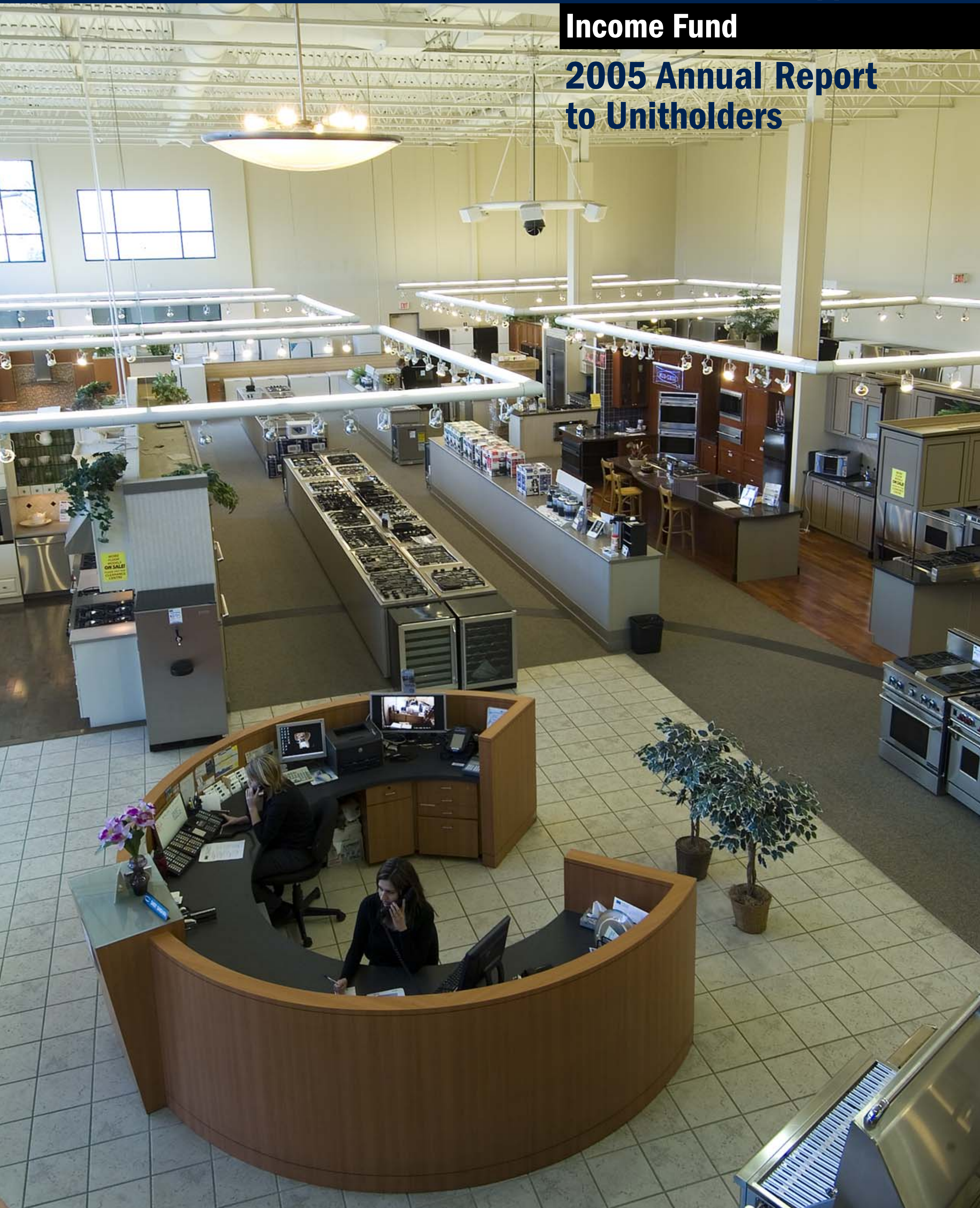
Coast Wholesale Appliances Income Fund

2005 Annual Report to Unitholders



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).

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

Coast Wholesale Appliances LP

Coast Wholesale Appliances LP 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 the developer and builder markets. We subsequently broadened our focus to encompass direct sales to retail customers. Today, our sales are almost evenly split between our developer and builder customers, and our retail customers.

Coast currently operates 12 branch locations 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 appliances needs across more than 30 major brands.

Our business strategy incorporates 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 branch locations; and
3. Continue to enhance our profitability.

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To Our Unitholders

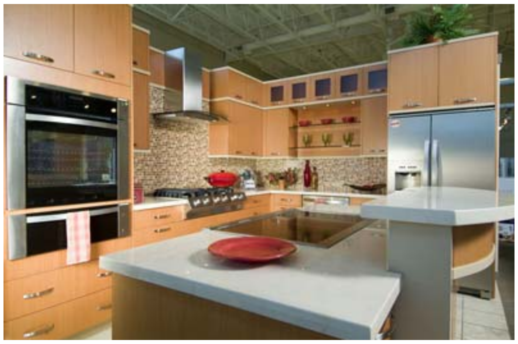
This report covers the period from the Fund's inception on June 23, 2005 to December 31, 2005. For information purposes, we have included selected unaudited financial results for Coast Wholesale Appliances Ltd. (Coast Ltd.), the predecessor business of Coast Wholesale Appliances LP (Coast), for its 2004 fiscal year, which ended February 28, 2005. Directly comparable information is not available as Coast Ltd. was privately held, had a different fiscal reporting calendar, and did not prepare quarterly or annual reports for its shareholders.

On behalf of the Board of Trustees of Coast Wholesale Appliances Income Fund, I am pleased to present our first annual report.

Our fund entered the public arena on June 23, 2005 following the successful completion of our initial offering of trust units. The offering raised gross proceeds of $65,250,000 through the sale of 6,525,000 units at a price of $10.00 per unit. Net proceeds, together with amounts advanced under new credit facilities, were used to acquire a 65% interest in Coast Wholesale Appliances LP (Coast), a leading independent supplier of major household appliances. Our financial results are entirely dependent on the operations of Coast.

The remaining 35% interest was retained by the previous ownership. Distributions to this retained interest are subordinated to distributions to public unitholders for a minimum of two years from the closing of our offering and are subject to the fund meeting certain EBITDA and cash distribution targets.

Our operating business is distinguished by a 28-year history of steady growth throughout recurring economic cycles. The stability of our business is due in large part to the essential nature of the major home appliances we sell. Over the



Branching out in the west: In 2005, we moved forward with plans to enhance our strong western Canadian market coverage by adding two new sales branches in Alberta. The first of these, a second Calgary branch for Coast, is on track to open in the second quarter of 2006. The new location is ideally situated in a high volume retail area in northeast Calgary. Lease negotiations for a second Edmonton branch were initiated in the first quarter of 2006. Located in the city's desirable south central area, near the South Edmonton Common, this new branch is targeted to open by the end of 2006. We are now aggressively seeking locations for a third new Alberta branch, as well as another new location in the Lower Mainland of BC.

past decade, our industry has also benefited from strong economic growth fundamentals, with new product innovations and an increasing focus on home décor both working to drive up sales. In 2005, we capitalized on the healthy western Canadian economy as we continued to build on Coast's long-standing track record of strong sales performance.

Operating Results

During the partial year from our fund's inception on June 23, 2005 to our fiscal year-end on December 31, 2005, Coast generated sales of $66.6 million. For the six months from July 1 to December 31, 2005, our sales of $63.1 million were up by nearly 8% from the $58.5 million recorded by our predecessor business in the same six months of 2004. This sales growth came from across our business, with increased sales to both our multi-family and single-family builder customers, and our retail customers. It reflects the sustained strength of the housing market in Western Canada and, in particular, the robust BC and Alberta housing markets, as well as the strong growth in the renovation market at all of our branch locations.

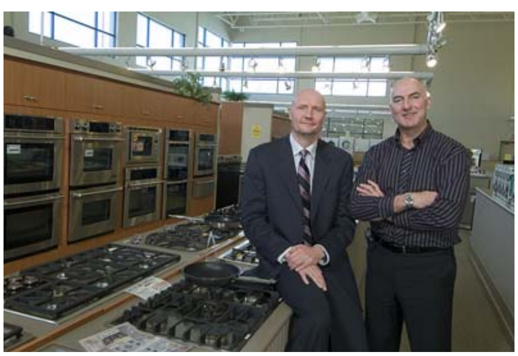
Our cost of sales for the period from June 23 to December 31, 2005 was $49.6 million, or 74.4% of sales. As a percentage of sales, this is in line with the 74.6% recorded by our predecessor business during its 2004 fiscal year. Consistent with previous years, and as anticipated, we experienced a reduction in our cost of goods sold – and corresponding gross margin improvement – in the fourth quarter as we achieved annual supplier volume targets and realized associated rebates.

Our gross profit for the partial year was $17.0 million, representing a gross margin of 25.6%. This is comparable to the 25.4% gross margin that was recorded by Coast Ltd. during its 2004 fiscal year.

Our EBITDA for the partial year was $8.1 million, representing an EBITDA margin of 12.2%. By comparison, on a full-year basis, our predecessor business recorded an EBITDA margin of 12.9% for its fiscal 2004. The difference is attributable to the additional costs that are incurred by Coast as a public company.

Cash Distributions

During the partial year from June 23 to December 31, 2005, the fund earned $7.3 million in distributable cash (before non-controlling interest), or $0.73 per unit, and distributed and accrued for payment $6.3 million, or $0.62 per unit, to



Boosting sales performance: Our product presentation in showrooms with working designer kitchens is a key competitive advantage for Coast. In 2005, we undertook significant upgrades at four of our 12 branches with a view to enhancing their appeal as exciting destination points for retail shoppers. Two of the branches – Saskatoon and Winnipeg – were relocated early in the year to considerably larger buildings in higher-traffic areas. As a result, overall sales in Saskatoon were up by 26% in 2005, while retail business in Winnipeg grew by the same amount. We expect to see similar results in Surrey, BC, where a large-scale renovation and expansion of our well-established branch was completed in the fall of 2005. On Vancouver Island, an extensive renovation of our Nanaimo branch completed late in the year should begin to contribute to sales growth in 2006.

unitholders and the non-controlling interest. This represents a payout ratio of 86%.

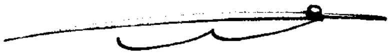
As previously announced, the Board of Trustees has approved distributions of $0.10 per unit for the months of January, February and March 2006. We remain confident that ongoing cash flow from Coast's operations will be sufficient to enable the fund to sustain our monthly distributions at $0.10 per unit.

Outlook

Across Canada, and particularly in the Western provinces, we continue to see healthy growth in housing starts and strong resale activity. Our sales for the first quarter of 2006 are lining up with our projections. For the year to come, we expect to see steady, sustained sales growth across our business.

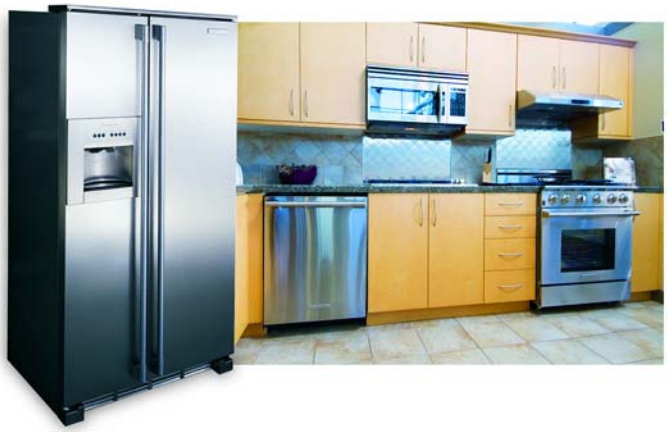
As we move through 2006, we will continue to take full advantage of the opportunities that exist to grow and strengthen our business in order to add value for our unitholders. We anticipate that the two new Alberta branches coming on stream during the year will contribute substantially to our overall revenue base, as will the two further branches targeted to open in Western Canada over the next 12 to 18 months. In addition, we expect to see incremental sales gains in 2006 as a result of the innovative product lines we are adding to our core product offering. At the same time, we will continue to seek other new ways of enhancing our profitability and to explore other potential expansion opportunities with an eye to entering the eastern Canadian marketplace.

In closing, we thank our dedicated employees, our outstanding suppliers and our valued customers for being our partners in success. We also extend our sincere appreciation to our unitholders for your confidence in our business. We look forward to keeping you informed of our progress in adding value to your investment.



Harlow B. Burrows
Trustee; President and Chief Executive Officer

Bettering our bottom line: One of the ways we are enhancing our profitability is by sharpening our focus on newer, innovative products that command higher margins. Thanks to our long-standing, collaborative relationships with leading suppliers, and the buying power of our 12 branches, we enjoy exclusive access to many new product offerings, often at special pricing. In 2005, Coast was the first Canadian distributor to launch Electrolux's new Icon™ Pro line of premium appliances.
We also successfully launched Electrolux's energy-saving Next Level line of front load washers and dryers.
For 2006, we have improved our access to the higher-end of the multi-family market by adding new European-style products from AEG, Liebherr and Fulgor to our core offerings. Designed to fit smaller spaces, these luxury appliances appeal to consumers who are downsizing their homes but don't want to compromise on product features.

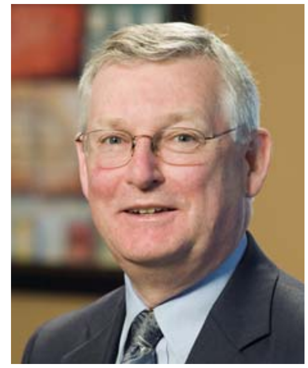


Management's Discussion and Analysis of Financial Condition and Operations

For the Period Ended December 31, 2005

This management's discussion and analysis has been prepared as of March 20, 2006. It should be read in conjunction with the fund's audited consolidated financial statements and accompanying notes for the year ended December 31, 2005, which are presented elsewhere in this document. Our 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 our initial public offering of trust units. This report presents our financial results for the period from June 23, 2005 to our fiscal year-end on December 31, 2005. For comparative purposes, where appropriate and to the extent available, we have provided results for our predecessor business, Coast Wholesale Appliances Ltd. (Coast Ltd.), for its 2004 fiscal year, which ended February 28, 2005.



Jack G. Peck
Vice President and
Chief Financial Officer

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 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 and are based on information currently available to the fund. They reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: sensitivity to general economic conditions; maintaining profitability and managing growth; competition; 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; and interest rates. The fund cannot assure investors that actual results will be consistent with these forward-looking statements, and the fund does not assume any obligation to update or revise these forward-looking statements to reflect new events or circumstances.

Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures

References to "EBITDA" are to earnings before interest, taxes, depreciation and amortization. References to "adjusted EBITDA" are to EBITDA adjusted for the effects of non-recurring items. Non-recurring items are transactions or events that we believe are unusual in the context of a publicly-traded issuer in the business of supplying major household appliances and are not expected to recur within the foreseeable future. These include non-recurring management bonuses historically paid by Coast Ltd. The term "EBITDA margin" refers to the percentage that adjusted EBITDA represents in relation to sales.

As generally accepted by Canadian income funds, we view distributable cash as an operating performance measure. We will distribute substantially all of our cash on an ongoing basis (after providing for certain amounts disclosed in our June 15, 2005 prospectus). Since many investors use EBITDA and adjusted 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 and adjusted EBITDA are useful supplemental measures from which to make adjustments to determine distributable cash.

EBITDA, adjusted EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, adjusted EBITDA and distributable cash may not be comparable to similar measures presented by other entities. Readers are cautioned that EBITDA, adjusted EBITDA and 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 interests as the starting point for our determination of EBITDA. For a reconciliation of EBITDA and adjusted EBITDA to net income presented in accordance with GAAP, see "Results of Operations for Coast" below.

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% interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan and Manitoba from Coast Wholesale Appliances Ltd. (Coast Ltd.). The fund holds, indirectly, 65.03% of the outstanding Class A Limited Partnership (LP) Units of Coast Wholesale Appliances LP (Coast), a limited partnership established under the laws of the Province of Manitoba.

The fund issued 6,525,000 Class A LP Units at $10 per unit pursuant to our offering for net proceeds of $59.8 million, after deducting expenses of the offering of $5.4 million. We used these net proceeds, together with $19.8 million (net of $0.2 million in costs) in funds from new credit facilities, to acquire our indirect 65.03% interest in Coast for total consideration of $79.7 million. The acquisition of the fund's interest in Coast has been accounted for using the purchase method and includes the results of operations from the date of acquisition.

In December 2005, the fund completed the final determination of the allocation of the purchase price to the fair value of net assets acquired. As a result of this exercise, the preliminary purchase allocation was revised with the effect the adjustments were recorded to the amount of goodwill, future income taxes, cash held for designated use and non-controlling interests recognized on acquisition.

The final determination of the fair value of the net assets acquired is as follows:

(in millions of dollars)		
Net working capital	$	15.6
Cash held for designated use		1.0
Property and equipment		2.4
Goodwill		72.1
Other intangible assets		20.8
Non-controlling interest		(32.2)
Consideration, being cash from the offering and new credit facilities	$	79.7

At the time of the acquisition, a $20 million three-year committed non-revolving long-term loan was made available to Coast for the financing of capital assets and working capital. To fix the effective rate of interest on this loan, a hedging strategy was developed and approved by the Board of Trustees. On July 28, 2005, a hedge was executed by Coast in the form of an interest-rate swap transaction, fixing interest on our term debt 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 until June 23, 2008.

Coast has available a $10 million three-year committed revolving operating loan for working capital requirements and for general corporate purposes.

Business Overview

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. The predecessor business, Coast Ltd., began operating in 1978 as a wholesale supplier of major household appliances to the construction and renovation industry, but more recently began to sell directly to retail customers. Today, Coast's sales are almost evenly divided between our developer and builder customers, and our retail customers. The operations of Coast are currently carried out from 12 branch locations in Western Canada and four warehouse distribution locations. Two additional branches are expected to open in 2006.

Coast enjoys a number of competitive advantages that we believe will enable us to continue to grow our sales and cash flows:

- *Focused product category* – Our singular focus on major household appliances means we can offer customers the convenience of one-stop shopping for all of their major appliances needs. This allows us to optimize sales revenue through cross-selling and cross-promotion between major household appliance categories.
- *Wide selection of recognized brands* – Coast sells more than 30 brands of major household appliances. Most competing retailers offer a much narrower choice.
- *Superior value offering* – We have tailored our wholesale operations to meet the needs of the residential construction and renovation industry. Unlike other major appliance wholesalers, Coast is able to accommodate the typically staggered and irregular construction schedules of residential developers and builders by providing just-in-time delivery and installation. Due to our size and strong relationships with our suppliers, we are also able to offer long-term contractual purchase commitments. In contrast, the few appliance manufacturers that still sell directly to builders and developers usually require them to take delivery of a large quantity of products at one time, and on shorter lead times.
- *Product presentation in showrooms* – Each of our branches feature showrooms with working designer kitchens that showcase a full complement of brand names and products. Customers can "test drive" and easily compare a wide range of models at various price points.
- *Experienced, knowledgeable sales force* – Coast has dedicated sales teams focused on growing our business in both the wholesale and retail markets. In selling to developers and builders, we concentrate on establishing close working relationships. Our sales associates function as part of the development team and often visit the developer's office or jobsite to help determine their exact requirements, then schedule delivery and installation in step with the planned completion date. In selling to retail customers, our focus is on educating them about the differences between models, and helping them choose the right product, at the right price.
- *Strong supplier relationships* – With 12 branches, Coast enjoys substantial purchasing power. We also benefit from strong, collaborative supplier relationships, forged over the course of many years of continuous business. Coast regularly undertakes joint initiatives with suppliers, such as combined promotions and product launches, co-development of products and exclusive product offerings. These all help to strengthen our competitive edge.
- *Experienced management team* – Coast's senior management team is set apart by the depth and diversity of our collective knowledge and experience, and our long-standing commitment to Coast and our customers.

Industry Trends

Canada's major household appliances industry serves a large and growing market. There are a number of well-established industry trends that we believe will continue to drive strong consumer spending on major appliances. These include:

- Favourable demographics and population growth
- Robust housing start and resale activity
- Expanding house sizes
- Growth in home renovation activity

- Heightened focus on the family and home decor
- Increasing prominence of major appliances in the home
- More frequent replacement of appliances by consumers
- Ongoing product innovations
- Continuing shift to more energy-efficient appliances

Selected Financial Information

The following selected financial information has been derived from Coast's financial statements for the year ended December 31, 2005. We are unable to provide directly comparative information for the same period of 2004 as Coast Ltd. was privately held, had a February 28th year-end and did not prepare quarterly reports for its shareholders. This material should be read in conjunction with the financial statements and accompanying notes presented elsewhere in this document. For reference purposes only, selected financial information for our predecessor business, Coast Ltd., has been provided for the quarter ending December 31, 2004 and for its 2004 fiscal year, which ended February 28, 2005.

For the three months ended December 31, 2005, which represents the fourth quarter of the fund's fiscal year, Coast's sales revenues were up by $1.9 million, or 6.5%, over the $28.9 million for the same period in 2004. For the six months from July 1, 2005 to December 31, 2005, our sales revenues increased by $4.6 million, or 7.8%, over the $58.5 million that was recorded by Coast Ltd. for the second half of 2004.

Our gross margin for the period June 23 to December 31, 2005 was 25.6%, up slightly from the gross margin of 25.4% that Coast Ltd. achieved in its fiscal year ended February 28, 2005. In the fourth quarter of 2005, our EBITDA was higher than in the previous three months as a result of increased margins. The margin improvement was primarily due to the recognition of annual supplier rebate programs as we achieved annual volume targets. The 12.2% adjusted EBITDA margin we recorded for the period June 23 to December 31, 2005 was less than the 12.9% achieved by Coast Ltd. for its fiscal year ended February 28, 2005 primarily because of incremental public company costs.

Income statement data:

	Coast			Coast Ltd.
(in thousands of dollars)	Period June 23 to December 31 2005	Quarter ended December 31 2005	Quarter ended September 30 2005	Year ended February 28 2005
Sales	$ 66,629	$ 30,825	$ 32,239	$ 110,189
Cost of sales	49,583	22,228	24,655	82,154
Gross profit	17,046	8,597	7,584	28,035
Selling, general & administrative expenses (1)	10,744	5,702	4,601	27,924
Net income before non-controlling interests	6,302	2,895	2,983	111
Interest	505	246	237	860
Taxes	–	(78)	18	91
Depreciation and amortization	1,312	927	358	696
EBITDA (2)	8,119	3,990	3,596	1,758
Adjustments to EBITDA:				
Non-recurring management bonuses (3)	–	–	–	12,180
Other non-recurring expenses (4)	–	–	–	279
Adjusted EBITDA (2)	$ 8,119	$ 3,990	$ 3,596	$ 14,217
EBITDA margin (2) (5)	12.2%	12.9%	11.2%	12.9%

Balance Sheet Data:

As At *(in thousands of dollars)*	Coast December 31 2005	Coast September 30 2005	Coast Ltd. February 28 2005
Working capital (6)	$ 17,083	$ 16,151	$ 14,746
Total assets	125,033	132,453	38,885
Total long-term liabilities	20,000	20,000	16,628

Notes:

(1) *Selling, general and administrative expenses include warehousing expenses, interest, depreciation and amortization.*

(2) *See "Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures". Adjusted EBITDA is EBITDA adjusted to remove non-recurring items. EBITDA and adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and adjusted EBITDA may not be comparable to similar measures presented by other issuers.*

(3) *These amounts represent non-recurring management bonuses paid by Coast Ltd. as a private company. These bonuses are not typical of a reporting issuer. Bonuses paid to management of Coast will be determined by the board of directors of Coast Wholesale Appliances GP upon the recommendations of its compensating, nominating and governance committee.*

(4) *These amounts relate to remuneration paid to the principal shareholders of Coast Ltd., legal and accounting costs, gains on sale of equipment, large corporations tax and recoveries of administrative expenses from the principal shareholders of Coast Ltd.*

(5) *EBITDA margin for any period is the percentage of adjusted EBITDA to sales for such period.*

(6) *Working capital at any time is the excess of the sum of accounts receivable, inventory and prepaid expenses over the sum of accounts payable and accrued liabilities, deferred warranty revenue and customer deposits at such time.*

Results of Operations for Coast for the quarter ending December 31, 2005 and for the period from June 23 to December 31, 2005 compared to the fiscal year ended February 28, 2005 for Coast Ltd.

Sales

Sales for the quarter ending December 31, 2005 were $30.8 million, and for the period from June 23 to December 31, 2005 were $66.6 million. For the fourth quarter, Coast's sales were up by $1.9 million, or 6.5%, from the $28.9 million recorded by Coast Ltd. in the same three months of 2004. For the six-month period from July 1 to December 31, 2005, Coast's sales of $63.1 million were up by $4.6 million, or 7.8%, from the $58.5 million recorded by Coast Ltd. in the same six months of 2004.

The sales growth was generated throughout the business, with increases in both contract sales to developers and builders, and direct sales to retail customers. We experienced particularly strong growth in our retail business, which accounted for 53% of sales for the period from June 23 to December 31, 2005, compared to 51% in the predecessor company's 2004 fiscal year, which ended February 28, 2005. Our sales growth was largely driven by the continued strong housing market in Western Canada, with the greatest sales gains experienced in British Columbia. For the period from June 23 to December 31, 2005, BC accounted for 61% of sales, compared to 58% in the predecessor company's 2004 fiscal year.

Cost of sales

Cost of sales for the quarter ending December 31, 2005 was $22.2 million, and for the period from June 23 to December 31, 2005 was $49.6 million. Comparative cost of sales for Coast Ltd. cannot be determined as the information was not available. Cost of sales as a percentage of sales was 72.1% for the fourth quarter, and 74.4% for the period from June 23 to December 31, 2005. As anticipated, we experienced a reduction in our cost of goods sold in the fourth quarter as we attained annual supplier volume targets and recognized annual rebate programs. Cost of sales as a percentage of sales for the fiscal year ended February 28, 2005 for Coast Ltd. was 74.6%.

Gross profit

Gross profit for the quarter ending December 31, 2005 was $8.6 million, and for the period from June 23 to December 31, 2005 was $17.0 million. Comparative gross profit amounts for Coast Ltd. cannot be determined as the information was not available. Gross profit as a percentage of sales (gross margin) was 27.9% for the quarter ending December 31, 2005, and 25.6% for the period from June 23 to December 31, 2005. We experienced a gross margin improvement in the fourth quarter as a result of the recognition of annual supplier rebate programs. Our gross margin for the period from June 23 to December 31, 2005 was up slightly from the 25.4% recorded by Coast Ltd. for the fiscal year ended February 28, 2005.

Selling, general & administrative expenses

Selling, general and administrative expenses (SG&A) for the quarter ending December 31, 2005 were $4.6 million, and for the period from June 23 to December 31, 2005 were $8.9 million. Comparative SG&A for Coast Ltd. cannot be determined as the information was not available. SG&A as a percentage of sales (SG&A margin) was 14.6% for the fourth quarter, and 13.2% for the period from June 23 to December 31, 2005. SG&A margin for the fiscal year ended February 28, 2005 for Coast Ltd. was 23.8%.

The decrease in SG&A margin for the period from June 23 to December 31, 2005, from that recorded by Coast Ltd. for the year ended February 28, 2005, was primarily due to the absence of management bonuses that were historically paid by Coast Ltd. as a private company. The total amount of SG&A expenses in the fourth quarter was greater than in the previous three months as we recorded our annual audit fees, and certain employee termination costs, as well as our annual allowance for bad debts. Bad debt expenses for the period from June 23 to December 31, 2005 were negligible, representing less the 0.2% of revenue.

Adjusted EBITDA

EBITDA is not a recognized measure under GAAP and does not have standardized meanings prescribed by GAAP (see "Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures" above). EBITDA may not be comparable to similar measures presented by other issuers. References to "adjusted EBITDA" are to EBITDA adjusted for the effects of non-recurring items, including the effects of non-recurring management bonuses and the costs associated with the fund's initial public offering. References to "EBITDA margin" are to the percentage that adjusted EBITDA represents in relation to sales for that period. The following table provides a reconciliation of income before non-controlling interest to adjusted EBITDA.

	Coast			**Coast Ltd.**
(in thousands of dollars)	Period June 23 to December 31 2005	Quarter ended December 31 2005	Quarter ended September 30 2005	Year ended February 28 2005 (1)
Income before non-controlling interest	$ 6,302	$ 2,895	$ 2,983	$ 111
Interest	505	246	237	860
Taxes	–	(78)	18	91
Depreciation and amortization	1,312	927	358	696
Non-recurring management bonuses (2)	–	–	–	12,180
Other non-recurring expenses (3)	–	–	–	279
Adjusted EBITDA (4)	$ 8,119	$ 3,990	$ 3,596	$ 14,217
EBITDA margin (4) (5)	12.2%	12.9%	11.2%	12.9%

(1) Year ending February 28, 2005 for Coast Ltd.

(2) These amounts represent non-recurring management bonuses paid by Coast Ltd. as a private company. These bonuses are not typical of a reporting issuer. Bonuses paid to management of Coast will be determined by the board of directors of Coast Wholesale Appliances GP upon the recommendations of its compensating, nominating and governance committee.

(3) These amounts relate to remuneration paid to the principal shareholders of Coast Ltd., legal and accounting costs, gains on sale of equipment, large corporations tax and recoveries of administrative expenses from the principal shareholders of Coast Ltd.

(4) See "Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures". Adjusted EBITDA is EBITDA adjusted to remove non-recurring items. EBITDA and adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and adjusted EBITDA may not be comparable to similar measures presented by other issuers.

(5) EBITDA margin for any period is the percentage of adjusted EBITDA to sales for such period.

Adjusted EBITDA for the quarter ending December 31, 2005 was $4.0 million, and for the period from June 23 to December 31, 2005 was $8.1 million. Comparative adjusted EBITDA for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Adjusted EBITDA as a percentage of sales (adjusted EBITDA margin) for the fourth quarter was 12.9%, and for the period from June 23 to December 31, 2005 was 12.2%. Our margin improved in the fourth quarter as a result of the recognition of annual rebate programs from our suppliers. Adjusted EBITDA margin for the fiscal year ended February 28, 2005 for Coast Ltd. was 12.9%. The difference in the adjusted EBITDA margins realized by Coast and Coast Ltd. is mainly due to the additional costs that are incurred by Coast as a public company. These include applicable regulatory and exchange costs, as well as additional reporting and audit costs.

Net income before non-controlling interests

Net income before non-controlling interests for the quarter ending December 31, 2005 was $2.9 million, and for the period from June 23 to December 31, 2005 was $6.3 million. Comparative net income before non-controlling interests for Coast Ltd. cannot be determined as the information was not available. Net income before non-controlling interests as a percentage of sales was 9.4% for the fourth quarter, and 9.5% for the period from June 23 to December 31, 2005. Net income before non-controlling interests as a percentage of sales for the fiscal year ended February 28, 2005 for Coast Ltd. was 0.1%. The significant difference is due to the management bonuses historically paid by Coast Ltd. as a private company.

Amortization

Amortization for the quarter ending December 31, 2005 was $0.9 million, and for the period from June 23 to December 31, 2005 was $1.3 million. Comparative amortization for comparable periods for Coast Ltd. cannot be determined as the information was not available. Amortization for Coast includes amortization of identifiable intangibles, deferred financing costs, and property and equipment.

Seasonality

Sales of our products are subject to seasonal fluctuations that follow our customers' building activities. The first quarter is our slowest quarter with 20% to 21% of sales, while the third quarter is our strongest quarter with 27% to 28% of sales. The second and fourth quarters are approximately equal with 25% to 26% of sales.

Segmented Revenue

Coast's operations consist of one reporting segment – the sale and distribution of major household appliances. The following table provides an overview of Coast's sales by geographic location:

	Coast						Coast Ltd.[1]			
(in thousands of dollars)	Period June 23 to December 31 2005		Quarter ended December 31 2005		Quarter ended September 30 2005		Year ended February 28 2005		Quarter ended December 31 2004	
British Columbia	$ 40,863	61%	$ 18,860	61%	$ 19,717	61%	$ 64,130	58%	$ 17,228	60%
Prairie Region	25,766	39%	11,965	39%	12,521	39%	46,059	42%	11,724	40%
Total	$ 66,629		$ 30,825		$ 32,238		$ 110,189		$ 28,952	

(1) Financial information for Coast Ltd.

Financial Instruments

Financial instruments of Coast consist of cash, accounts receivable, accounts payable and accrued liabilities, customer deposits, 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 financial statements. These financial instruments are subject to credit risk, currency risk and concentration risk, as described in the financial statements presented elsewhere in this document.

As noted earlier, a hedging strategy relating to our term loan was established and a hedge was executed by Coast 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, depreciation and amortization, calculated on a quarterly basis, until June 23, 2008.

For a detailed description of financial instruments and their associated risks, see note 11, "Financial Instruments", in the financial statements.

Critical Accounting Policies and Estimates

We have prepared our financial statements in conformity with 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 assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. 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 2 of the 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:

Revenue recognition

Coast recognizes revenue from the sale of products when the products are shipped and collection is reasonably assured.

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

Product 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 taken into income over the life of the contracts. The costs associated with delivering the related warranty services are expensed as they are incurred during the life of the contracts.

Allowance for doubtful accounts

Accounts receivable are carried at amounts due, net of a provision for amounts estimated to be uncollectible. Coast assesses uncollectible amounts based on past due balances, knowledge of our customer base and credit investigations of specific customers. Coast's bad debt expense was negligible for the period from June 23 to December 31, 2005.

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 at December 31, 2005. No adjustments for impairment were 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 its expected use and disposition, and on an annual basis. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. 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 December 31, 2005. 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 income taxes.

Related Party Transactions

On June 23, 2005, Coast entered into agreements with two of the three former principal shareholders of the acquired business who now hold a non-controlling interest in the fund (see note 8 of the financial statements). The agreements provide for management and consulting services at an annual fee of $30,000 for each of these two individuals.

We lease six of our 12 branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria, Calgary) and all of our four warehouses (located in Surrey, Vancouver, Victoria and Calgary) from a company affiliated with the three former principal shareholders (see note 8 of the financial statements). For the year ended February 28, 2005, the total amount paid under these leases was $1.3 million. Each of the leases was modified as part of the our initial public offering to provide for a term of five years from June 23, 2005, with two consecutive five-year options that enable Coast to renew at the greater of the existing rent or the fair market rent at the time of the renewal. The total amount paid for the quarter ended December 31, 2005 was $378,000, and for the period from June 23 to December 31, 2005 was $789,000.

As at September 30, 2005, $1.0 million was held in trust. These funds related to specific capital projects, principally store renovations and computer system upgrades, to be completed by Coast Ltd. pursuant to the purchase agreement. The store renovations were completed by December 31, 2005 and $0.4 million in related funds were allocated to Coast Ltd. The computer project, which was estimated to cost $0.6 million, was not completed as at December 31, 2005. As a result, in compliance with the purchase agreement, $.089 million was allocated to Coast Ltd. The $0.511 million balance was allocated to the fund to complete the project.

Liquidity and Capital Resources

Cash Flow from Operating Activities

Cash flow from operating activities for the quarter ending December 31, 2005 was $0.3 million, and for the period from June 23 to December 31, 2005 was $3.3 million. Comparative cash flow from operating activities for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Cash flow from operating activities for the fiscal year ended February 28, 2005 for Coast Ltd. was $(3.7) million.

Distribution 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. The distributions have been consistent at $0.10 per unit per month since the fund's inception, totalling $4.1 million for the period from June 23 to December 31, 2005. The accrued distributions payable to unitholders and non-controlling interests at December 31, 2005 were paid January 15, 2006.

Of the distributions paid in 2005, 72% represented taxable income to the unitholders and 28% a return of capital that reduces the adjusted cost base of the units. We expect a split of approximately 75% income and 25% return of capital for the 2006 distributions.

Period	Record date	Payment date	Per unit	Amount
June 2005	July 29, 2005	August 15, 2005	$0.0233	$152,033
July 2005	July 29, 2005	August 15, 2005	0.1000	652,500
August 2005	August 31, 2005	September 15, 2005	0.1000	652,500
September 2005	September 30, 2005	October 17, 2005	0.1000	652,500
October 2005	October 31, 2005	November 15, 2005	0.1000	652,500
November 2005	November 30, 2005	December 15, 2005	0.1000	652,500
December 2005	December 30, 2005	January 16, 2006	0.1000	652,500
Total			$0.6233	$4,067,033

Maintenance Capital Expenditures

Maintenance capital expenditures consist primarily of leasehold improvements, furniture and fixture purchases, and computer hardware and software expenditures. Excluding expenditures being made pursuant to the acquisition agreement of the fund's initial public offering, maintenance capital expenditures for the period from June 23 to December 31, 2005 were $0.34 million. Expenditures made pursuant to the acquisition agreement totalled $0.489 million and were treated as a reduction to goodwill. These expenditures related to two store renovations, which Coast Ltd. committed to complete at a fixed cost of $0.4 million as part of the purchase agreement, as well as the installation of specific computer hardware and software totalling $0.089 million. The computer project, estimated to cost $0.6 million, was not completed as at December 31, 2005. As a result, in compliance with the purchase agreement, Coast Ltd. has advanced net funds of $0.511 million to the fund to complete the project. This was also treated as a reduction to goodwill. Although these funds have been included with our regular bank account, they have been earmarked for this specific project. We estimate that over the next five years, annual maintenance capital expenditures will average approximately $0.4 million per year. This amount will vary depending on the timing of new store openings and any related leasehold improvements.

Distributable Cash

Distributable cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP (see "Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures" above). Distributable cash may not be comparable to similar measures presented by other issuers. We consider distributable cash to be our net income before amortization expenses and after cash required for capital expenditures, capital expenditure reserves and working capital requirements.

	Period June 23 to December 3 2005
Income before non-controlling interest	$ 6,302,114
Amortization	1,312,324
Capital expenditures	(343,579)
Distributable cash	$ 7,270,859
Distributions to unitholders & non-controlling interest	$ 6,254,296
Payout ratio	86.0%

Contractual Obligations and Commitments

Payments due by period (as at December 31, 2005)

(in millions of dollars)	Total	Less than 1 year	1 to 3 years	4 to 5 years	After year 5
Term loan	$ 20.0	$ –	$ 20.0	$ –	$ –
Operating leases	7.0	1.7	3.0	2.2	0.2

Coast has borrowed $20 million under the three-year committed interest only non-revolving term loan that was made available for the financing of capital assets and working capital as part of the acquisition of Coast Ltd. Advances under the agreement bear interest 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. As noted earlier, 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. 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(c) of the financial statements). No principle repayments are required during the term of the loan.

Operating leases are in place for all premises. Total basic rent for the quarter ended December 31, 2005 was $0.48 million, and for the period from June 23, 2005 to December 31, 2005 was $1.02 million. Comparative total basic rent for Coast Ltd. cannot be determined as the information was not available. Total basic rent for the year ended February 28, 2005 for Coast Ltd. was $1.5 million.

Working Capital

Working capital as at December 31, 2005 was $17.1 million. Working capital as at February 28, 2005 for Coast Ltd. was $14.8 million.

In addition to working capital, Coast has 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 agreement 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(c) of the financial statements). The operating loan was utilized minimally during the period from June 23, 2005 to December 31, 2005.

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

Total Assets

Total assets as at December 31, 2005 were $125.7 million. Total assets as at February 28, 2005 for Coast Ltd. were $38.9 million. The difference is due to the $91.8 million in goodwill and intangible assets that were not present in Coast Ltd.

Accounts receivable as at December 31, 2005 were $12.5 million. Accounts receivable as at February 28, 2005 for Coast Ltd. were $8.7 million. As charted below, supplier rebates receivable at December 31, 2005 were higher than at Coast Ltd's February 28, 2005 year end. This was due to the year-end volume rebates that are normally credited in January and February. The difference in trade receivables is a reflection of the sales volumes in the respective periods, with September in our strongest quarter and February in our slowest quarter.

	Coast		**Coast Ltd.**
	December 31 2005	September 30 2005	February 28 2005
Trade receivables	$ 9,019,420	$ 10,853,607	7,410,732
Supplier rebates & other receivables	3,497,537	2,728,643	1,302,052
	$ 12,516,957	$ 13,582,250	$ 8,712,784

Inventory as at December 31, 2005 was $17.9 million. Inventory as at February 28, 2005 for Coast Ltd. was $15.0 million. The increase in inventory levels since February 28, 2005 is due to the increased volume of sales, special pricing incentives by suppliers at their year end and approximately $1.2 million of inventory held for developers as a result of amended delivery schedules made to accommodate current short-term project delays.

The balance of property and equipment as at December 31, 2005 was $3.0 million, net of amortization of $0.2 million. The net balance of property and equipment as at February 28, 2005 for Coast Ltd. was $2.0 million.

The value determined for the identifiable intangibles acquired at June 23, 2005 as part of the initial public offering was $20.8 million. The balance of identifiable intangibles as at December 31, 2005 was $19.7 million, net of amortization of $1.1 million for the period from June 23, 2005 to December 31, 2005. No impairment in value was identified by Coast.

The value determined for the goodwill acquired at June 23, 2005 as part of the offering was $72.1 million. The balance of identifiable goodwill as at December 31, 2005 remained unchanged as no impairment in value was identified by Coast.

Total Liabilities

Total liabilities as at December 31, 2005 were $65.8 million, which includes $32.2 million of non-controlling interest that was not present in Coast Ltd. Total liabilities as at February 28, 2005 for Coast Ltd. were $38.1 million.

Cheques issued in excess of bank balances totalled $0.6 million as at December 31, 2005. The $10 million operating line was utilized minimally during the period from June 23 to December 31, 2005.

Customer deposits as at December 31, 2005 were $2.2 million. Customer deposits as at February 28, 2005 for Coast Ltd. were $2.2 million.

Deferred warranty revenue as at December 31, 2005 was $2.0 million. Deferred warranty revenue as at February 28, 2005 for Coast Ltd. was $1.8 million. The current year increase resulted from growing sales of our deferred warranty programs.

Accounts payable and accrued liabilities as at December 31, 2005 were $7.1 million. Accounts payable and accrued liabilities and income taxes payable as at February 28, 2005 for Coast Ltd. were $5.4 million.

Financing

Concurrent with closing of the fund's initial public offering, Coast entered into new credit facilities (the term loan and the operating loan) with a Canadian chartered bank (see "Contractual Obligations" and "Working Capital" sections above).

As discussed earlier, the effective rate of interest rate on the term loan has been fixed 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.

Disclosure Controls and Procedures

As at December 31, 2005, an evaluation was carried out for the effectiveness of our disclosure controls and procedures as defined in Multilateral Instrument 52-109. Based on that evaluation, we conclude that the design and operation of these disclosure controls and procedures are effective.

Outlook

As we announced in our press releases dated January 18, 2006 and February 15, 2006, the fund made distributions on February 15, 2006 and March 15, 2006 of $0.10 per unit to public unitholders of record as at January 31, 2006 and February 28, 2006, respectively.

The market for major household appliances remains strong and we believe that Coast is in a favourable position to continue to grow the business throughout 2006. As indicated at the time of our initial public offering, we intend to open four new branches in Western Canada within two years of our public issue. We have finalized leasing arrangements for a second branch location in Calgary, which we expect to open in the second quarter of 2006. Currently, we are negotiating lease arrangements for a second branch location in Edmonton. We expect to open this new store in the third quarter of 2006. As well, we have agreements in place to develop a new store location in Edmonton to replace our existing store, which we expect to open by mid-2007. We are also aggressively seeking additional locations in both Alberta and British Columbia. Over the longer term, we are looking at potentially entering the eastern Canadian marketplace, likely through an acquisition.

We believe that our current 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 and, 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. These include: 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, changes in labour relations, changes in tax legislation, or any other factors as described under "Forward-looking Statements".

Management's Statement of Responsibilities

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

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

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

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

Harlow B. Burrows
Trustee; President and Chief Executive Officer

Auditors' Report

To the Unitholders of Coast Wholesale Appliances Income Fund

We have audited the consolidated balance sheet of Coast Wholesale Appliances Income Fund as at December 31, 2005 and the consolidated statements of income, unitholders' equity and cash flows for the period from June 23, 2005 to December 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the period from June 23, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Vancouver, British Columbia

February 27, 2006

Consolidated Balance Sheet

December 31, 2005

Assets

CURRENT	
Accounts receivable (Note 3)	$ 12,516,957
Inventory	17,958,782
Prepaid expenses and deposits	225,781
	30,701,520
LEASEHOLDS AND EQUIPMENT (Note 4)	3,045,202
DEFERRED FINANCING COSTS (Note 5)	160,414
INTANGIBLE ASSETS (Note 6)	19,688,624
GOODWILL (Note 1)	72,081,521
	$ 125,677,281

Liabilities

CURRENT	
Cheques issued in excess of funds on deposit	$ 644,525
Accounts payable and accrued liabilities	7,146,517
Accrued distributions payable to unitholders	652,500
Accrued distributions payable to non-controlling interests	1,052,750
Customer deposits	2,164,073
Deferred warranty revenue	1,957,719
	13,618,084
TERM LOAN (Note 7 (b))	20,000,000
NON-CONTROLLING INTEREST (Note 8)	32,192,965
	65,811,049
Unitholders' Equity	59,866,232
	$ 125,677,281

COMMITMENTS (Note 10)

APPROVED ON BEHALF OF THE TRUSTEES

Harlow B. Burrows
Trustee

Ian F. Thomas
Trustee

Consolidated Statement of Income

Period from June 23, 2005 to December 31, 2005

SALES	$ 66,629,124
COST OF SALES	49,583,070
GROSS PROFIT	17,046,054
EXPENSES	
Selling	4,401,905
General and administrative	2,734,085
Warehousing	1,790,986
Amortization	
Intangible assets	1,074,376
Leaseholds and equipment	204,139
Deferred financing costs	33,809
Interest	504,640
	10,743,940
INCOME BEFORE NON-CONTROLLING INTEREST	6,302,114
NON-CONTROLLING INTEREST (Note 8)	2,203,849
NET INCOME	$ 4,098,265
BASIC AND DILUTED EARNINGS PER UNIT	$ 0.6281
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	6,525,000
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	10,033,830

Consolidated Statement of Unitholders' Equity

Period from June 23, 2005 to December 31, 2005

	Fund units (Note 9)	Cumulative earnings	Cumulative distributions	Total
Issuance of Fund units on initial public offering	$ 65,250,000	$ –	$ –	$ 65,250,000
Issuance costs (Note 9)	(5,415,000)	–	–	(5,415,000)
Net income for the period	–	4,098,265	–	4,098,265
Distributions declared	–	–	(4,067,033)	(4,067,033)
BALANCE, END OF PERIOD	$ 59,835,000	$ 4,098,265	$ (4,067,033)	$ 59,866,232

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Period from June 23, 2005 to December 31, 2005

OPERATING ACTIVITIES	
Net income	$ 4,098,265
Items not involving cash	
Amortization	1,312,324
Non-controlling interest	2,203,849
	7,614,438
Change in non-cash working capital (Note 14)	(4,333,210)
	3,281,228
INVESTING ACTIVITIES	
Acquisition of business (Note 1)	(79,685,000)
Purchase of leaseholds and equipment	(832,484)
Distributions paid to unitholders	(3,414,533)
Distributions paid to non-controlling interest	(1,134,513)
	(85,066,530)
FINANCING ACTIVITIES	
Net proceeds from the issuance of units	59,835,000
Increase in bank indebtedness	20,000,000
Financing costs	(194,223)
	79,640,777
NET CASH OUTFLOW	(2,144,525)
CASH, BEGINNING OF PERIOD	1,500,000
CHEQUES ISSUED IN EXCESS OF FUNDS ON DEPOSIT, END OF PERIOD	$ (644,525)
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid	$ 504,640

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Period from June 23, 2005 to December 31, 2005

1. Nature of Operations and Acquisition

(a) Organization, 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 commenced operations on June 23, 2005, when it completed an initial public offering (the “Offering”) of Units and acquired a 65.03% indirect interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan and Manitoba (the “Business”) from Coast Wholesale Appliances Ltd. (“Coast Ltd.”). The Fund holds its 65.03% interest in the Business through an indirect acquisition of the outstanding Class A Limited Partnership (“LP”) Units of Coast Wholesale Appliances LP (“Coast”), a limited partnership established under the laws of the Province of Manitoba.

(b) Acquisition

On June 23, 2005, the Fund completed an initial public offering of 6,525,000 units of the Fund (“Units”) at $10 per Unit for net proceeds of $59,835,000, after deducting expenses of the Offering of $5,415,000.

The Fund used the net proceeds from the Offering, together with funds from the new credit facilities (Note 7), to acquire indirectly a 65.03% interest in Coast for total consideration of $79,685,000.

The acquisition of the Fund’s interest in Coast has been accounted for using the purchase method and includes the results of operations of the Business from the date of acquisition.

In December 2005 the Company completed the final determination of the allocation of the purchase price to the fair value of net assets acquired. As a result of this exercise, the preliminary purchase allocation was revised and adjustments were made to the amount of goodwill, future income taxes, cash held for designated use and non-controlling interests initially recognized on acquisition.

The final determination of the fair value of assets acquired is as follows:

Net working capital	$ 15,600,000
Cash held for designated use (Note 12 (c))	1,000,000
Leaseholds and equipment	2,416,858
Goodwill	72,081,521
Other intangible assets	20,763,000
Non-controlling interest	(32,176,379)
Consideration, being cash from the Offering and new credit facilities	$ 79,685,000

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These statements represent the balance sheet of the Fund as at December 31, 2005 and the results of its operations for the period from June 23, 2005 to December 31, 2005.

(a) Basis of presentation

These consolidated financial statements include the accounts of the Fund and its 65.03% interest in Coast. All material intercompany transactions have been eliminated upon consolidation.

(b) Measurement uncertainty

The preparation of these consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Areas requiring significant management estimates include the valuation of goodwill, other intangible assets, allowance for doubtful accounts, provision for inventory obsolescence, amounts of accrued receivables and amounts of accrued liabilities and deferred warranty revenue. Actual results could differ from these estimates.

(c) Inventory

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

Incentives received from suppliers are presumed to be a reduction in the prices of the suppliers' products and are accounted for as a reduction in the related inventory and cost of sales.

(d) Leaseholds and equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is provided on a straight-line method over the following estimated useful lives of the assets:

Computer hardware and software	3 years
Service vehicles	15 years
Furniture and fixtures	10 years
Equipment	10 years

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

(e) Deferred financing costs

Financing costs incurred to obtain the new credit facilities are amortized on a straight-line basis over the three year life of the debt to which they relate.

(f) Intangible assets

Certain identifiable intangible assets are carried at cost less accumulated amortization. Amortization is provided using the straight-line method over the following estimated useful lives of the assets:

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

Long-lived assets and finite-lived intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its expected use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. 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.

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

The Fund has not identified any impairment write-down for the period ended December 31, 2005.

(g) Goodwill

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

The Fund has not identified any impairment write-down for the period ended December 31, 2005.

(h) Foreign currency translations

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

(i) Revenue recognition

Revenue is recognized from the sale of products when the products are shipped and collection is reasonably assured.

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

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

(j) Income taxes

As the Fund allocates all of its taxable income and taxable capital gains to Unitholders, the Fund itself will not be subject to income taxes.

(k) Earnings per Unit

Basic earnings per Unit is calculated by dividing net income by the weighted average number of Units outstanding during the reporting period which commenced June 23, 2005. Diluted earnings per Unit is calculated by the application of the if-converted method for convertible securities. As the conversion of subordinated exchangeable Class A would not have a dilutive effect on earnings per Unit, diluted and basic earnings are the same amount.

(l) Hedging relationships

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives to forecasted transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

When the Fund discontinues its designation of a hedging relationship, or when a hedging relationship is no longer effective, hedge accounting is discontinued. When the Fund discontinues hedge accounting, the derivative financial instrument is recorded on the consolidated balance sheet at fair value. Gains and losses that had previously been deferred are carried forward for recognition in the statement of income in the same period that the hedge item is recognized.

3. Accounts Receivable

Accounts receivable - trade	$ 9,019,420
Supplier rebates and other	3,497,537
	$ 12,516,957

4. Leaseholds and Equipment

	Cost	Accumulated amortization	Net book value
Computer hardware and software	$ 1,083,937	$ 115,203	$ 968,734
Service vehicles	366,972	10,501	356,471
Furniture and fixtures	138,248	4,895	133,353
Equipment	328,593	16,310	312,283
Leasehold improvements	1,331,591	57,230	1,274,361
	$ 3,249,341	$ 204,139	$ 3,045,202

5. Deferred Financing Costs

Costs associated with obtaining the credit facilities (Note 7) are being amortized on a straight-line basis over three years.

	Cost	Accumulated amortization	Net book value
Deferred financing costs	$ 194,223	$ 33,809	$ 160,414

6. Intangible Assets

	Cost	Accumulated amortization	Net book value
Coast brand name	$ 3,369,000	$ –	$ 3,369,000
Supplier relationships	3,129,000	163,403	2,965,597
Customer backlog at acquisition	1,262,000	439,362	822,638
Customer relationships - builders/developers	10,060,000	350,238	9,709,762
Customer relationships - property managers	1,900,000	66,151	1,833,849
Retail customer list	478,000	24,960	453,040
Favourable leases	565,000	30,262	534,738
	$ 20,763,000	$ 1,074,376	$ 19,688,624

7. Credit Facilities

(a) Operating loan

Coast has available a $10,000,000 3-year revolving loan (the "Operating Loan") for working capital requirements and for general corporate purposes. Advances under the agreement 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 as noted in Note 7(c) below.

Balance as at December 31, 2005	$ –

(b) Term loan

Coast has a $20,000,000 3-year non-revolving loan (the "Term Loan") due June 23, 2008. The Term Loan was made available for the financing of leaseholds and equipment and working capital as part of the Acquisition. Advances under the agreement bear interest 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. 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. The Term Loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier as noted in Note 7(c) below. Payments are monthly for interest only.

Balance as at December 31, 2005	20,000,000
	$ 20,000,000

(c) Third party security interest

Accounts payable due to a major supplier are secured by inventory on hand that was acquired from the supplier, which was $1,393,213 as at December 31, 2005.

8. Non-Controlling Interest

(a) Coast Exchangeable Units (the "Exchangeable Units")

Retained interest in Coast	$ 32,176,379
Interest in post-acquisition earnings	2,203,849
Distributions paid to non-controlling interests	(1,134,513)
Accrued distributions payable to non-controlling	(1,052,750)
	$ 32,192,965

Coast Ltd. (Note 1) has retained a 34.97% interest in Coast through ownership of 100% of the Exchangeable Units.

The Exchangeable Units have economic and voting rights that are equivalent to the Class A LP Units in all material respects, except that distributions on the Exchangeable Units are subject to the subordination arrangements described below until the date (the "Subordination End Date") on which:

- the Subordination Period EBITDA (see below) of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least $13.717 million (the "EBITDA Target); and

(8. Non-Controlling Interest – continued)

- cumulative cash distributions of at least $2.40 per Unit have been paid on the Units and cumulative cash advances or distributions of at least $2.40 per Exchangeable Unit have been paid on the Exchangeable Units (as adjusted for issuances, repurchases and redemptions of Units and Partnership Units subsequent to the closing of the Offering) for the 24 month period ending on the last day of the month immediately preceding such date (the "Distribution Target").

Subordination Period EBITDA means Net Income (Subordination) of the Fund for such period plus the sum of all amounts deducted in arriving at such Net Income (Subordination) in respect of: (i) interest expense for such period; (ii) income taxes and future income tax expense or recovery for such period as determined in accordance with GAAP; (iii) amortization of fixed and intangible assets for such period; (iv) any charges to Net Income (Subordination) during such period which are non-cash charges or non-recurring expenses arising from the rationalization of the Fund's or its subsidiaries' facilities, product lines or personnel; (v) non-cash charges in respect of foreign currency adjustments and goodwill impairment; and (vi) non-controlling interests.

Generally, distributions on the Exchangeable Units will be subordinated and will be made quarterly on a prorated basis to the amount distributed on the Class A LP Units during such fiscal quarter, only after the distributions have been made on the Class A LP Units and to the extent that cash is available to make such distributions.

After the Subordination End Date, the holders of the Exchangeable Units will be entitled to effectively exchange all or a portion of their Exchangeable Units for up to 3,509,167 Units of the Fund, representing 34.97% of the issued and outstanding Units of the Fund on a fully diluted basis. In the event that the Fund enters into an agreement in respect of an acquisition transaction or a take-over bid, the holders of the Exchangeable Units will be entitled to exchange such Units for Units of the Fund.

(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 Exchangeable Units were issued 3,509,167 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 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 December 31, 2005	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.

10. Commitments

Coast leases business premises in Vancouver, Surrey, Kelowna, Victoria, Coquitlam, Abbotsford, Nanaimo, Calgary, Edmonton, 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):

Year ended December 31,	
2006	$ 1,747,908
2007	1,516,545
2008	1,455,540
2009	1,455,540
2010	778,332
	$ 6,953,865

11. Financial Instruments

(a) Fair value

Financial instruments consist of cash and cash equivalents, accounts receivable, funds held in trust, accounts payable and accrued liabilities, customer deposits, Term Loan, 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. The Term Loan approximates its fair value due to the variable interest rate being charged.

(b) Credit risk

Coast is exposed to credit risk only with respect to uncertainties as to the timing of collectibility of accounts receivable. Coast mitigates credit risk through standard credit and reference checks.

(c) Hedging

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. The fair value of the hedge at December 31, 2005 is $258,673.

(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 (2%) in comparison to the overall purchases; therefore, Coast considers this risk to be low.

(e) Concentration risk

During the period ended December 31, 2005, purchases by Coast from its three largest suppliers totalled $41,310,387. At December 31, 2005 amounts payable to these suppliers included in accounts payable and accrued liabilities net of rebates receivable totalled $973,684.

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

12. Related Party Transactions

(a) Management and consulting services

Concurrent with the closing of the Offering, Coast entered into agreements with two of the three former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8) for management and consulting services at an annual fee of $30,000 each.

(b) Leases

Coast leases six of its branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and its four warehouses (Surrey, Vancouver, Victoria and Calgary) 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 year ended December 31, 2005 was $788,867. Each of these leases was modified as part of the 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.

(12. Related Party Transactions – continued)

(c) Funds held for designated use

As part of the acquisition agreement with Coast Ltd., leaseholds and equipment upgrades totalling $1,000,000 were to be completed by Coast Ltd. and delivered to the Fund prior to acquisition. As the leaseholds and equipment were not delivered prior to the acquisition, $1,000,000 was placed in trust as a holdback from the sale proceeds until completion by Coast Ltd. or December 31, 2005 at which time the $1,000,000 and any accrued interest would become cash of the Fund. At December 31, 2005, the $1,000,000 in the funds held in trust plus accrued interest of $13,314 became cash of the Fund.

13. Distributions

The Fund makes regular monthly distributions to Unitholders of record as of the last business day of each month. Distributions to Unitholders are calculated and recorded on the accrual basis. Distributions for the period ending December 31, 2005 are as follows:

(in thousands of dollars except per unit amounts)

Period	Record date	Payment date		Per Unit		Amount
June 2005	July 29, 2005	August 15, 2005	$	0.0233	$	152,033
July 2005	July 29, 2005	August 15, 2005		0.1000		652,500
August 2005	August 31, 2005	September 15, 2005		0.1000		652,500
September 2005	September 30, 2005	October 17, 2005		0.1000		652,500
October 2005	October 31, 2005	November 15, 2005		0.1000		652,500
November 2005	November 30, 2005	December 15, 2005		0.1000		652,500
December 2005	December 30, 2005	January 16, 2006		0.1000		652,500
			$	0.6233	$	4,067,033

14. Net Change in Non-Cash Working Capital

Accounts receivable	$	(2,107,017)
Inventory		(1,398,963)
Prepaid expenses		(12,445)
Accounts payable and accrued liabilities		(295,116)
Customer deposits		(657,851)
Deferred warranty revenue		138,182
	$	(4,333,210)

15. Segmented Information

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

16. Subsequent Events

(a) On February 15, 2006 the Fund paid its seventh distribution of $0.10 per Unit for the period from January 1, 2006 to January 31, 2006 to Unitholders of record of the Fund on January 31, 2006. On March 15, 2006, the Fund paid its eighth distribution of $0.10 per Unit for the period from February 1, 2006 to February 28, 2006 to Unitholders of record of the Fund on February 28, 2006. These distributions are consistent with the amount of the distributions contemplated by the Fund in its Prospectus of June 15, 2005. 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.

(b) On February 24, 2006, the Fund finalized a lease agreement for a new store in Calgary, Alberta. The lease commences on May 1, 2006 for a term of seven years with an initial monthly basic rent of $13,321. These amounts have not been reflected in Note 10.

Unitholder Information

Coast Wholesale Appliances Income Fund

Harlow B. Burrows
Trustee of the Fund,
President, CEO and a Director of
Coast Wholesale Appliances GP Inc.

Patrick B. Dennett
Trustee of the Fund,
Director of Coast Wholesale Appliances GP Inc.

Kevin C. Jardine
Trustee of the Fund,
Director of Coast Wholesale Appliances GP Inc.

Anthony L. Soda, CA
Trustee of the Fund,
Director of Coast Wholesale Appliances GP Inc.

Ian F. Thomas
Trustee of the Fund,
Director of Coast Wholesale Appliances GP Inc.

Investor Relations

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Auditors

Deloitte & Touche LLP
Vancouver, BC

Trust Units Listed

Toronto Stock Exchange
Trading Symbol: CWA.UN

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Coast Wholesale Appliances LP: Management

Harlow B. Burrows
President and Chief Executive Officer

Jack G. Peck
Vice President and Chief Financial Officer

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

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

Annual General Meeting

The Annual General Meeting of the
Coast Wholesale Appliances Income Fund
will be held at
The Fairmont Waterfront Hotel,
900 Canada Place Way,
Vancouver, BC
at 1:15 p.m. on Wednesday,
May 17th, 2006

Coast Wholesale Appliances | Income Fund

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