quarter maintenance capital expenditures in 2008; and
- the increased rate of cash distributions introduced in October 2007.

The 2008 second quarter payout ratio, while higher than the 2007 level, was lower than the 106.7% we recorded in 2006.

On a 12-month trailing basis, our adjusted payout ratio to June 30, 2008 was 105.3%, up from 88.5% June 30, 2007 and 100.1% at June 30, 2006. As with the quarterly result, the difference between the 2008 and 2007 payout ratios was due to this year's reduced cash flow from operations, before changes in non-cash working capital, and increased maintenance capital expenditures, including the \$0.5 million of maintenance capital expended in the fourth quarter of 2007, as well as the increased rate of distributions.

On a cumulative basis, from the Fund's inception at June 23, 2005, our adjusted payout ratio is 96.8%.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reconciles standardized distributable cash to adjusted distributable cash.

	3 months ended June 30 2008	3 months ended June 30 2007	6 months ended June 30 2008	6 months ended June 30 2007	12 month trailing June 30 2008	12 month trailing June 30 2007	Since June 23 2005
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$
Standardized distributable cash	844	833	6,168	7,270	9,000	12,796	28,780
Change in non-cash working capital	2,075	2,569	(904)	(1,410)	2,251	(104)	7,033
Non-cash interest charges netted with interest	(13)	°	57	–	135	–	135
Non maintenance capital expenditures ⁽¹⁾	–	141	–	238	264	905	1,841
Adjusted distributable cash ⁽¹⁾	2,906	3,543	5,321	6,098	11,650	13,597	37,789

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

Contractual obligations, commitments and financing

Payments due by period as at June 30, 2008

<i>(in thousands of dollars)</i>	Operating leases \$	Term loan \$
Less than one year	2,655	–
One to three years	3,904	20,000
Four to five years	2,435	–
After five years	3,681	–
	12,675	20,000

Coast has borrowed \$20 million under a three-year interest only, non-revolving term loan due July 31, 2010. The loan was made available for the financing of capital assets and working capital. Advances under the agreement bear interest at prime plus 0% to 0.25%, when borrowed directly, or at the banker's acceptance rate plus 1.00% to 1.50%, 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 (see Financial Instruments below). Coast entered into an interest-rate swap transaction on July 28, 2005 to fix the effective rate of interest on the term loan until June 23, 2008 at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. This agreement matured in the quarter and the interest rate was fixed for the short term to July 31, 2008. We anticipate entering into another interest rate swap agreement in the next few months, subject to interest rates, for a term of two to three years. 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 7 of the June 30, 2008 unaudited interim consolidated financial statements). No principal repayments are required during the term of the loan.

In July 2007, we added a second term facility in the amount of \$13.5 million to facilitate anticipated future business acquisitions. The terms of this new facility are effectively the same as those of the term loan, as described above. At June 30, 2008, this term facility had not been utilized.

Operating leases are in place for all premises. We paid total basic rent of \$0.7 million for the three months ended June 30, 2008 and \$1.3 million for the six months ended June 30, 2008. These amounts were approximately equal to the rents paid in the same periods of 2007. As noted earlier, we relocated our Abbotsford store to a new facility in a higher-traffic area at the end of the first quarter of 2008. A similar move with our Regina store is planned for the third quarter of 2008.

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Working capital and liquidity

<i>(in thousands of dollars)</i>	June 30 2008 \$	December 31 2007 \$
Working capital	17,485	18,342
Total assets	130,349	130,419
Total liabilities	42,734	41,315
Total long-term liabilities	22,316	22,276

Working capital of \$17.5 million at June 30, 2008 was down by \$0.8 million from \$18.3 million at December 31, 2007, and down by \$0.9 million from \$18.4 million at June 30, 2007. Since our 2007 year-end, our inventories have decreased by \$0.4 million and our receivables have increased by \$0.9 million, while our accounts payable decreased by \$0.5 million and our combined operating line and outstanding cheques increased by \$0.7 million.

In addition to working capital, we have available a \$10 million, three-year committed revolving loan. This operating loan may be used for working capital requirements and general corporate purposes. Advances under the loan bear interest at the lender's prime rate plus 0% to 0.25%, or at the banker's acceptance rate plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The operating loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier (see Note 7 of the June 30, 2008 unaudited interim consolidated financial statements). The operating loan was \$2.2 million at June 30, 2008, compared to \$3.7 million at December 31, 2007. Its utilization during the first six months of 2008 was increased over the same period of 2007, primarily to fund short-term working capital requirements.

Our principal source of liquidity is cash provided by operations and the above noted credit facilities. We believe that such sources of liquidity will be sufficient to fund future working capital requirements, capital expenditures and our planned growth.

Total assets

Total assets at June 30, 2008 were \$130.3 million, comparable to total assets at December 31, 2007 of \$130.4 million.

Inventory at June 30, 2008 was \$21.2 million, compared to \$21.6 million December 31, 2007. The \$0.4 million decrease reflects our efforts to reduce our inventory levels in general. On a year-over-year basis, despite the ongoing expansion of our product lines, our inventory levels at June 30, 2008 were down by \$1.0 million from the \$22.2 million we reported at June 30, 2007. On a trailing 12-month basis, our inventory turnover has improved by 0.8 turns over the 12 months ended June 30, 2007.

Accounts receivable at June 30, 2008 were \$16.3 million, compared to \$15.5 million at December 31, 2007. As charted below, our trade accounts receivable increased by \$1.6 million over the 2007 year-end total, while our supplier rebate and other receivables was reduced by \$0.7 million. The higher trade receivables at June 30, 2008 reflect our continued strong contract sales, which utilize our credit terms.

<i>(in thousands of dollars)</i>	June 30 2008 \$	December 31 2007 \$
Accounts receivable - trade	14,849	13,253
Supplier rebates and other	1,471	2,215
	16,320	15,468

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Total liabilities

Total liabilities at June 30, 2008 were \$42.7 million, compared to \$41.3 million at December 31, 2007. The \$1.4 million increase was mainly due to a \$1.8 million increase in our customer deposits.

At June 30, 2008, our operating line was \$2.2 million, compared to \$3.7 million at December 31, 2007. Outstanding cheques at June 30, 2008 totalled \$3.1 million, compared to \$0.9 million at December 31, 2007. The difference in outstanding cheques was mainly due to the timing of the processing of our June 2008 month-end payments, as compared to the December 2007 month-end payments.

Accounts payable and accrued liabilities at June 30, 2008 were \$8.2 million, compared to \$8.7 million at December 31, 2007.

Customer deposits at June 30, 2008 were \$5.1 million, up from \$4.3 million at March 31, 2008 and \$3.3 million at December 31, 2007. This reflects the continuing strength of our retail business during the second quarter of 2008 and shows a \$0.6 million increase from the \$4.5 million in customer deposits we reported at June 30, 2007.

Total deferred warranty revenue (combined current and long-term) at June 30, 2008 was \$2.5 million, up by \$0.1 million from \$2.4 million at December 31, 2007.

Deferred lease inducements in the amount of \$0.6 million at June 30, 2008 were down from \$0.7 million at December 31, 2007, due to the amortization recorded in 2008.

Long-term incentive plan

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

At June 30, 2008, the Fund had a prepaid compensation balance of approximately \$32,000 in relation to the LTIP for fiscal 2007. This amount will be amortized to expense over the vesting period of the awards. During the second quarter, approximately \$6,000 was charged to expense.

Fund Units

At June 30, 2008, the Fund had 6,525,000 units issued and outstanding, for an aggregate amount of \$59,835,000, which was unchanged from December 31, 2007. In addition, there are 3,509,166 exchangeable units of Coast Wholesale Appliances LP issued and outstanding, exchangeable on a one-for-one basis for units of the Fund at the option of the holder, CWAL Investments Ltd. (CWAL), the former owner of the Coast business.

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

The exchangeable units were initially subordinated to the Fund units, subject to certain prescribed EBITDA and distribution targets being met. These targets were met in 2007 and the subordination relating to the exchangeable units was removed on March 24, 2008.

For additional information on the Fund units issued and the exchangeable units, refer to Notes 8 and 9 of the June 30, 2008 unaudited interim consolidated financial statements.

Financial Instruments

Financial instruments of Coast consist of cash and cash equivalents, accounts receivable, accounts payable, customer deposits, our term and operating loans and accrued distributions payable to unitholders. The fair value of these instruments is considered to approximate their carrying value due to their short-term maturities, variable rates of interest or ability of prompt liquidation, except as noted in our interim consolidated financial statements. These financial instruments are subject to credit risk, currency risk and concentration risk, as described in the June 30, 2008 unaudited interim consolidated financial statements.

To fix the interest rate on our \$20 million term loan, a hedging strategy was established and a hedge was executed on July 28, 2005. This interest rate swap transaction fixed the effective rate of interest on the term loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes and amortization, calculated on a quarterly basis, until June 23, 2008. The derivative financial instrument previously qualified for hedge accounting. During the third quarter of 2007, we extended the maturity of our term loan to July 31, 2010. As a consequence, the hedging relationship ceased to be effective. The effects of the ceased hedging relationship were not material to the Fund's financial statements at June 30, 2008. The swap transaction matured during the second quarter of 2008 and has not been renewed. We plan to enter another swap transaction during the next quarter, subject to interest rates, for a period of two to three years.

Off Balance Sheet Arrangements

Coast has not entered into any off balance sheet arrangements.

Critical Accounting Policies and Estimates

We have prepared our interim consolidated financial statements in conformity with Canadian GAAP, which requires us to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenue and expenses. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances, and evaluate our estimates on an ongoing basis.

The significant accounting policies of Coast are described in Note 3 of the Fund's year-end audited consolidated financial statements. The policies that we believe are the most critical in aiding a full understanding and evaluation of our reported financial results are as follows:

New accounting standards adopted

Inventories

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3031, "Inventories". There have been no changes to the financial statements as a result of the adoption of this section.

Financial instruments

Effective January 1, 2008, the Fund adopted CICA Section 1535, "Capital Disclosure"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation".

Section 1535 establishes guidelines for the disclosure of information on the Fund's capital and how it is managed. This enhanced disclosure enables users to evaluate the Fund's objectives, policies and processes for managing capital.

Section 3862 and 3863 replaced the existing Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how the Fund manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments.

New accounting standards issued

International financial reporting standards

In February 2008, the CICA announced that Canadian generally accepted accounting principles (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. 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. We expect the transition to IFRS to impact accounting, financial reporting, as well as certain computer systems and processes. We are currently assessing the full impact of the transition to IFRS and planning the work required to ensure a timely conversion to IFRS.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This Section is effective in the first quarter of 2009 and we are currently evaluating the impact of its adoption on our consolidated financial statements.

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 is initially recorded as deferred warranty revenue and is taken into income over the life of the warranty contracts. Sales commissions related to the deferred warranties are deferred and amortized to expense over the life of the warranty contracts. The costs associated with delivering the related warranty services are expensed as they are incurred during the life of the contracts.

Valuation of goodwill

Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. The Fund compares goodwill to the fair value of the reporting unit to which the goodwill relates. Any impairment is charged to operations in the amount by which the carrying amount of the assets exceeds the fair value of the goodwill. Coast's goodwill was evaluated as at December 31, 2007. No adjustment for impairment was required.

Valuation of long-lived assets

We review long-lived assets and certain identified recorded intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the future undiscounted cash flows from the asset's expected use and eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets designated for disposal are valued at the lower of the carrying amount and the fair value, less costs to sell. Coast's long-lived assets and certain identified recorded intangibles were evaluated as at December 31, 2007. No adjustments for impairment were required.

Inventory valuation

Inventory is valued at the lower of cost and net realizable value using the first-in, first-out method. 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 and cost of sales.

Income taxes

As we allocate all of our taxable income and taxable capital gains to unitholders, the Fund is not subject to current income taxes until 2011.

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

In accordance with CICA Emerging Issues Committee bulletin EIC-111 (Determination of Substantively Enacted tax rates under CICA handbook Section 3465) and the guidance in EIC-167 (Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs), the Fund is required to recognize future income tax assets or liabilities. The corresponding change to the future income tax expense must be based on the temporary differences between the book and tax bases of assets and liabilities expected to reverse after the tax is imposed.

The Fund currently has an unused tax shield of approximately \$46 million. The majority of this tax shield arose in the acquisition of the business in June 2005 and can be utilized to reduce the Fund's taxable income at the rate of approximately \$4 million per year going forward.

For the three-month and six-month periods ended June 30, 2008, the future income tax recovery was minimal, at \$55,000 and \$79,000, respectively.

Related Party Transactions

We lease six store locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two of our four warehouses from a company affiliated with CWAL, the former owner of the business. For the six-month period ended June 30, 2008, our lease payments for these facilities totalled \$0.7 million. Each of the leases was modified as part of our initial public offering to provide for a term of five years from June 23, 2005, with two consecutive five-year options that enable us to renew at the greater of the existing rent or the fair market rent at the time of the renewal.

Disclosure controls and procedures and internal control over financial reporting

As at June 30, 2008, an evaluation was carried out for the effectiveness of the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109. Based on that evaluation, we concluded that the design and operation of these disclosure controls and procedures were effective.

Management of the Fund is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There were no changes in internal control over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

Outlook

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

As previously announced, the Fund's thirty-seventh consecutive monthly distribution is scheduled for payment to public unitholders of record as at July 31, 2008 on August 15, 2008 in the amount of \$0.1025 per unit. As the subordination period on the exchangeable units held by CWAL Investments Ltd. is now over, the distribution to these units in the amount of \$0.1025 per unit was scheduled for payment on the same date.

As we move through 2008, the outlook for our business is cautious given the unsettled fluctuations in fuel and commodity prices, and the resulting impact on consumer discretionary spending. The market for major household appliances remains particularly strong in Alberta, which shows continued economic growth. While single family housing starts have slowed in recent months, multi-family residential starts have significantly increased. As a result, total housing starts in Western Canada in 2008 are expected to be close to the record levels realized in 2006 and 2007.

We are continually reviewing opportunities for expansion, both by increasing our coverage of Western Canada and by potentially entering the eastern Canadian market. We are also proceeding with a number of initiatives to increase sales from our existing stores and enhance our profitability through streamlining our non-selling functions and driving greater operating efficiency. As planned, we relocated our Abbotsford store to a newer, larger facility in a higher traffic area during the first quarter, and expect to similarly relocate our existing Regina store in the third quarter. Our inventory management upgrade was substantially completed and tested by the end of the first quarter, as targeted. The new system will be implemented across the balance of our locations over the next few months.

As of the date of this report, we have not yet ascertained how the Fund will respond to the taxation of distributions at the trust level to begin in 2011. The Department of Finance released draft legislation concerning the conversion of trusts to corporations on July 14, 2008, which is open for comment through September 15, 2008. In general, the proposed legislation is designed to facilitate conversions of trusts to corporations without triggering a tax event for investors. We will be reviewing the draft legislation with our legal and tax advisors to determine the most advantageous course of action for the Fund and our unitholders.

We believe that our current and newly negotiated credit facilities and ongoing cash flow from operations will be sufficient to allow Coast to meet ongoing requirements for capital expenditures, including investments in working capital and distributions. However, Coast's and the Fund's needs may change. In such event, our ability to satisfy our obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Coast's and the Fund's control.

Risks and Uncertainties

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

- general economic conditions in Canada, particularly in Western Canada, along with interest rates and their impact on the housing market both for new construction and renovation work;
- any significant change in competition from one or more competitors in Western Canada, as well as competition directly from suppliers;
- 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;

COAST WHOLESALE APPLIANCES INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

- fluctuations in the Canada / US dollar exchange rate, which may impact product costs from our major suppliers and may also impact our selling prices with the increase of cross border shopping;
- changes to our product distribution processes, which may impact our ability to both receive and deliver our products on a timely basis;
- fluctuations in fuel and commodity prices, which may impact inbound and outbound freight costs as well as other related costs;
- changes to the credit worthiness of our developer / builder contract customers, which may impact their ability to meet their obligations on a timely basis;
- changes in labour costs, labour relations or key personnel;
- demands on our extended warranty programs, which may cause costs to increase beyond historical patterns;
- changes in tax legislation; and
- other factors as described earlier under Forward-looking Statements

Non-GAAP Measures

References to "EBITDA" are to earnings before non-controlling interest, interest, taxes, depreciation and amortization. The term "EBITDA margin" refers to the percentage that EBITDA represents in relation to sales.

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

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

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

Additional Information

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

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

COAST WHOLESALE APPLIANCES INCOME FUND

Interim Consolidated Balance Sheets

(Unaudited)

	June 30, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Accounts receivable	16,319,885	15,467,972
Inventory	21,215,098	21,608,748
Prepaid expenses	367,872	303,831
	37,902,855	37,380,551
Leaseholds and equipment (Note 5)	4,393,179	4,457,051
Future income taxes	145,000	66,000
Intangible assets (Note 6)	15,826,026	16,434,018
Goodwill	72,081,521	72,081,521
	130,348,581	130,419,141
Liabilities		
Current liabilities		
Cheques issued in excess of funds on deposit	3,080,340	920,082
Operating loan (Note 7)	2,236,358	3,673,974
Accounts payable and accrued liabilities	8,168,305	8,667,554
Accrued distributions payable to unitholders	668,813	668,813
Accrued distributions payable to non-controlling interests	359,689	1,079,068
Customer deposits	5,095,850	3,274,015
Current portion of deferred warranty revenue	808,410	755,377
	20,417,765	19,038,883
Term loan (Note 7)	20,000,000	19,969,066
Long-term portion of deferred warranty revenue	1,697,836	1,647,416
Deferred lease inducements	617,937	659,745
	42,733,538	41,315,110
Non-controlling interest (Note 8)	30,638,185	31,159,016
Unitholders' equity	56,976,858	57,945,015
	130,348,581	130,419,141
Commitments (Note 10)		

Approved on behalf of the Trustees


C. Kenneth Crump
Trustee

Donald J.A. Smith
Trustee

See accompanying notes to the unaudited interim consolidated financial statements

COAST WHOLESALE APPLIANCES INCOME FUND

Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited)

	3 months ended June 30, 2008 \$	3 months ended June 30, 2007 \$	6 months ended June 30, 2008 \$	6 months ended June 30, 2007 \$
Sales	38,250,279	36,808,972	72,125,907	67,970,197
Cost of sales	28,836,090	27,580,604	54,245,721	51,010,114
Gross margin	9,414,189	9,228,368	17,880,186	16,960,083
Expenses				
Selling	2,677,757	2,593,542	5,340,685	4,918,716
General and administrative	1,475,355	1,346,871	2,784,495	2,541,457
Facilities	1,127,955	969,115	2,196,900	1,948,641
Warehousing	570,399	418,269	1,125,042	849,440
	5,851,466	5,327,797	11,447,122	10,258,254
Income before under noted items	3,562,723	3,900,571	6,433,064	6,701,829
Amortization:				
Leaseholds and equipment	320,515	263,557	629,799	497,099
Deferred financing costs	14,749	16,185	30,934	32,370
Intangible assets	303,996	303,996	607,992	607,992
Interest	237,875	235,715	561,312	468,874
Income before future income taxes and non-controlling interest	2,685,588	3,081,118	4,603,027	5,095,494
Future income taxes (recovery)	(55,000)	(128,000)	(79,000)	(128,000)
Income before non-controlling interest	2,740,588	3,209,118	4,682,027	5,223,494
Non-controlling interest (Note 8)	958,384	1,122,229	1,637,305	1,826,656
Net income and comprehensive income	1,782,204	2,086,889	3,044,722	3,396,838
Basic and diluted net income per unit	0.2731	0.3198	0.4666	0.5206
Basic weighted average number of units outstanding	6,525,000	6,525,000	6,525,000	6,525,000
Diluted weighted average number of units outstanding	10,034,166	10,034,166	10,034,166	10,034,166

See accompanying notes to the unaudited interim consolidated financial statements

COAST WHOLESALE APPLIANCES INCOME FUND

Interim Consolidated Statements of Unitholders' Equity

(Unaudited)

	Fund units \$	Cumulative income \$	Cumulative distributions \$	Retained earnings (deficit) \$	Total \$
Balance, December 31, 2007	59,835,000	17,885,982	(19,775,967)	(1,889,985)	57,945,015
Net income and comprehensive income		3,044,722		3,044,722	3,044,722
Distributions			(4,012,879)	(4,012,879)	(4,012,879)
Balance, June 30, 2008	59,835,000	20,930,704	(23,788,846)	(2,858,142)	56,976,858

See accompanying notes to the unaudited interim consolidated financial statements

COAST WHOLESALE APPLIANCES INCOME FUND

Interim Consolidated Statements of Cash Flows

(Unaudited)

	3 months ended June 30, 2008 \$	3 months ended June 30, 2007 \$	6 months ended June 30, 2008 \$	6 months ended June 30, 2007 \$
Operating activities				
Net income and comprehensive income	1,782,204	2,086,889	3,044,722	3,396,838
Items not involving cash				
Amortization	639,260	583,738	1,268,725	1,137,461
Non-controlling interest	958,384	1,122,229	1,637,305	1,826,656
Amortization of deferred lease inducements	(20,904)	(17,212)	(41,808)	(25,695)
Future income taxes	(55,000)	(128,000)	(79,000)	(128,000)
	3,303,944	3,647,644	5,829,944	6,207,260
Change in non-cash working capital (Note 14)	(2,075,123)	(2,570,045)	903,735	1,409,827
	1,228,821	1,077,599	6,733,679	7,617,087
Investing activities				
Purchase of leaseholds and equipment	(384,951)	(245,229)	(565,927)	(493,548)
Lease inducement received	–	–	–	147,088
	(384,951)	(245,229)	(565,927)	(346,460)
Financing activities				
Operating loan (Note 7)	2,236,358	–	(1,437,616)	–
Distributions paid to unitholders	(2,006,440)	(1,957,500)	(4,012,879)	(3,915,000)
Distributions paid to non-controlling interest	(1,798,449)	(1,052,750)	(2,877,515)	(2,105,500)
	(1,568,531)	(3,010,250)	(8,328,010)	(6,020,500)
Net cash inflow (outflow)	(724,661)	(2,177,880)	(2,160,258)	1,250,127
Cash (cheques issued in excess of funds on deposit), beginning of period	(2,355,679)	804,611	(920,082)	(2,623,396)
Cheques issued in excess of funds on deposit, end of period	(3,080,340)	(1,373,269)	(3,080,340)	(1,373,269)
Supplemental cash flow information:				
Interest paid	250,995	235,715	504,316	468,874
Income taxes paid	–	–	–	–

See accompanying notes to the unaudited interim consolidated financial statements

Notes to the Interim Consolidated Financial Statements

(Unaudited)

Six month period ended June 30, 2008

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 and Manitoba.

2. Significant accounting policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with Canadian GAAP have been condensed or omitted and accordingly, these financial statements should be read in conjunction with the Fund's audited financial statements for the year ended December 31, 2007. The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the unaudited consolidated financial statements and the reported amount of revenues and expenses during the period. These unaudited interim financial statements have been prepared using the same accounting policies and methods of application as the audited financial statements of the Fund for the year ended December 31, 2007, except as described in Note 3. Interim results are not necessarily indicative of the results expected for the fiscal year.

(a) Basis of presentation

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

(b) Income taxes

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

3. Adoption of new accounting policies

(a) Inventories

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3031, Inventories. There have been no changes to the financial statements as a result of the adoption of this section.

(b) Financial instruments

Effective January 1, 2008, the Fund adopted CICA Section 1535 "Capital Disclosure", Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation".

Section 1535 establishes guidelines for the disclosure of information on the Funds capital and how it is managed. This enhanced disclosure enables users to evaluate the Funds objectives, policies and processes for managing capital.

Section 3862 and 3863 replaced the existing Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how the Fund manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments.

COAST WHOLESALE APPLIANCES INCOME FUND
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Future accounting standards

(a) International financial reporting standards

In February 2008, the CICA announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Fund will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable for the Fund's reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS. The Fund expects the transition to IFRS to impact accounting, financial reporting, as well as certain computer systems and processes. The

Fund is currently assessing the full impact of the transition to IFRS and planning the work to ensure a timely conversion.

(b) Goodwill and intangible assets

In February 2008, the CICA issued section 3064, Goodwill and Intangible Assets, replacing section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. This section is effective in the first quarter of 2009 and the Fund is currently evaluating the impact of its adoption on its consolidated financial statements.

5. Leaseholds and equipment

	June 30, 2008			December 31, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Leasehold improvements	3,290,359	1,053,513	2,236,846	2,952,814	809,196	2,143,618
Forklifts	528,143	83,319	444,824	467,644	66,414	401,230
Furniture and fixtures	331,547	60,133	271,414	268,698	45,907	222,791
Equipment	578,159	123,835	454,324	519,460	96,593	422,867
Computer hardware and software	2,265,264	1,279,493	985,771	2,218,929	952,384	1,266,545
	6,993,472	2,600,293	4,393,179	6,427,545	1,970,494	4,457,051

6. Intangible assets

	June 30, 2008			December 31, 2007		
	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	945,653	2,183,347	3,129,000	789,203	2,339,797
Customer relationships - builders/developers	10,060,000	2,026,908	8,033,092	10,060,000	1,691,574	8,368,426
Customer relationships - property managers	1,900,000	382,831	1,517,169	1,900,000	319,495	1,580,505
Retail customer list	478,000	144,450	333,550	478,000	120,552	357,448
Favourable leases	565,000	175,132	389,868	565,000	146,158	418,842
	19,501,000	3,674,974	15,826,026	19,501,000	3,066,982	16,434,018

COAST WHOLESALE APPLIANCES INCOME FUND
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Credit facilities

	June 30 2008 \$	December 31 2007 \$
Operating loan (a)	2,236,358	3,673,974
Term loan (b)	20,000,000	20,000,000
Deferred financing costs	-	(30,934)
Term loan	20,000,000	19,969,066
Term revolving loan (c)	-	-
	20,000,000	19,969,066
	22,236,358	23,643,040

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

b) The Fund has utilized a \$20,000,000 3-year non-revolving loan (the "Term Loan") due July 31, 2010. The Term Loan was made available for the financing of working capital, leaseholds and equipment. Advances bear interest at the lender's prime rate plus 0% to 0.25%, when borrowed directly, or at the banker's acceptance rate plus 1.00% to 1.50% 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 Term Loan is secured by a general security agreement covering all assets of the Fund, subject to the security provided to a major supplier as noted below. Payments are monthly for interest only.

c) The Fund has available a \$13,500,000 3-year revolving term loan (the "Revolving Term Loan") due July 31, 2010. The Revolving Term Loan is available for business acquisitions. Interest, terms and security are substantially the same as for the Term Loan.

Third party security interest

Accounts payable, net of rebates, due to a major supplier are secured by inventory on hand that was acquired from the supplier, totaled \$1,583,319 as at June 30, 2008 (\$1,784,466 as at December 31, 2007).

8. Non-controlling interest

(a) Coast Exchangeable Units

	\$
Non-controlling interest - December 31, 2007	31,159,016
Interest in earnings	1,637,305
Distributions to non-controlling interest	(2,158,136)
Non-controlling interest, June 30, 2008	30,638,185

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

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

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

(b) Special Voting Units

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

9. Fund units

	Units	Amount \$
Units issued on June 23, 2005		
Initial public offering	6,525,000	65,250,000
Expenses of offering		(5,415,000)
Balance as at June 30, 2008 and December 31, 2007	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.

COAST WHOLESALE APPLIANCES INCOME FUND
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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.

10. Commitments

Coast leases business premises in Vancouver, Surrey, Kelowna, Victoria, Coquitlam, Abbotsford, Nanaimo, Calgary, Edmonton, Red Deer, Saskatoon, Regina and Winnipeg. The lease agreements require Coast to make the following minimum lease payments in the next five years (exclusive of common area maintenance costs):

12 months ended June 30	\$
2009	2,654,686
2010	2,530,770
2011	1,373,421
2012	1,244,907
2013	1,189,935
	8,993,719

11. 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; and
- b) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

In the management of capital, the Fund includes Unitholder equity, non-controlling interest and bank financing 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 incur additional bank financing or issue additional units. The Fund has established a term revolving facility (Note 7) 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 our business growth and ongoing investments in property, plan and equipment.

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 7). At June 30, 2008, the Fund is in compliance with these financial covenants.

12. Financial risk management

(a) Fair value

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits, accrued distributions payable to Unitholders and accrued distributions payable to non-controlling interests, the fair value of which are considered to approximate their carrying value due to their ability of prompt liquidation except as noted elsewhere in these unaudited interim consolidated financial statements. The operating and term loans approximate fair value because they carry market interest rates.

(b) Credit risk

Coast is exposed to credit risk only with respect to uncertainties as to the timing of collectability of accounts receivable. The customers are large and located throughout Western Canada, with no material concentration. Coast mitigates credit risk through standard credit reference checks, registering security documents where appropriate and ongoing monitoring of the counter party's financial condition. An allowance has been made to provide for the possible non-collection of accounts which are considered to be doubtful.

Included in accounts receivable are \$1,470,731 in other receivables which are mainly due from our suppliers as a result of product rebate programs.

(c) Interest rate risk

Coast's bank financing arrangements bear interest based on the bank prime lending rates and are subject to fluctuations in that rate. The interest rate on the term loan was fixed until June 23, 2008, as noted below, at which time it reverted to a floating rate based on the bank prime lending rate. There is a potential annual increase or decrease in the Fund's net income of approximately \$200,000 with each per cent change in the bank prime rate.

As a part of Coast's hedging strategy, on July 28, 2005 Coast entered into an interest-rate swap transaction to fix the effective rate of interest on the Term Loan until June 23, 2008 at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. This swap transaction has matured and the Term Loan currently bears interest at a floating rate.

(d) Currency risk

Coast is exposed to some financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The amount of foreign currency purchases is minimal at about 2% of Coast's cost of sales. Therefore Coast considers this risk to be low.

COAST WHOLESALE APPLIANCES INCOME FUND
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(e) Concentration risk

During the six month period ended June 30, 2008, purchases by Coast from its three largest suppliers totaled \$40,313,027 or 74% of cost of sales. At June 30, 2008 amounts payable to these suppliers included in accounts payable and accrued liabilities net of rebates receivable totaled \$3,584,653 (\$3,596,410 as at December 31, 2007).

Management believes Coast 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 ensures that there are sufficient committed loan facilities 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. The \$13.5 million revolving term loan can be utilized to finance acquisitions.

13. Related party transactions

Coast leases six of its branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two of its warehouses (Vancouver and Victoria) from a company affiliated with the former principal shareholders of the acquired business who have a non-controlling interest in the Fund (see Note 8). The total amount paid to related parties for the six months ended June 30, 2008 was \$568,542. 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 Coast at the greater of the existing rent or the fair market rent at the time of the renewal. The amounts were measured at the exchange amount which was the consideration agreed upon between the related parties.

COAST WHOLESALE APPLIANCES INCOME FUND
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Net change in non-cash working capital

(Source (use) of cash)

	3 months ended June 30 2008 \$	3 months ended June 30 2007 \$	6 months ended June 30 2008 \$	6 months ended June 30 2007 \$
Accounts receivable	(1,057,670)	(2,381,748)	(851,913)	(1,736,026)
Inventory	(825,108)	(2,146,070)	304,480	(2,584,983)
Prepaid expenses	46,207	(59,448)	(64,041)	(156,079)
Accounts payable and accrued liabilities	(1,141,851)	1,448,430	(410,079)	4,709,349
Customer deposits	826,248	517,323	1,821,835	1,085,703
Deferred warranty revenue	77,051	51,468	103,453	91,863
	(2,075,123)	(2,570,045)	903,735	1,409,827

15. Segmented information

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

16. Long-term incentive plan

Coast adopted a long-term incentive plan ("LTIP") in 2007. As at June 30, 2008, Coast did not record a liability in respect of the LTIP. Coast has a prepaid compensation balance in respect of the LTIP of \$32,712 and has recorded a \$5,941 expense in the period for the awards which were vested during the period.

17. Subsequent events

On July 22, 2008 the Fund declared its thirty-seventh consecutive monthly distribution. The distribution, in the amount of \$0.1025 per Unit, was for the period from July 1, 2008 to July 31, 2008 to Unitholders of record of the Fund on July 31, 2008 to be paid August 15, 2008. The Fund's policy is for Unitholders of record on the last business day of each month to receive distributions on or about the 15th day following the end of such month.



