



Third Quarter
Report to
Unitholders



For the period
ended
September 30,
2005



PROFILE

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 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 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 branch locations; and,
3. Continue to enhance our profitability.

► To Our Unitholders

This report covers the three months ended September 30, 2005, which represents the third quarter of our 2005 fiscal year. For information purposes, we have included selected unaudited financial results for Coast Wholesale Appliances Ltd. (Coast Ltd.), the previous owner of the business of Coast Wholesale Appliances LP (Coast), for the same three months of 2004 and for its 2004 fiscal year, which ended February 28, 2005. Directly comparable quarterly information is not available as Coast Ltd. was privately held, had a different fiscal reporting calendar, and did not prepare quarterly reports for its shareholders.

On behalf of Coast Wholesale Appliances Income Fund, I am pleased to present our financial results for our first full quarter of operations as an income fund.

On June 23, 2005 we successfully completed our initial public 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 of the offering, 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. Coast sells to an established base of developer, builder and retail customers throughout Western Canada. The financial results of the Fund are entirely dependent on the operations of Coast.

The remaining 35% interest in Coast has been retained by Coast Ltd. 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.

Cash Distributions

During the three months ended September 30, 2005, the Fund declared monthly cash distributions of \$0.10 per unit for each of July, August and September.

For the period from the Fund's inception on June 23, 2005 to September 30, 2005, we earned \$3.8 million in distributable cash (before the 35% non-controlling interest), or \$0.38 per unit, and distributed and accrued for payment \$3.2 million, or \$0.32 per unit, to unitholders and the 35% non-controlling interest.

As we announced on October 19, 2005, the Board of Trustees approved a further distribution of \$0.10 per unit for the month of October. This distribution will be paid on November 15, 2005 to unitholders of record on October 31, 2005. We believe 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.

Operating Results

During the three months ended September, 30 2005, Coast generated sales of \$32.2 million. This is up by \$2.6 million from the \$29.6 million that was recorded by Coast Ltd. in the same three months of 2004. The 8.7% gain resulted from increased contract sales to developers and builders, as well as increased sales to retail customers and home renovators. This sales growth reflects the sustained strength of the housing market in Western Canada, and in particular the robust BC housing market, as well as the strong growth in the renovations market at all our branch locations.

Our cost of sales for the third quarter was \$24.7 million, or 76.7% of sales. As a percentage of sales, costs of sales for the three months was slightly higher than the 74.6% recorded by our predecessor business during its 2004 fiscal year. Our gross profit for the third quarter was \$7.6 million, representing a gross margin of 23.5%. By comparison, during its 2004 fiscal year, Coast Ltd. recorded a gross margin of 25.4%.

In keeping with previous years' results, we expect that our gross margin will increase in the final quarter of the year as we attain annual supplier volume targets and recognize annual rebate programs.

Our EBITDA for the third quarter was \$3.6 million, representing an EBITDA margin of 11.2%. By comparison, on a full-year basis, our predecessor business recorded an EBITDA margin of 12.9% for its

fiscal 2004. With our expected fourth quarter gross margin improvement, we anticipate that our EBITDA margin will improve in the final three months of 2005 for the reasons noted above.

Outlook

Across Canada, and particularly in the Western provinces, we continue to see healthy growth in housing starts and resale activity remains strong. Our sales for the final quarter of the year are tracking well against our expectations, and we are proceeding with plans to expand our coverage of the Alberta market. Currently, we are finalizing a lease on a second Calgary location. Over the next 18 months, we expect to open three other new branches in the west. At the same time, we will continue to explore other potential expansion opportunities with an eye to entering the eastern Canadian market.

We extend our appreciation to our unitholders for your investment in our business. We look forward to keeping you informed of new developments in our business.



Harlow B. Burrows

Trustee; President and Chief Executive Officer

▶ Management's Discussion and Analysis of Financial Condition and Operations

For the period ended September 30, 2005

This management's discussion and analysis has been prepared as at November 3, 2005. It should be read in conjunction with the Fund's unaudited interim consolidated financial statements and accompanying notes for the quarter ended September 30, 2005, which are presented elsewhere in this document. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and may not include all disclosures required by generally accepted accounting principles for annual financial statements. The Fund's fiscal year-end is December 31.

The Fund commenced operations on June 23, 2005, when we completed an initial public offering (the "Offering"), and the results of operations presented herein are for the period June 30, 2005 to September 30, 2005. For comparative purposes, where appropriate and to the extent available, we are providing results for Coast Wholesale Appliances Ltd. ("Coast Ltd."), which had a February 28 year-end, thus the 12-month period ending February 28, 2005.

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 the expectations of management regarding growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect current belief of management or of the third parties to which they are attributed and are based on information currently available to the Fund. In some cases these statements use such words as "may", "will", "intend", "should", "expect", "believe", "plan", "anticipate", "estimate", "predict", "potential" and "continue", or the negative of these terms or other such terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion or, in the case of third party

statements, as of the date on which they were made. 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; improvements to planning and supply chain processes; distribution operations; changes in consumer preferences; mix of product sales; same store sales; reliance on suppliers; lack of supplier agreements; reliance on key personnel; interest rates; and seasonality and fluctuations of results. 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. Additional information on these and other factors that could affect the Fund's operations or financial results is included in the Fund's reports on file with Canadian securities regulatory authorities at www.sedar.com.

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 management believes 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, management of the Fund views 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 Coast Ltd.'s or the Fund's performance. Similarly, these should not be seen as alternatives to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. For a reconciliation of EBITDA and adjusted EBITDA to net income presented in accordance with GAAP, see "Results of Operations for Coast" below.

Business 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. The Fund 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 the offering for net proceeds of \$61.8 million, after deducting expenses of the offering of \$3.5 million (net of future income taxes of \$1.9 million).

The Fund used the net proceeds from the offering, together with funds from the new credit facilities of \$19.8 million (net of \$0.2 million costs), to acquire our indirect interest in Coast for total consideration of \$81.6 million.

The acquisition of the Fund's interest in Coast has been accounted for using the purchase method and includes the results of operations of Coast Ltd. from the date of acquisition. A preliminary allocation of the purchase price to the fair value of the net assets acquired is as follows:

<i>Unaudited (in millions of dollars)</i>	
Net working capital	\$ 15.6
Property & equipment	2.4
Goodwill	76.7
Other intangible assets	20.8
Future income taxes	(0.7)
Non-controlling interest	(33.2)
Consideration, being cash from the Offering and new credit facilities	\$ 81.6

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 business 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.

Coast has utilized a \$20 million, three-year committed non-revolving loan. This term loan was made available for the financing of capital assets and working capital as part of the acquisition of Coast Ltd. A hedging strategy relating to the term loan was developed, designated, determined to be effective, documented 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 to fix the effective rate of interest rate 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.

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

Selected Financial Information

The following selected financial information has been derived from Coast's financial statements for the quarter ended September 30, 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 unaudited financial information for the predecessor

Table of Selected Financial Information:

Unaudited (in thousands of dollars)

Income Statement Data:	Quarter ending Sept. 30 2005 ⁽¹⁾	Period of June 23 to Sept. 30 2005 ⁽²⁾	Quarter ending Sept. 30 2004 ⁽³⁾	Year 2004 ⁽⁴⁾
Sales	\$ 32,239	\$ 35,804	\$ 29,590	\$ 110,189
Cost of sales	24,655	27,356	n/a ⁽¹¹⁾	82,154
Gross profit	7,584	8,448	n/a ⁽¹¹⁾	28,035
Selling, general & administrative expenses ⁽⁵⁾	4,601	5,042	n/a ⁽¹¹⁾	26,277
Net income before non-controlling interests	2,983	3,406	n/a ⁽¹¹⁾	111
Interest	237	259	n/a ⁽¹¹⁾	860
Taxes	18	78	n/a ⁽¹¹⁾	91
Depreciation and amortization	358	386	n/a ⁽¹¹⁾	696
EBITDA ⁽⁶⁾	3,596	4,129	n/a ⁽¹¹⁾	1,758
Adjustments to EBITDA:				
Non-recurring management bonuses ⁽⁷⁾	—	—	n/a ⁽¹¹⁾	12,180
Other non-recurring expenses ⁽⁸⁾	—	—	n/a ⁽¹¹⁾	279
Adjusted EBITDA ⁽⁶⁾	3,596	4,129	n/a ⁽¹¹⁾	14,217
EBITDA Margin ^{(6) (9)}	11.1%	11.5%	n/a ⁽¹¹⁾	12.9%
Balance Sheet Data: As at:	Sept. 30, 2005	February 28, 2005		
Working capital ⁽¹⁰⁾	\$ 16,151	\$ 14,746		
Total assets	132,900	38,885		
Total long term liabilities	20,000	16,628		

Notes:

- (1) Quarter ending September 30, 2005 for Coast.
- (2) Period of June 23 to September 30, 2005 for Coast.
- (3) Three months ending September 30, 2004 for Coast Ltd.
- (4) Year ending February 28, 2005 for Coast Ltd.
- (5) Selling, general and administrative expenses include warehousing expenses, interest, depreciation and amortization, and management bonuses.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) EBITDA margin for any period is the percentage of adjusted EBITDA to sales for such period.
- (10) 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..
- (11) The amounts that comprise these accounts are not available historically on a quarterly basis.

business of Coast Ltd. has been provided for the three months ending September 30, 2004 and for the 2004 fiscal year, which ended February 28, 2005.

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 financial 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 instruments are subject to credit risk, currency risk and concentration risk, as described in the interim financial statements presented elsewhere in this document.

As earlier noted, a hedging strategy relating to our term loan has been 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 management 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 management believes 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 September 30, 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 the 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. An evaluation of Coast's goodwill was performed as at June 30, 2005, and no adjustment for impairment was required.

Valuation of long-lived assets

Long-lived assets and certain identified recorded intangibles are reviewed by management for impairment annually, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its expected use and disposition. Recoverability of assets to be held and used is measured by comparing 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 is determined by measuring the amount by which the carrying amount of the assets exceeds their fair value. Assets designated for disposal are valued at the lower

of the carrying amount and the fair value, less costs to sell. An evaluation of Coast's long-lived assets and certain identified recorded intangibles was performed as at June 30, 2005, and no adjustment for impairment was 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 are accounted for as a reduction in the related inventory and cost of sales.

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 non-controlling interests 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 and 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 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 under these leases for the quarter ended September 30, 2005 was \$377,650, and for the period from June 23 to September 30, 2005 was \$410,786.

Included in the accounts payable and accrued liabilities balance of the financial statements is a total of \$560,005 in amounts due to Coast Ltd. relating to funds held in trust and amounts due from Coast Ltd. for the working capital adjustment outlined in the Fund's prospectus, reimbursement of offering costs and operational items paid on behalf of Coast Ltd. (see note 12 (c) of the financial statements). The amounts were measured at the exchange amount, which was the consideration agreed upon between the parties.

Results of Operations for Coast for the quarter ending September 30, 2005 and for the period from June 23 to September 30, 2005, compared to the three months ending September 30, 2004 for Coast Ltd.

Sales

Sales for the quarter ending September 30, 2005 were \$32.2 million, and for the period from June 23 to September 30, 2005 were \$35.8 million. For the three months, Coast's sales were up by \$2.6 million, or 8.7%, from the \$29.6 million recorded by Coast Ltd. in the same three months of 2004. The current year's sales growth came from increased contract sales to developers and builders as well as increased sales to retail customers. This sales growth was driven by the continued strength of the housing market in Western Canada, and in particular the robust British Columbia housing market.

Cost of sales

Cost of sales for the quarter ending September 30, 2005 was \$24.7 million, and for the period from June 23 to September 30, 2005 was \$27.4 million. Cost of sales for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available as Coast Ltd. was privately held, had a February 28th year-end, and did not prepare quarterly reports for its shareholders. Cost of sales as a percentage of sales for the year ending February 28, 2005 for Coast Ltd. was 74.6%. Cost of sales as a percentage of sales for the period from June 23 to September 30, 2005 was 76.4%.

Gross profit

Gross profit for the quarter ending September 30, 2005 was \$7.6 million, and for the period from June 23 to September 30, 2005 was \$8.4 million. Gross profit for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Gross profit as a percentage of sales ("gross margin") for the year ending February 28, 2005 for Coast Ltd. was 25.4%. Gross margin for the quarter ending September 30, 2005 was 23.5%. We expect that our gross margin in

the final quarter of 2005 will increase as we attain our annual supplier volume targets and recognize annual rebate programs. These margins and expected year-end increases are consistent with prior periods.

Selling, general & administrative and warehouse expenses

Selling, general and administrative and warehouse expenses (SG&A) for the quarter ending September 30, 2005 were \$4.0 million, and for the period from June 23 to September 30, 2005 were \$4.3 million. SG&A for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. SG&A as a percentage of sales (SG&A margin) for the year ending February 28, 2005 for Coast Ltd. was 12.8%. SG&A margin for the period from June 23 to September 30, 2005 was 12.1%. Bad debt expenses for the period from June 23 to September 30, 2005 were negligible.

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 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.

Adjusted EBITDA for the quarter ending September 30, 2005 was \$3.6 million, and for the period from June 23 to September 30, 2005 was \$4.1 million. Adjusted EBITDA for the three months ending September 30, 2004 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 year ending February 28, 2005 for Coast Ltd. was 12.9%. Adjusted EBITDA margin for the quarter ending September 30, 2005 was 11.2% and for the period from June 23 to September 30, 2005 was 11.5%. We expect this margin to increase in the final quarter of the year as we attain our annual supplier volume targets and recognize annual rebate programs.

Adjusted EBITDA

Unaudited (in thousands of dollars)

	<i>Quarter ending Sept. 30, 2005</i>	<i>Period of June 23 to Sept. 30, 2005</i>	<i>Year 2004 ⁽¹⁾</i>
Income before non-controlling interest	\$ 2,982	\$ 3,406	\$ 111
Interest	237	259	860
Taxes	18	78	91
Depreciation and amortization	356	386	696
Non-recurring management bonuses ⁽²⁾	—	—	12,180
Other non-recurring expenses ⁽³⁾	—	—	279
Adjusted EBITDA ⁽⁴⁾	3,593	4,129	14,217
EBITDA margin ^{(4) (5)}	11.2%	11.5%	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.

Net income before non-controlling interests

Net income before non-controlling interests for the quarter ending September 30, 2005 was \$3.0 million, and for the period from June 23 to September 30, 2005 was \$3.4 million. Net income before non-controlling interests for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Net income before non-controlling interests as a percentage of sales for the year ending February 28, 2005 for Coast Ltd. was 0.1%. Net income before non-controlling interests as a percentage of sales for the period from June 23 to September 30, 2005 was 9.5%. The significant difference is due to the management bonuses historically paid by Coast Ltd. as a private company.

Amortization

Amortization for the quarter ending September 30, 2005 was \$0.36 million, and for the period from June 23 to September 30, 2005 was \$0.39 million. Amortization for the three months ending September

30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Amortization for Coast includes amortization of identifiable intangibles, deferred financing costs, and property and equipment.

Provision for income taxes

The provision for income taxes for the quarter ending September 30, 2005 was \$0.02 million, and for the period from June 23 to September 30, 2005 was \$0.08 million. The provision for income taxes for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. The provision for income taxes for the year ending February 28, 2005 for Coast Ltd. was \$0.09 million.

Segmented Revenue

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

Sales by Geographic Location

Unaudited (in thousands of dollars)

	<i>Quarter ending Sept. 30, 2005</i>		<i>Period from June 23 to Sept. 30, 2005</i>		<i>Quarter ending Sept. 30, 2004⁽¹⁾</i>	
	<i>Sales</i>	<i>%</i>	<i>Sales</i>	<i>%</i>	<i>Sales</i>	<i>%</i>
British Columbia	\$ 19,717	61.2%	\$ 22,003	61.5%	\$ 16,916	57.2%
Prairie Region	12,521	38.8%	13,801	38.5%	12,645	42.8%

(1) Quarter ending September 30, 2004 for Coast Ltd.

Liquidity and Capital Resources

Cash flow from operating activities

Cash flow from operating activities for the quarter ending September 30, 2005 was \$3.7 million, and for the period from June 23 to September 30, 2005 was \$3.0 million. Cash flow from operating activities for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Cash flow from operating activities for the year ending February 28, 2005 for Coast Ltd. was \$(3.7) million.

Distribution to unitholders

Distributions to unitholders have been consistent at \$0.10 per unit per month for the period from June 23 to September 30, 2005. The accrued distribution payable to non-controlling interests was paid on October 17, 2005. The November 15, 2005 distribution of \$0.10 per unit has been declared for unit holders of record on October 31, 2005 (see table below).

Maintenance capital expenditures

Maintenance capital expenditures consist primarily of leasehold improvements, furniture and fixtures purchases, 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 September 30, 2005 were \$0.03 million.

Management estimates that, over the next five years, annual maintenance capital expenditures will average approximately \$0.4 million per year.

Contractual Obligations

Payments due by Period, as at September 30, 2005.

<i>Unaudited (in millions of dollars)</i>	<i>Term Loan</i>	<i>Operating Leases</i>
Less than 1 year	\$ —	\$ 1.8
1 to 3 years	20.0	3.4
4 to 5 years	—	2.9
After year 5	—	0.2
Total	\$ 20.0	\$ 8.4

Coast has borrowed \$20 million under the three-year committed 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 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. As earlier noted, 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

Distributions

<i>Period</i>	<i>Record date</i>	<i>Payment date</i>	<i>Per unit</i>	<i>Amount</i>
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
Total			0.3233	\$ 2,109,533

covering all assets of Coast, subject to the security provided to a major supplier (see note 7(c) of the financial statements).

Operating leases are in place for all premises. Total basic rent for the quarter ended September 30, 2005 was \$0.46 million, and for the period from June 23, 2005 to September 30, 2005 was \$0.50 million. Total basic rent for the three months ending September 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Total basic rent for the year ending February 28, 2005 for Coast Ltd. was \$1.5 million.

Working capital

Working capital as at September 30, 2005 was \$16.2 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 is available 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 not drawn upon during the period from June 23, 2005 to September 30, 2005.

Coast's principal source of liquidity is cash provided by operations and the new credit facilities. Management believes 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 September 30, 2005 were \$132.5 million. Total assets as at February 28, 2005 for Coast Ltd. were \$38.9 million. The difference is due to the goodwill and intangible assets totalling \$97.2 million that were not present in Coast Ltd.

Total cash as at September 30, 2005 was \$1.5 million. On October 17, 2005, distributions to unitholders and non-controlling interests totalled \$1.79 million. As noted above, the \$10 million operating loan was not

drawn upon during the period from June 23 to September 30, 2005.

Accounts receivable as at September 30, 2005 was \$13.6 million. Accounts receivable as at February 28, 2005 for Coast Ltd. was \$8.7 million.

Inventory as at September 30, 2005 was \$16.3 million. Inventory as at February 28, 2005 for Coast Ltd. was \$15.0 million. The increase in inventory levels since February 28, 2005 is primarily due to an increased volume of sales. In addition, inventory was higher due to special pricing incentives by suppliers and delivery schedule amendments made to accommodate current short-term project delays experienced by developers and builders.

The balance of property and equipment as at September 30, 2005 was \$2.4 million, net of amortization of \$0.09 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 Offering was \$20.8 million. The balance of identifiable intangibles as at September 30, 2005 was \$20.5 million, net of amortization of \$0.3 million for the period from June 23, 2005 to September 30, 2005. No impairment in value was identified by Coast.

The value determined for the goodwill acquired at June 23, 2005 as part of the Fund's initial public offering was \$76.7 million. The balance of identifiable goodwill as at September 30, 2005 remained unchanged at \$76.7 million, as no impairment in value was identified by Coast.

Total liabilities

Total liabilities as at September 30, 2005 were \$70.6 million, which includes \$33.3 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.

Customer deposits as at September 30, 2005 were \$3.2 million. Customer deposits as at February 28, 2005 for Coast Ltd. were \$2.2 million. We consider the increase in customer deposits to be reflective of the strong demand that exists for Coast's products.

Deferred warranty revenue as at September 30, 2005 was \$1.9 million. Deferred warranty revenue as at February 28, 2005 for Coast Ltd. was \$1.8 million.

Accounts payable and accrued liabilities as at September 30, 2005 were \$9.6 million. Included in this amount is \$560,005 due to Coast Ltd., the former owner

of the acquired business (see note 12 (c) of the financial statements). 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 earlier discussed, 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.

Subsequent Event

Subsequent to September 30, 2005, Coast appointed Steve Raben as Vice President, Sales and Marketing – Single Family. Mr. Raben has been employed by Coast and its predecessor business for over 16 years, most recently as manager of its branch and warehouse operations in Calgary, Alberta. In this position, Mr. Raben had responsibility for overseeing Coast's prairie operations. In conjunction with the appointment, Coast will incur a severance cost which will be recorded as an expense in the last quarter of the year. This amount will be paid to the former Vice President, Sales and Marketing – Single Family, in equal monthly amounts over the next 24 months. The majority of the severance cost will be offset by a contribution of \$500,000 from Coast Ltd., to be paid in equal monthly amounts over the same 24-month period.

Outlook

As we announced on October 19, 2005, the Fund will be making a distribution on November 15, 2005 of \$0.10 per unit to public unitholders of record as at October 31, 2005.

The market for major household appliances remains strong and management believes that Coast and the Fund are on track to meet our expectations in 2005. As indicated at the time of our initial public offering, we intend to open four new branches in Western Canada within our first two years of operating as a limited partnership. Currently, we are finalizing leasing arrangements for the first of these new branches, a

second Calgary location. New sales from this additional location and the others to follow will bolster our continued growth and strength in the western Canadian marketplace. At the same time, we plan to continue exploring other potential expansion opportunities with a view to entering the populous eastern Canadian market.

We expect that our gross margin in the final quarter of 2005 will increase as we attain our annual supplier volume targets and recognize annual rebate programs.

Management believes that the current credit facilities and our 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 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; dependence on key personnel; changes in labour relations; changes in product warranty costs; changes in tax legislation; and other factors as described under "Forward-looking Statements".

Notice: These Consolidated Interim Financial Statements have not been audited or reviewed by the auditors of Coast Wholesale Appliances Income Fund.

Interim Consolidated Balance Sheet

(Unaudited)

As at September 30, 2005

ASSETS

CURRENT

Cash	\$ 1,464,917
Funds held in trust	1,006,274
Accounts receivable (Note 3)	13,582,250
Inventory	16,349,931
Prepaid expenses	294,147

32,697,519

PROPERTY AND EQUIPMENT (Note 4)

2,359,329

DEFERRED FINANCING COSTS (Note 5)

176,930

GOODWILL (Note 1)

76,736,307

INTANGIBLE ASSETS (Note 6)

20,482,978

\$ 132,453,063

LIABILITIES

CURRENT

Accounts payable and accrued liabilities (Note 12(c))	\$ 9,629,751
Accrued distributions payable to Unitholders	652,500
Accrued distributions payable to non-controlling interests	1,134,513
Customer deposits	3,239,734
Deferred warranty revenue	1,890,121

16,546,619

TERM LOAN (Note 7(b))

20,000,000

FUTURE INCOME TAXES

768,000

NON-CONTROLLING INTEREST (Note 8)

33,269,840

70,584,459

UNITHOLDERS' EQUITY

Fund Units (Note 9)	61,763,010
Retained earnings	105,594

61,868,604

\$ 132,453,063

COMMITMENTS (Note 10)

Approved on behalf of the trustees

Harlow B. Burrows

Patrick B. Dennett

See accompanying Notes to the Unaudited Consolidated Interim Financial Statements

Interim Consolidated Statement of Income and Retained Earnings

(Unaudited)

	<i>For the three months ended Sept. 30, 2005</i>	<i>June 23, 2005 to Sept. 30, 2005</i>
SALES	\$ 32,238,888	\$ 35,804,154
COST OF SALES	24,655,214	27,355,532
GROSS PROFIT	7,583,674	8,448,622
EXPENSES		
Selling	2,006,465	2,195,729
General and administrative	1,141,078	1,215,105
Warehousing	841,920	908,772
Amortization:		
Property & equipment	83,333	88,435
Deferred financing costs	16,182	17,293
Intangible assets	257,163	280,022
Interest	237,531	258,951
	4,583,672	4,964,307
INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST	3,000,002	3,484,315
PROVISION FOR FUTURE INCOME TAXES	18,000	78,000
INCOME BEFORE NON-CONTROLLING INTEREST	2,982,002	3,406,315
NON-CONTROLLING INTEREST <i>(Note 8)</i>	1,042,806	1,191,188
NET INCOME	1,939,196	2,215,127
RETAINED EARNINGS, BEGINNING OF PERIOD	123,898	—
DISTRIBUTIONS PAID TO UNITHOLDERS	(1,457,033)	(1,457,033)
ACCRUED DISTRIBUTIONS TO UNITHOLDERS	(500,467)	(652,500)
RETAINED EARNINGS, END OF PERIOD	\$ 105,594	\$ 105,594
Basic and diluted earnings per unit	\$ 0.2972	\$ 0.3395
Weighted average number of Units outstanding	6,525,000	6,525,000

See accompanying Notes to the Unaudited Consolidated Interim Financial Statements

Interim Consolidated Statement of Cash Flows

(Unaudited)

	<i>For the three months ended Sept. 30, 2005</i>	<i>June 23, 2005 to Sept. 30, 2005</i>
OPERATING ACTIVITIES		
Net income	\$ 1,939,196	\$ 2,215,127
Items not involving cash:		
Amortization	356,678	385,750
Non-controlling interest	1,042,806	1,191,188
Future income taxes	18,000	78,000
	3,356,680	3,870,065
Change in non-cash working capital	340,429	(872,997)
	3,697,109	2,997,068
FINANCING ACTIVITIES		
Net proceeds from the issuance of units	—	61,763,000
Increase in bank indebtedness	—	20,000,000
Deferred financing costs	(44,223)	(194,223)
	(44,223)	81,568,777
INVESTING ACTIVITIES		
Acquisition of business <i>(Note 1)</i>	—	(81,613,000)
Acquisition of fixed assets	(30,905)	(30,905)
Distributions paid to unitholders	(1,457,033)	(1,457,033)
	(1,487,938)	(83,100,938)
NET CASH OUTFLOW	2,164,948	1,464,907
CHEQUES ISSUED IN EXCESS OF CASH ON HAND, BEGINNING OF PERIOD	(700,031)	10
CASH ON HAND, END OF PERIOD	\$ 1,464,917	\$ 1,464,917
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 237,927	\$ 258,951

See accompanying Notes to the Unaudited Consolidated Interim Financial Statements

► Notes to the Consolidated Interim Financial Statements

For the period ended
September 30, 2005

(Unaudited)

1. Nature of Operations

Coast Wholesale Appliances Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. The Fund commenced operations on June 23, 2005, when it completed an initial public offering (the "Offering") of Units and acquired a 65.03% 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 interest in the Business through an indirect acquisition of 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 the Offering for net proceeds of \$61,763,000, after deducting expenses of the Offering of \$3,487,000 (net of future income taxes of \$1,928,000).

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 \$81,613,000.

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

A preliminary allocation of the purchase price to the fair value of the net assets acquired is as follows:

Net working capital	\$ 15,600,000
Property & equipment	2,416,858
Goodwill	76,736,307
Other intangible assets	20,763,000
Future income taxes	(690,000)
Non-controlling interest	(33,213,165)
<hr/>	
Consideration, being cash from the Offering and new credit facilities	\$ 81,613,000

2. Significant Accounting Policies

These unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and may not include all disclosures required by generally accepted accounting principles for annual financial statements. These statements represent the balance sheet of the Fund as at September 30, 2005 and the results of its operations for the period from April 1, 2005 to September 30, 2005. It is impracticable to present prior period information on a comparative basis for the interim period in the immediately preceding financial year as Coast Ltd. was privately held, had a February 28th year end and did not prepare quarterly reports for its shareholders. These unaudited consolidated interim financial statements should be read in conjunction with the financial statements included in the prospectus of the Fund dated June 15, 2005 (the "Prospectus").

(a) Basis of presentation

These unaudited consolidated interim 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 unaudited consolidated interim 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 unaudited consolidated interim 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, future income taxes, amounts of accrued receivables and amounts of accrued liabilities. 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) Property and equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is determined at the following annual rates using the declining-balance method over the estimated useful lives of the assets:

Computer hardware	30%
Computer software	100%
Service vehicles	30%
Furniture and fixtures	20%
Equipment	20%

Leasehold improvements are amortized using the straight-line method over the term of the lease plus the first renewal period.

(e) Deferred financing costs

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

(f) Intangible assets

Certain identifiable intangible assets are carried at cost less accumulated amortization. Amortization is determined 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 certain identifiable recorded intangibles, including the Coast brand name, 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.

(g) Goodwill

Goodwill is recorded at cost and not amortized. Goodwill is reviewed for impairment 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 asset exceeds the fair value of the asset.

(h) Foreign currency translations

The monetary assets and liabilities of Coast that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Transactions in foreign currencies are translated in Canadian dollars at the rates of exchange at the date of the transaction. Exchange gains and losses arising on translation are included in the statement of income.

(i) 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.

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 revenues 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

Coast follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs. To the extent that Coast does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(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 convertible securities would not have a dilutive effect on earnings per Unit, diluted and basic earnings are the same amount.

3. Accounts Receivable

Accounts receivable - trade	\$ 10,853,607
Supplier rebates and other	2,718,643
Deposits	10,000
	<u>\$ 13,582,250</u>

4. Property and Equipment

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net Book Value</i>
Computer software	\$ 237,615	\$ 3,658	\$ 233,957
Computer hardware	613,209	34,577	578,632
Service vehicles	270,800	1,011	259,789
Furniture and fixtures	88,314	2,404	85,910
Equipment	305,108	8,232	296,876
Leasehold improvements	932,718	28,553	904,165
	\$ 2,447,764	\$ 88,435	\$ 2,359,329

5. Deferred Financing Costs

Costs associated with obtaining the Credit Facilities (*Notes 7(a) and 7(b)*) are being amortized on a straight-line basis over three years.

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net Book Value</i>
Deferred financing costs	\$ 194,223	\$ 17,293	\$ 176,930

6. Intangible Assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net Book Value</i>
Coast brand name	\$ 3,369,000	\$ –	\$ 3,369,000
Supplier relationships	3,129,000	42,589	3,086,411
Customer backlog at acquisition	1,262,000	114,515	1,147,485
Customer relationships – builder/developer	10,060,000	91,285	9,968,715
Customer relationships – property managers	1,900,000	17,240	1,882,760
Retail customer list	478,000	6,506	471,494
Favourable leases	565,000	7,887	557,113
	\$ 20,763,000	\$ 280,022	\$ 20,482,978

7. Credit Facilities

(a) Operating Loan

Coast has available a \$10,000,000 3-year committed revolving loan (the "Operating Loan"). The Operating Loan is available 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.

(b) Term Loan

Coast has utilized a \$20,000,000 3-year committed non-revolving loan (the "Term Loan"). The Term Loan was made available for the financing of capital assets and

working capital as part of the Acquisition. 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. 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.

(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 \$2,310,828 as at September 30, 2005.

8. Non-Controlling Interest*(a) Coast Exchangeable Units
(the "Exchangeable Units")*

Retained interest in Coast	\$ 33,213,165
Interest in post-acquisition earnings	1,191,188
Accrued distributions payable to non-controlling interests	(1,134,513)
	\$ 33,269,840

The accrued distributions were paid to the non-controlling interests on October 17, 2005.

Coast Ltd. (*Note 1*) has retained a 34.97% interest in Coast through ownership of the Exchangeable Units. The Fund owns a 65.03% interest in Coast through ownership of the Class A LP Units.

The Class A LP Units and the Exchangeable Units (collectively, the "Coast Partnership Units") have economic and voting rights that are equivalent 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") (based upon the audited consolidated financial statements of the Fund); and
- 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.

Distributions are to be made monthly on the Class A LP Units equal to \$0.10 per Unit to the extent that cash is available to make the distributions (*see Note 13*). 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

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 (exclusive of common area maintenance costs):

October 1, 2005 to September 30, 2006	\$ 1,785,069
October 1, 2006 to September 30, 2007	1,750,655
October 1, 2007 to September 30, 2008	1,685,802
October 1, 2008 to September 30, 2009	1,674,360
October 1, 2009 to September 30, 2010	1,249,121
	\$ 8,145,007

11. Financial Instruments

(a) Fair value

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits, and accrued distributions payable to Unitholders, 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 consolidated interim financial statements.

(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.

(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 quarter ending September 30, 2005, purchases by Coast from its three largest suppliers totalled \$30,359,019 (for the period from June 23 to September 30, 2005 it totalled \$33,070,394). At September 30, 2005, amounts payable to these suppliers included in accounts payable and accrued liabilities totalled \$4,082,781.

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 shareholders of Coast Ltd. (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 shareholders of Coast Ltd. (see Note 8). The total amount paid for the quarter ended September 30, 2005 was \$377,650 and for the period June 23 to September 30, 2005 was \$410,786. 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 parties.

(c) Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a total of \$560,005 relating to amounts due to Coast Ltd. relating to the funds held in trust and amounts due from Coast Ltd. relating to the working capital adjustment as outlined in the Prospectus, reimbursement of Offering costs and operational items paid on behalf of Coast Ltd. (the former owner of the acquired Business) by Coast. This entity is currently affiliated with the former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8).

Due from Coast Ltd. for working capital and reimbursement of costs	\$ 446,912
Due to Coast Ltd. for funds held in trust	1,006,917
Total due to Coast Ltd.	\$ 560,005

13. DISTRIBUTIONS

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. The accrued distributions payable to the non-

controlling interest in the amount of \$1,134,513 was paid on October 17, 2005. Distributions to unitholders are calculated and recorded on the accrual basis. Distributions for the period ending September 30, 2005 are as follows

<i>Period</i>	<i>Record date</i>	<i>Payment date</i>	<i>Per unit</i>	<i>Amount</i>
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
Total			\$ 0.3233	\$ 2,109,533

14. SUBSEQUENT EVENTS

- (a) On October 19, 2005, the Fund announced its fourth distribution of \$0.10 per Unit for the period from October 1, 2005 to October 31, 2005, to be paid November 15, 2005 to Unitholders of record of the Fund on October 31, 2005. This distribution is 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) Subsequent to September 30, 2005, Coast appointed a new Vice President, Sales and Marketing – Single Family. Coast will incur a severance cost which will

be recorded as an expense in the last quarter of the year. This amount will be paid to the former Vice President, Sales and Marketing – Single Family, in equal monthly amounts over the next 24 months. The majority of the severance cost will be offset by a contribution of \$500,000 from Coast Ltd., to be paid in equal monthly amounts over the same 24-month period.

UNITHOLDER INFORMATION

Coast Wholesale Appliances Income Fund

Harlow 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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Deloitte & Touche LLP
Vancouver, BC

Trust Units Listed

Toronto Stock Exchange
Trading Symbol: **CWA.UN**

Registrar and Transfer Agent

Computershare Trust Company of Canada

Coast Wholesale Appliances LP

Management

Harlow B. Burrows

President and Chief Executive Officer

Jack Peck

Vice President and Chief Financial Officer

William L. Smith

Vice President, Sales and Marketing – Multi-Family

Steve Raben

Vice President, Sales and Marketing – Single-Family



Head Office

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