Coast Wholesale Appliances Income Fund

Third Quarter
Report to Unitholders

Nine Months Ended
September 30, 2006

Coast Wholesale Appliances | Income Fund

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 13 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.

To Our Unitholders

This report covers the three and nine-month periods ended September 30, 2006. The three-month period represents the third quarter of the fund's 2006 fiscal year and is our fifth full quarter of operations. 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 for the nine-month period as Coast Ltd. was privately held and had a February 28 year-end.

On behalf of the Board of Trustees of Coast Wholesale Appliances Income Fund, I am pleased to report that we continue to deliver strong revenue growth, in both our retail sales, and our contract sales to developers and builders.

Our fund entered the public arena on June 23, 2005 following the successful completion of our initial public offering. 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 in Western Canada. Our financial results are entirely dependent on the operations of Coast.

The remaining 35% interest has been 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 IPO and are subject to the fund meeting certain EBITA and cash distribution targets.

Operating results

Our revenue growth in the first nine months of 2006 was in line with our expectations and continued to be fueled by the strong western Canadian housing market, particularly in Alberta and the other Prairie provinces.

In the third quarter, we generated sales of $34.7 million, up by $2.5 million, or 7.6%, from the $32.2 million we reported in the same period of 2005, with same store sales growth of 6.7%. Coast's revenues for both August and September reached record levels, respectively the highest and second highest monthly sales ever posted in our 28 years of operation. Our retail sales for the three months were up by 8.4% year-over-year, while our contract sales to developers and builders rose by 6.7% over the same period of 2005. In our Prairie region, sales were positively impacted by the opening of our thirteenth branch, a second Calgary location, in July 2006.

During the first nine months of the year, our sales grew by $7.5 million, or 8.7%, to $93.2 million from $85.7 million in the same period of 2005. The new, higher-margin product lines we added to our core offerings early this year accounted for more than 2% of our year-to-date revenue. Same store sales increased by 8.4% in the nine months, with 11 of our 12 existing branches achieving year-over-year sales gains. The exception was Vancouver, where our contract business continued to lag as a result of ongoing labour shortages that delayed completion of some construction projects. We expect these delayed sales to be realized in the first quarter of 2007. Our contract sales for the nine months grew by 11.3% year-over-year, while our retail sales were up by 6.3%. Revenues for the period were approximately evenly divided between the two business segments.

Coast's cost of sales for the third quarter was $26.0 million, or 74.9% of sales, which resulted in a gross profit of $8.7 million, or 25.1 % of sales. This compares favourably to the 23.5% gross profit margin we reported in the third quarter of 2005.

For the nine months ended September 30, 2006, our costs of sales was $70.1 million, or 75.3%, resulting in a gross profit of $23.1 million, or 24.7% sales. This profit margin was down from the 25.6% we recorded for our partial 2005 fiscal year (June 23 to December 31, 2005), as well as the 25.4% recorded by the predecessor business for its 2004 fiscal year. The difference between the nine-month and fiscal year margins is due mainly to the positive impact of annual supplier rebate programs on our annual margins. These volume-dependent rebates are not recognized until the fourth quarter of the year.

Cash distributions

During the three months ended September 30, 2006, we declared monthly cash distributions of $0.10 per unit for each of July, August and September. In total, we earned $4.0 million in distributable cash before the non-controlling interest, or $0.40 per unit. This compares to $3.3 million, or $0.33 per unit, in the third quarter of 2005. In both quarters, the amount distributed and accrued for payment to unitholders and the non-controlling interest remained consistent at $3.0 million, or $0.30 per unit. Our payout ratio for the third quarter of 2006 was 75.5%, compared to 90.5% in 2005.

Distributable cash for the first nine months of 2006 was $9.3 million, or $0.92 per unit, and the Fund distributed and accrued for payment $9.0 million, or $0.90 per unit, to unitholders and the non-controlling interest. This represented a payout ratio of 97.5%.

On a 12-month trailing basis, from October 1, 2005 to September 30, 2006, we earned $12.8 million in distributable cash before the non-controlling interest, or $1.27 per unit. During the 12 months, $12.0 million, or $1.20 per unit, was distributed and accrued for payment to unitholders and the non-controlling interest, representing a payout ratio of 94.3%. All distributions to the subordinated unitholders have been accrued and paid in full up to September 30, 2006.

Outlook

As we proceed through the seasonally stronger second half of the year, we remain confident that the ongoing cash flow from Coast's operations will be sufficient to enable the fund to sustain monthly distributions of $0.10 per unit, as estimated at the time of our initial public offering on June 15, 2005.

Looking ahead to 2007, we expect continued, steady sales growth from our existing stores as well as incremental sales gains as a result of our ongoing expansion in Alberta.

We are on track with our plans to open our second Edmonton branch and our first Red Deer store late in the fourth quarter, both of which we expect to be profitable within four to six months of opening. We are also moving forward with our plans to develop a new location to replace our existing Edmonton store, targeted to open by late 2007.

In the months to come, we will continue to take advantage of the opportunities that exist to grow our business. The market for major household appliances remains strong and we intend to capitalize on the buoyant western Canadian economy by continuing to increase our geographic coverage, in both Alberta and BC. At the same time, we are continuing to evaluate the longer term potential for entering the eastern Canadian market, possibly through an acquisition. In the meantime, we are working to enhance our profitability by refining and adding to our product offerings, and by finding new ways to improve our operating efficiency.

Proposed tax changes

On October 31, 2006, the federal government announced proposed changes to the way income trusts will be taxed. Under the proposed changes, distributions that are currently paid out and taxed in the hands of unitholders would first be taxed at the trust level at a special rate, based on the federal/provincial income tax rate. The net amount would then be paid out to unitholders, where it would be taxed as taxable dividends paid by a Canadian corporation. If passed into legislation, these changes will come into effect in 2011 for existing income funds such as ours. We are currently analyzing the potential impact of the government's proposed changes on the fund. Based on the information currently available, we do not anticipate that these proposed changes will have any effect on our current distribution policy.

In closing, on behalf of Coast Wholesale Appliances Income Fund, I am pleased to officially welcome Kenneth Crump as chairman of our board of trustees and chairman of Coast. We extend our thanks to Kevin Jardine for fulfilling this role during the Fund's inaugural year.

We also extend our heartfelt appreciation to our employees, our suppliers, our customers and our unitholders for your continued support of 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, 2006

This management's discussion and analysis has been prepared as of November 1, 2006. It should be read in conjunction with the fund's unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2006, 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 January 1, 2006 to September 30, 2006. 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.

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; maintenance of profitability and management of 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 EBITA, Adjusted EBITA and Non-GAAP Measures

References to "EBITA" are to earnings before interest, taxes and amortization. References to "adjusted EBITA" are to EBITA 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 the predecessor business, Coast Wholesale Appliances Ltd. (Coast Ltd.). The term "EBITA margin" refers to the percentage that adjusted EBITA 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 EBITA and adjusted EBITA 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, EBITA and adjusted EBITA are useful supplemental measures from which to make adjustments to determine distributable cash.

EBITA, adjusted EBITA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITA, adjusted EBITA and distributable cash may not be comparable to similar measures presented by other entities. Readers are cautioned that EBITA, adjusted EBITA 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 EBITA. For a reconciliation of EBITA and adjusted EBITA 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 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.

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 13 branch locations in Western Canada, including a second Calgary branch opened in July 2006, and four warehouse distribution locations. We expect to open our second Edmonton, Alberta store and a new store in Red Deer, Alberta late in the fourth quarter of this year, bringing the total number of branches to 15.

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.
- 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 can 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 features 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 with our customers. Our sales associates function as part of the development team and visit the developer's office or jobsite to help determine their exact requirements, and then schedule delivery and installation in step with the planned completion date. In selling to retail customers, we focus on educating them about the differences between models, and helping them choose the product best suited to their needs and budget.
- Strong supplier relationships – With 13 branches, Coast enjoys substantial purchasing power. We also benefit from strong, collaborative supplier relationships, forged over 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, especially in BC and Alberta
- Expanding house sizes

- Growth in home renovation activity
- Heightened focus on the family and home décor
- 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

Seasonality

While we have levelled the fund's monthly distributions to provide a steady stream of income to unitholders, sales of our products are subject to seasonal fluctuations that follow our customers' building activities. The first quarter is our slowest, accounting for 21% to 22% of annual sales, and the third quarter is our strongest, representing 27% to 28% of sales. The second and fourth quarters are approximately equal, accounting for 25% to 26% of sales.

Selected Financial Information

The following selected financial information has been derived from Coast's unaudited consolidated interim financial statements for the nine months ended September 30, 2006. We are unable to provide directly comparative information for the same period of 2005 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 unaudited financial statements and accompanying notes presented elsewhere in this document. For reference purposes only, selected unaudited financial information for our predecessor business, Coast Ltd., for the period from January 1, 2005 to June 22, 2005 has been combined with Coast's results for June 23, 2005 to September 30, 2005 to provide nine-month comparable financial information.

For the three months ended September 30, 2006, which represents the third quarter of the fund's 2006 fiscal year, Coast's sales revenues of $34.7 million were up by $2.5 million, or 7.6%, from the $32.2 million we reported for the same period in 2005. Revenues for August and September reached the highest and second highest monthly levels ever recorded in our 28 years of operation. Our third quarter retail sales grew by 8.4% year-over-year, while contract sales to developers and builders increased by 6.7%. In our Prairie region, sales for the three months increased by 15.6% over the prior year. In BC, sales increased by 2.5%. The lower increase in BC is discussed under Sales below.

For the nine months ended September 30, 2006, overall sales grew by 8.7%, to $93.2 million from the $85.7 million generated in the same period of 2005 (based on combined results for Coast Ltd. for the period from January 1 to June 22, 2005 and Coast for the period from June 23 to December 31, 2005). Contract sales for the nine months were up by 11.3% year-over-year, while retail sales grew by 6.3%. Overall sales in our Prairie region for the nine months were up by 16.4%, and BC sales improved by 3.8%.

Our gross margin for the third quarter of 2006 increased to 25.1% from 23.5% in the same three months of 2005. The current quarter result also compares favourably to the 24.0% and 25.0% gross margins we respectively recorded in the first and second quarters of 2006.

For the first nine months of 2006, our gross margin of 24.7% was down from the 25.6% we recorded during the period from June 23 to December 31, 2005, which represents the fund's 2005 fiscal year. The variation is mainly attributable to the recognition of certain volume-dependent annual supplier rebates in the fourth quarter. In addition, in the third quarter of 2006, we experienced a slight shift in our business mix in favour of contract sales, which generate lower margins than our retail business. Our 2006 margins were also slightly affected by higher credit-card fees as a result of increased use of credit cards by our customers following our elimination of "cash on delivery" terms on January 1, 2006.

Our EBITA margin for the third quarter of 2006 was 12.5%, up from 11.2% in the same period of 2005. The increase was due to the 1.6% increase in gross margin noted above, offset somewhat by the increased expenses discussed below.

For the 2006 nine-month period, our EBITA margin of 11.1% was down from both the 12.2% we attained in our 2005 fiscal year and the 12.9% adjusted EBITA margin that was recorded by Coast Ltd. for its fiscal year ended February 28, 2005. The difference between the Coast Ltd. adjusted EBITA margin and the fund's fiscal 2005 EBITA margin is primarily due to the incremental costs that are incurred by Coast as a public company. The reduction in EBITA margin in the current nine-month period is mainly due to the period's reduced gross margin, as discussed above.

Selected Financial Information (Continued)

Income Statement Data

	Coast				Coast Ltd.
(in thousands of dollars)	3 months ended Sept. 30 2006	3 months ended Sept. 30 2005	9 months ended Sept. 30 2006	Period June 23 to December 31 2005	Year ended February 28 2005
Sales	$ 34,674	$ 32,239	$ 93,193	$ 66,629	$ 110,189
Cost of sales	25,957	24,655	70,107	49,583	82,154
Gross profit	8,717	7,584	23,086	17,046	28,035
Selling, general & administrative expenses (1)	5,338	4,602	15,547	10,744	27,924
Net income before non-controlling interests	3,379	2,982	7,539	6,302	111
Interest	214	238	696	505	860
Taxes		18			91
Amortization	750	357	2,104	1,312	696
EBITA (2)	4,343	3,595	10,339	8,119	1,758
Adjustments to EBITA:					
Non-recurring management bonuses (3)					12,180
Other non-recurring expenses (4)					279
Adjusted EBITA (2)	4,343	3,595	10,339	8,119	14,217
EBITA margin (2) (5)	12.5%	11.2%	11.1%	12.2%	12.9%

Balance Sheet Data

	Coast		Coast Ltd.
As at *(in thousands of dollars)*	September 30 2006	December 31 2005	Year ended February 28 2005
Working capital (6)	$ 16,881	$ 17,083	$ 14,746
Total assets	128,516	125,677	38,885
Total long-term liabilities	20,160	20,000	16,628

Notes:

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

(2) *See "Definition of EBITA, Adjusted EBITA and Non-GAAP Measures". Adjusted EBITA is EBITA adjusted to remove non-recurring items. EBITA and adjusted EBITA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITA and adjusted EBITA 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) *EBITA margin for any period is the percentage of adjusted EBITA 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, customer deposits, bank operating line and cheques issued in excess of funds on deposit at such time.*

Summary of Quarterly Results

For the quarters ended:

	2006			2005		
(in thousands of dollars except per unit)	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30
Sales	34,674	30,802	27,717	30,825	32,239	3,565
Gross profit	8,716	7,709	6,660	8,597	7,584	865
Gross profit percentage	25.1%	25.0%	24.0%	27.9%	23.5%	24.3%
Net income after non-controlling interest	2,197	1,507	1,199	1,883	1,939	276
Basic and diluted net income per unit	0.337	0.231	0.184	0.289	0.297	0.042

Results of Operations for Coast for the three and nine months ended September 30, 2006 compared to the three months ended September 30, 2005, the fiscal year ended December 31, 2005 and the fiscal year ended February 28, 2005 for Coast Ltd.

Sales

Sales for the quarter ended September 30, 2006 were $34.7 million, up by $2.5 million, or 7.6%, from the $32.2 million we recorded in the third quarter of 2005. Our revenues were positively impacted by the opening of our second Calgary store in July 2006, while sales for same stores increased by 6.7%.

Coast's third quarter retail sales increased by 8.4% year-over-year, while contract sales to developers and builders increased by 6.7%. In our Prairie region, which now includes six branches, three-month sales were up by 15.6% over the 2005 level, with same store sales growth of 13.3%. In BC, where Coast operates seven branches, sales increased by 2.5%.

For the nine months ended September 30, 2006, sales grew by 8.7% to $93.2 million from the $85.7 million generated in the first nine months of 2005, with same store sales growth of 8.4%. The improvement was largely driven by the continued strong housing market in Western Canada, with the greatest gains experienced in our Prairie region, where nine-month sales grew by 16.4% year-over-year with same store sales growth of 15.6%. This compares to sales growth in BC of 3.8% for the nine months.

For the nine-month period, all stores were ahead in sales compared to the same period of the prior year, with the exception of Vancouver, where sales decreased by 5.8%. In this market, our contract business with developers of large multi-family properties lagged as a result of project delays caused by ongoing labour shortages in some construction trades. For our remaining six BC stores, combined sales were up by 10.2% year-over-year for the nine months. In Vancouver, while our nine-month multi-family contract business was down by 24.6% over 2005, our single-family contract sales and retail sales were collectively up by 8.4%. Our multi-family contract business fluctuates from year to year as the completion of these large projects can swing from one year to the next. In the nine months of 2005, our multi-family sales were up by 21.3% over the prior year as we benefited from a significant increase in construction completions in the Vancouver area. Overall for the nine months of 2006, our contract sales were up by 11.3% compared to 2005, and retail sales were up by 6.3%.

As a result of the proportionate increase in our contract sales, our business mix shifted to an even split between contract and retail sales. By comparison, in the first nine months of 2005, contract business accounted for 48% of our sales and retail business for 52%.

During the first nine months of 2006, BC accounted for 58% of our sales, compared to 61% of sales in the fund's partial 2005 fiscal year (June 23 to December 31, 2005), and 60% of sales in the same nine months 2005, with the balance in all periods coming from the Prairie region.

New, higher-margin product lines added to our core offerings early in 2006 accounted for more than 2% percent of the year-to-date revenue. These innovative products are helping us to increase sales to the higher end of the multi-family sector.

Cost of sales and gross profit

Cost of sales for the three months ended September 30, 2006 was $26.0 million, or 74.9% of sales. This resulted in a gross profit of $8.7 million, or 25.1% of sales. For the comparable three-month period of 2005, cost of sales was $24.7 million, or 76.5% of sales, providing a gross profit of $7.6 million, or 23.5% of sales.

For the nine months ended September 30, 2006, cost of sales was $70.1 million, or 75.3% of sales, resulting in a gross profit of $23.1 million, or 24.7% of sales. By comparison, gross profit as a percentage of sales for the fiscal year ended December 31, 2005 and for the year ended February 28, 2005 for Coast Ltd. was 25.6% and 25.4%, respectively. The difference between the nine-month and fiscal gross margins is due to several factors:

- The nine-month gross margin does not reflect the impact of annual volume-dependent supplier rebates, which we recognize in the fourth quarter of each year. In 2005, these rebates increased our gross margin by approximately 0.7%. The rebates will have a lesser impact in fiscal 2006 as they will be averaged over a full year of revenue, compared to the partial year in 2005.
- In the 2006 nine-month period, we experienced a slight proportionate shift in our business mix in favour of contract sales to developers and builders, which generate a lower margin than our retail sales. This reduced our gross margin by about 0.2%.
- With our elimination of "cash-on-delivery" terms on January 1, 2006, we have experienced increased credit-card usage by our customers. The associated increase in credit card fees reduced our gross margin in the first nine months of the year by approximately 0.1%.

Expenses

Selling, warehouse, facility, and general and administrative expenses (SG&A) for the three months ended September 30, 2006 were $4.4 million, or 12.6% of sales. This compares to SG&A expenses of $4.0 million, or 12.4% of sales, for the same three months of 2005. The difference is due to the following factors:

- Selling expenses remained at a consistent 6.2% of revenue, but were $0.1 million higher than in the same quarter of 2005 due to the year-over-year revenue increase.
- General and administrative expenses increased by $0.1 million, due mainly to increased costs for office supplies, professional fees and miscellaneous expenses over the prior year.
- Facility costs increased by $0.1 million as a result of costs related to the start-up of our new Calgary and Edmonton stores.

For the first nine months of 2006, SG&A expenses totalled $12.7 million, or 13.7% of sales. As a percentage of sales, this was slightly higher than the 13.4% we recorded for the period from June 23 to December 31. 2005. The difference is mainly attributable to the seasonality of our sales revenue. Comparative SG&A for Coast Ltd. cannot be determined as the information was not available.

Adjusted EBITA

EBITA is not a recognized measure under GAAP and does not have standardized meanings prescribed by GAAP (see "Definition of EBITA, Adjusted EBITA and Non-GAAP Measures" above). The following table provides a reconciliation of income before non-controlling interests to adjusted EBITA.

(in thousands of dollars)	Coast 3 months ended September 30 2006	Coast 3 months ended September.30 2005	Coast 9 months ended September 30 2006	Coast Period June 23 to December 31 2005	Coast Ltd. Year ended February 28 2005
Income before non-controlling interest	$ 3,379	$ 3,000	$ 7,539	$ 6,302	$ 111
Interest	214	238	696	505	860
Taxes					91
Amortization	750	357	2,104	1,312	696
Non-recurring management bonuses (1)					12,180
Other non-recurring expenses (2)					279
Adjusted EBITA (3)	4,343	3,595	10,339	8,119	14,217
EBITA margin (3) (4)	12.5%	11.2%	11.1%	12.2%	12.9%

(1) 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.

(2) 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.

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

(4) EBITA margin for any period is the percentage of adjusted EBITA to sales for such period.

Adjusted EBITA for the three and nine months ended September 30, 2006 was $4.3 million and $10.3 million, respectively. Adjusted EBITA for the three months ended September 30, 2005 was $3.6 million. Comparative adjusted EBITA for Coast Ltd. cannot be determined on a quarterly basis as the information was not available.

Adjusted EBITA as a percentage of sales (adjusted EBITA margin) was 12.5% for the third quarter and 11.1% for the nine months ended September 30, 2006. Adjusted EBITA margin for the third quarter of 2005 was 11.2%, while the comparable nine month's adjusted EBITA margin cannot be determined. For the fiscal year ended December 31, 2005, Coast's adjusted EBITA margin was 12.2%. This compares to 12.9% for the year ended February 28, 2005 for Coast Ltd.

The difference in the adjusted EBITA 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. The reduced EBITA margin in the current quarter and year-to-date is mainly due to the reduced margin discussed above

Net income before non-controlling interests

Net income before non-controlling interests for the three months ended September 30, 2006 was $3.4 million, compared to $3.0 million for the same period of 2005.

As a percentage of sales, net income before non-controlling interests was 9.7% for the quarter, up from 9.3% in the same three months of 2005. For the nine months ended September 30, 2006, net income before non-controlling interests as a percentage of sales was 8.1%, which was down from 9.5% in the fiscal year ended December 31, 2005. The reduction is due to the margin differential discussed above and the current year's slightly higher operating expenses, as well as the seasonality of our business.

Amortization

Amortization for the three months ended September 30, 2006 was $0.7 million, compared to $0.4 million in the same period in 2005. The amortization in the three months ended September 30, 2005 was lower as the final valuations for goodwill and intangible assets were not completed until the fourth quarter of the year. Amortization for Coast includes amortization of identifiable intangibles, deferred financing costs, and property and equipment.

Amortization for the nine months ended September 30, 2006 was $2.1 million.

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:

(in thousands of dollars)	3 months ended September 30 2006	3 months ended September 30 2005	9 months ended September 30 2006	9 months ended September 30 2005 (1)
British Columbia	$ 20,270	$ 19,778	$ 54,055	$ 52,092
Prairie Region	14,404	12,461	39,138	33,625
Total	$ 34,674	$ 32,239	$ 93,193	$ 85,717
British Columbia	58%	61%	58%	61%
Prairie Region	42%	39%	42%	39%

(1) *Financial information for Coast Ltd for the period January 1 to June 22, 2005 combined with Coast's results for the period from June 23 to September 30, 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 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.

To fix the interest rate on our $20-million term loan, a hedging strategy was established and a hedge was executed on July 28, 2005. This interest rate swap transaction fixed the effective rate of interest on the term loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes and amortization, calculated on a quarterly basis, until June 23, 2008. The fair value of the hedge as at September 30, 2006 was $0.2 million, compared to $0.3 million at December 31, 2005.

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. 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 a sales arrangement is entered into, 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 three and nine-month periods ended September 30, 2006.

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 adjustment for impairment was required.

Valuation of long-lived assets

We review long-lived assets and certain identified recorded intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from 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 9 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. These agreements expired on June 30, 2006.

We lease six branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and three of our four warehouses (located in Vancouver, Victoria and Calgary) from a company affiliated with the three former principal shareholders (see note 9 of the financial statements). We recently vacated the Surrey warehouse leased from the former principal shareholders and moved to a new warehouse facility in Burnaby. For the three and nine-month periods ended September 30, 2006, the amounts paid under these leases were $0.4 million and $1.1 million, respectively. 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.

Liquidity and Capital Resources

Cash flow from operating activities

Cash flow from operating activities for the three months ended September 30, 2006 was $2.0 million. For the first nine months of 2006, cash flow from operating activities was $6.9 million. Comparative cash flow for the third quarter 2005 was $3.7 million, while 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 December 31, 2005 was $3.3 and for the 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. For the nine months ended September 30, 2006, distributions were $0.90 per unit, totalling $5.9 million. Distributions have remained consistent at $0.10 per unit per month since the fund's inception, totalling $9.9 million for the period from June 23, 2005 to September 30, 2006. The accrued distributions payable to unitholders and non-controlling interests at September 30, 2006 were paid October 16, 2006.

Of the distributions paid in 2005, 72% represented taxable income to the unitholders and 28% a return of capital which 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
January 2006	January 31, 2006	February 15, 2006	$ 0.10	$ 652,500
February 2006	February 28, 2006	March 15, 2006	0.10	652,500
March 2006	March 31, 2006	April 17, 2006	0.10	652,500
April 2006	April 28, 2006	May 15, 2006	0.10	652,500
May 2006	May 31, 2006	June 15, 2006	0.10	652,500
June 2006	June 30, 2006	July 17, 2006	0.10	652,500
July 2006	July 31, 2006	August 15, 2006	0.10	652,500
August 2006	August 31, 2006	September 15, 2006	0.10	652,500
September 2006	September 29, 2006	October 16, 2006	0.10	652,500
			$ 0.90	$ 5,872,500

Maintenance capital expenditures

Maintenance capital expenditures consist primarily of leasehold improvements for existing locations, furniture and fixture purchases, and computer hardware and software expenditures. Excluding growth capital expenditures and expenditures of $0.02 million associated with the upgrading of Coast's inventory management technology, which is being funded by cash set aside from the purchase agreement, maintenance capital expenditures totalled $0.14 million for the third quarter of 2006, and $0.38 million for the first nine months of the year.

In accordance with the purchase agreement, Coast Ltd. advanced net funds of $0.511 million to the fund for completion of the inventory management upgrade project. We have earmarked these funds to complete this specific project.

We anticipate that maintenance capital expenditures for the current year will total approximately $0.4 million, and expect to average a similar level of maintenance capital expenditures over the next year. This amount will increase somewhat as we increase our store count.

(in thousands of dollars)	3 months ended September 30 2006	9 months ended September 30 2006
Total capital expenditures	$ 549	$ 975
Less tenant inducements	160	160
	$ 389	$ 815
Less:		
Growth capital expenditures on new stores net of inducements	247	415
Inventory computer project funded separately	1	17
	$ 248	$ 432
Maintenance capital expenditures	$ 141	$ 383

Distributable cash

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

Due mainly to the seasonality of our business, the fund's payout ratio of 97.5% for the nine months ended September 30, 2006 was greater than our payout ratio of 86% for the partial year from June 23 to December 31, 2005. In 2006, our payout ratio progressively decreased, from 122.8% in the first quarter to 106.7% in the second quarter, and to 75.5% in the third quarter. On a 12-month trailing basis, from October 1, 2005 to September 30, 2006, the fund's payout ratio was 94.3%. The trailing payout ratio reflects a reduced seasonal impact of quarterly fluctuations on distributable cash.

While the fund has levelled distributions to provide a regular stream of income to unitholders, we expect that the less profitable first half of the year will be offset by historically higher earnings in the second half.

Our payout ratio for the third quarter of this year was impacted by approximately $0.09 million in costs related to the start-up of our new stores, which totalled $0.14 million for the nine-month period. In addition, on a 12-month trailing basis, our maintenance capital expenditures were overstated by approximately $0.3 million as, effectively, all the prior year expenditures were made in the fourth quarter. As noted above, our expected annual maintenance capital is approximately $0.4 million. Adjusting for these items, our 12-month trailing payout ratio would be approximately 91.2 %.

i *(in thousands of dollars except per unit amounts)*	3 months ended September 30 2006	3 months ended September 30 2005	9 months ended September 30 2006	12 months trailing to September 30 2006
Income before non-controlling interest	$ 3,379	$ 3,000	$ 7,539	$ 10,435
Amortization	750	357	2,104	3,031
Maintenance capital expenditures	(141)	(31)	(383)	(695)
Distributable cash	$ 3,988	$ 3,326	$ 9,260	$ 12,771
Distributions to unitholders & non-controlling interest	3,010	3,010	9,030	12,041
Distributable cash per unitholder	$ 0.40	$ 0.33	$ 0.92	$ 1.27
Distributions per unitholders	0.30	0.30	0.90	1.20
Payout ratio	75.5%	90.5%	97.5%	94.3%

Contractual obligations and commitments

Payments due by period as at September 30, 2006

(in thousands of dollars)	Operating Leases	Term Loan
Less than one year	$ 2,319	$ –
One to three years	4,464	20,000
Four to five years	2,643	–
After five years	2,287	–
	$ 11,713	$ 20,000

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 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 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 three and nine months ended September 30, 2006 was $0.6 million and $1.7 million, respectively. Basic rent for the third quarter of 2005 was $0.5 million, while comparative total basic rent for Coast Ltd. cannot be determined as the information was not available. Total basic rent for the fiscal period from June 23 to December 31, 2005 was $1.02 million.

Working capital

Working capital at September 30, 2006 was $16.9 million, compared to working capital at December 31, 2005 of $17.1 million. The slight reduction is mainly attributable to our growth capital expenditures of approximately $0.4 million for the nine months ended September 30, 2006.

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 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 nil at September 30, 2006. During the nine months ended September 30, 2006, the operating loan was only utilized for short periods of time.

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

Total assets

Total assets at September 30, 2006 were $128.5 million, compared to total assets at December 31, 2005 of $125.7 million. The increase is mainly due to an increase in inventory of approximately $2.4 million and an increase in accounts receivable of approximately $1.4 million.

Accounts receivable at September 30, 2006 were $13.9 million. This compares to accounts receivable of $12.5 million at December 31, 2005 and $14.5 million at September 30, 2005. As charted below, the current year's trade accounts receivable at September 30 increased over the 2005 level as a result of our higher third quarter sales in 2006. We have also collected the amount due from related parties that was outstanding at September 30, 2005. Similarly, trade account receivables have increased over the 2005 year-end due to the strong sales recorded in September 2006 compared to December 2005. The higher level of suppler rebates at December 31, 2005 reflects our year-end volume rebates from suppliers, which were collected in January and February of 2006.

(in thousands of dollars)	September 30 2006	September 30 2005	December 31 2005
Accounts receivable - trade	$ 11,942	$ 10,854	$ 9,019
Supplier rebates & other	1,960	2,719	3,498
Amounts due from related parties		904	
	$ 13,902	$ 14,477	$ 12,517

Inventory at September 30, 2006 was $20.4 million, compared to $17.9 million at December 31, 2005 and $16.3 million at September 30, 2005. The increase was due to continued delays in delivery dates for our contract business, the addition of new product lines to our brand listings and the addition of approximately $0.5 million in inventory at our new Calgary store.

The balance of leaseholds and equipment at September 30, 2006 was $3.5 million, net of amortization of $0.7 million. The net balance of leaseholds and equipment at December 31, 2005 was $3.0 million, net of amortization of $0.2 million.

The value determined for the identifiable intangibles acquired at June 23, 2005 as part of the fund's initial public offering was $20.8 million. The balance of identifiable intangibles at September 30, 2006 was $18.1 and at December 31, 2005 was $19.7 million, net of amortization. No impairment in value was identified by Coast during our reviews as at December 31, 2005.

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 at September 30, 2006 remained unchanged. No impairment in value was identified by Coast during our reviews as at December 31, 2005

Total liabilities

Total liabilities at September 30, 2006 were $69.6 million, compared to total liabilities at December 31, 2005 of $65.8 million. The $3.8 million increase was mainly due to a $2.9 million increase in cheques issued in excess of funds on deposit as a result of our higher inventory as well as an increase in customer deposits of approximately $1.2 million, offset by decreased accounts payable.

Cheques issued in excess of funds on deposit were $3.6 million, compared to cheques issued in excess of funds on deposit totalling $0.6 million at December 31, 2005. Our $10 million operating line was only used for short periods of time in the first nine months of 2006.

Customer deposits at September 30, 2006 were $3.4 million, compared to $2.2 million at December 31, 2005 and $3.2 million at September 30, 2005. The increase over the year-end is reflective of the seasonality of our business. The consistency of the current level of deposits relative to the prior year's reflects the continuing strength of our business.

Deferred warranty revenue at September 30, 2006 was $2.2 million, up somewhat from $2.0 million at December 31, 2005 and $1.9 million at September 30, 2005.

Accounts payable and accrued liabilities at September 30, 2006 were $6.9 million, compared to $7.1 million at December 31, 2005 and $9.6 million at September 30, 2005.

Deferred lease inducements in the amount of $0.2 million were received pursuant to leases on our new stores. These amounts will be amortized over the terms of the leases.

Financing

Concurrent with the 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 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 and amortization, calculated on a quarterly basis.

Disclosure controls and procedures

As at September 30, 2006, 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 concluded that the design and operation of these disclosure controls and procedures are effective.

Outlook

As we announced in our press release dated October 17, 2006, the fund has scheduled its sixteenth consecutive distribution for November 15, 2006 of $0.10 per unit to public unitholders of record as at October 31, 2006.

As we move through the final quarter of 2006 and into 2007, the outlook for our business is positive. The market for major household appliances remains strong and we believe that Coast continues to be favourably positioned to grow the business. In Vancouver, we expect to see a resurgence in our contract business in 2007 as delayed construction projects begin to move forward.

We are on track with our plans to open a second Edmonton, Alberta branch as well as our first Red Deer, Alberta branch late in the fourth quarter of 2006. These two additional locations will bring the total number of Coast stores from 13 to 15, five of them in the robust Alberta market. As previously reported, we also have agreements in place to develop a new store location in Edmonton to replace our existing store, which we are targeting to open by late 2007. We expect to continue to see organic growth from our existing stores as well as incremental sales gains from the new stores. We anticipate that the new locations will be profitable within four to six months of opening.

We are continuing to seek additional locations in both Alberta and BC, and to evaluate the longer term potential for 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.

On October 31, 2006, the federal government announced proposed changes to the way income trusts will be taxed. Under the proposed changes, distributions that are currently paid out and taxed in the hands of unitholders would first be taxed at the trust level at a special rate, based on the federal/provincial income tax rate. The net amount would then be paid out to unitholders, where it would be taxed as taxable dividends paid by a Canadian corporation. If passed into legislation, these changes will come into effect in 2011 for existing funds such as ours. We are currently analyzing the potential impact of the government's proposed changes on the fund. Based on the information currently available, we do not anticipate that these proposed changes will have any effect on our current distribution policy.

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".

Interim Consolidated Financial Statements

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

Interim Consolidated Balance Sheet

(Unaudited)

	September 30 2006	December 31 2005
Assets		
CURRENT		
Accounts receivable (Note 3)	$ 13,901,621	$ 12,516,957
Inventory	20,407,345	17,958,782
Prepaid expenses	361,080	225,781
	34,670,046	30,701,520
LEASEHOLDS AND EQUIPMENT (Note 4)	3,507,428	3,045,202
DEFERRED FINANCING COSTS (Note 5)	111,859	160,414
INTANGIBLE ASSETS (Note 6)	18,145,637	19,688,624
GOODWILL	72,081,521	72,081,521
	$ 128,516,491	$ 125,677,281
Liabilities		
CURRENT		
Cheques issued in excess of funds on deposit	$ 3,573,784	$ 644,525
Accounts payable and accrued liabilities	6,908,850	7,146,517
Accrued distributions payable to Unitholders	652,500	652,500
Accrued distributions payable to non-controlling interests	1,052,750	1,052,750
Customer deposits	3,375,953	2,164,073
Deferred warranty revenue	2,225,366	1,957,719
	17,789,203	13,618,084
TERM LOAN (Note 7(b))	20,000,000	20,000,000
DEFERRED LEASE INDUCEMENTS (Note 8)	159,850	–
NON-CONTROLLING INTEREST (Note 9)	31,671,100	32,192,965
	69,620,153	65,811,049
Unitholders' Equity	58,896,338	59,866,232
	$ 128,516,491	$ 125,677,281

COMMITMENTS (Note 11)

APPROVED ON BEHALF OF THE TRUSTEES

Harlow B. Burrows
Trustee

Ian F. Thomas
Trustee

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements

Interim Consolidated Statement of Income

(Unaudited)

	3 months ended Sept. 30 2006	9 months ended Sept. 30 2006	3 months ended Sept. 30 2005	6 months ended Sept. 30 2005 (Note 2(a))
SALES	$ 34,673,567	$ 93,192,776	$ 32,238,888	$ 35,804,154
COST OF SALES	25,957,351	70,106,623	24,655,214	27,355,532
GROSS PROFIT	8,716,216	23,086,153	7,583,674	8,448,622
EXPENSES				
Selling	2,136,812	6,217,798	2,006,465	2,195,729
General and administrative	998,008	2,976,990	907,511	959,857
Facilities	813,017	2,326,687	675,467	728,948
Warehousing	426,459	1,225,821	400,020	435,072
Amortization:				
Leaseholds and equipment	219,370	512,670	83,333	88,435
Deferred financing costs	16,185	48,555	16,182	17,293
Intangible assets	514,329	1,542,987	257,163	280,022
Interest	213,504	695,654	237,531	258,951
	5,337,684	15,547,162	4,583,672	4,964,307
INCOME BEFORE TAX & NON-CONTROLLING INTEREST	3,378,532	7,538,991	3,000,002	3,484,315
PROVISION FOR FUTURE INCOME TAXES			18,000	78,000
NON-CONTROLLING INTEREST (Note 9)	1,181,472	2,636,385	1,042,806	1,191,188
NET INCOME	$ 2,197,060	$ 4,902,606	$ 1,939,196	$ 2,215,127
Basic and diluted net income per unit	$ 0.3367	$ 0.7514	$ 0.2972	$ 0.3395
Basic weighted average number of Units outstanding	6,525,000	6,525,000	6,525,000	6,525,000
Diluted weighted average number of Units outstanding	10,033,830	10,033,830	10,033,830	10,033,830

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements

Interim Consolidated Statement of Unitholders' Equity

(Unaudited)

For the nine month period ended September 30, 2006

	Fund units	Cumulative earnings	Cumulative distributions	Total
Balance, beginning of period	$ 59,835,000	$ 4,098,265	$ (4,067,033)	$ 59,866,232
Net income for the period		4,902,606		4,902,606
Distributions declared			(5,872,500)	(5,872,500)
Balance, end of period	$ 59,835,000	$ 9,000,871	$ (9,939,533)	$ 58,896,338

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements

Interim Consolidated Statement of Cash Flows

(Unaudited)

	3 months ended Sept. 30 2006	9 months ended Sept. 30 2006	3 months ended Sept. 30 2005	6 months ended Sept. 30 2005 (Note 2(a))
OPERATING ACTIVITIES				
Net income	$ 2,197,060	$ 4,902,606	$ 1,939,196	$ 2,215,127
Items not involving cash				
Amortization	749,884	2,104,212	356,678	385,750
Non-controlling interest	1,181,472	2,636,385	1,042,806	1,191,188
Future income taxes			18,000	78,000
	4,128,416	9,643,203	3,356,680	3,870,065
Change in non-cash working capital (Note 15)	(2,174,036)	(2,726,666)	340,429	(872,997)
	1,954,380	6,916,537	3,697,109	2,997,068
FINANCING ACTIVITIES				
Decrease in operating loan	(625,633)	–		
Net proceeds from the issuance of units				59,835,000
Increase in bank indebtedness				20,000,000
Deferred financing costs			(44,223)	(194,223)
	(625,633)	–	(44,223)	79,640,777
INVESTING ACTIVITIES				
Acquisition of business (Note 1(b))				(79,685,000)
Purchase of leaseholds and equipment	(548,876)	(974,896)	(30,905)	(30,905)
Deferred lease inducements	159,850	159,850		
Distributions paid to unitholders	(1,957,500)	(5,872,500)	(1,457,033)	(1,457,033)
Distributions paid to non-controlling interest	(1,052,750)	(3,158,250)		
	(3,399,276)	(9,845,796)	(1,487,938)	(81,172,938)
NET CASH INFLOW (OUTFLOW)	(2,070,529)	(2,929,259)	2,164,948	1,464,907
CASH (CHEQUES ISSUED IN EXCESS OF FUNDS ON DEPOSIT), BEGINNING OF PERIOD	(1,503,255)	(644,525)	(700,031)	10
CHEQUES ISSUED IN EXCESS OF FUNDS ON DEPOSIT, END OF PERIOD	$ (3,573,784)	$ (3,573,784)	$ 1,464,917	$ 1,464,917
SUPPLEMENTAL CASH FLOW INFORMATION:				
Interest paid	$ 213,504	$ 695,654	$ 237,927	$ 258,951

Notes to the Interim Consolidated Financial Statements

For the period January 1, 2006 to September 30, 2006

(Unaudited)

1. Nature of Operations and Acquisition

(a) 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 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.

(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.

The fair value of assets acquired is as follows:

Net working capital	$ 15,600,000
Cash held for designated use	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 unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained herein may not include all requirements of generally accepted accounting principles for annual financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the Fund included in its 2005 Annual Report and the financial statements included in the prospectus of the Fund dated June 15, 2005. These statements present the balance sheet of the Fund as at September 30, 2006 and the results of its operations for the period from January 1, 2006 to September 30, 2006.

(a) Basis of presentation

These unaudited interim consolidated financial statements include the accounts of the Fund and its 65.03% interest in Coast. The prior year six month comparative amounts reflect operations from June 23 to September 30, 2005. All material inter-company transactions have been eliminated upon consolidation.

2. *Significant Accounting Policies (continued)*

(b) Measurement uncertainty

The preparation of these unaudited interim 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

Leaseholds 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 and deferred lease inducements 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.

(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.

(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 is not 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 January 1, 2006. Diluted earnings per Unit are 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

	September 30 2006	December 31 2005
Accounts receivable - trade	$ 11,941,971	$ 9,019,420
Supplier rebates & other	1,959,650	3,497,537
	$ 13,901,621	$ 12,516,957

4. *Leaseholds and Equipment*

	September 30 2006			December 31 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 1,775,717	$ 285,920	$ 1,489,797	$ 968,734
Service vehicles	444,051	29,147	414,904	356,471
Furniture and fixtures	192,127	16,212	175,915	133,353
Equipment	402,415	41,630	360,785	312,283
Leasehold improvements	1,409,927	343,900	1,066,027	1,274,361
	$ 4,224,237	$ 716,809	$ 3,507,428	$ 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.

	September 30 2006			December 31 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred financing costs	$ 194,223	$ 82,364	$ 111,859	$ 160,414

6. *Intangible Assets*

	September 30 2006			December 31 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Coast brand name	$ 3,369,000	$ –	$ 3,369,000	$ 3,369,000
Supplier relationships	3,129,000	398,078	2,730,922	2,965,597
Customer backlog at acquisition	1,262,000	1,070,361	191,639	822,638
Customer relationships - builders/developers	10,060,000	853,239	9,206,761	9,709,762
Customer relationships - property managers	1,900,000	161,155	1,738,845	1,833,849
Retail customer list	478,000	60,807	417,193	453,040
Favourable leases	565,000	73,723	491,277	534,738
	$ 20,763,000	$ 2,617,363	$ 18,145,637	$ 19,688,624

7. Credit Facilities

	September 30 2006	December 31 2005
(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 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 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 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 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.	20,000,000	20,000,000
	$ 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 $1,883,948 as at September 30, 2006 ($1,393,213 as at December 31, 2005).

8. Deferred Lease Inducements

	September 30 2006	December 31 2005
Deferred lease inducements		
Beginning of period	$ –	$ –
Additions during the period	159,850	
End of period	$ 159,850	$ –

9. Non-Controlling Interest

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

	September 30 2006	December 31 2005
Retained interest - beginning of period	$ 32,192,965	$ 32,176,379
Interest in earnings	2,636,385	2,203,849
Paid and accrued distributions payable to non-controlling interests	(3,158,250)	(2,187,263)
Retained interest - end of period	$ 31,671,100	$ 32,192,965

9a. Coast Exchangeable Units (continued)

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

10. Fund Units

	Units	Amount
Units issued on June 23, 2005		
Initial public offering	6,525,000	$ 65,250,000
Expenses of offering		(5,415,000)
Balance as at September 30, 2006 and 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.

11. 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):

12 months ended September 30	
2007	$ 2,319,179
2008	2,234,947
2009	2,228,553
2010	1,857,750
2011	785,041
	$ 9,425,470

12. 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 except as noted elsewhere in these consolidated financial statements.

(b) Credit risk

Coast is exposed to credit risk only with respect to uncertainties as to the timing of collectability 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 September 30, 2006 is $186,949 ($258,673 as at December 31, 2005).

(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 September 30, 2006, purchases by Coast from its three largest suppliers totaled $56,278,725. At September 30, 2006 amounts payable to these suppliers included in accounts payable and accrued liabilities net of rebates receivable totaled $2,870,855 ($973,684 as at December 31, 2005).

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

13. 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. These agreements expired on June 30, 2006.

(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 9). The total amount paid to related parties for the nine months ended September 30, 2006 was $1,133,019. 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.

14. 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 September 30, 2006 are as follows:

Period	Record date	Payment date	Per unit	Amount
January 2006	January 31, 2006	February 15, 2006	$ 0.10	$ 652,500
February 2006	February 28, 2006	March 15, 2006	0.10	652,500
March 2006	March 31, 2006	April 17, 2006	0.10	652,500
April 2006	April 28, 2006	May 15, 2006	0.10	652,500
May 2006	May 31, 2006	June 15, 2006	0.10	652,500
June 2006	June 30, 2006	July 17, 2006	0.10	652,500
July 2006	July 31, 2006	August 15, 2006	0.10	652,500
August 2006	August 31, 2006	September 15, 2006	0.10	652,500
September 2006	September 29, 2006	October 16, 2006	0.10	652,500
			$ 0.90	$ 5,872,500

15. Net Change in Non-Cash Working Capital

	3 months ended September 30 2006	9 months ended September 30 2006	3 months ended September 30 2005	6 months ended September 30 2005
Accounts receivable	$ (2,092,448)	$ (1,384,664)	$ (1,338,912)	$ (3,672,310)
Inventory	(761,355)	(2,448,563)	(193,281)	209,888
Prepaid expenses	138,817	(135,299)	44,397	(80,811)
Accounts payable and accrued liabilities	180,827	(237,667)	1,513,705	2,181,842
Customer deposits	243,679	1,211,880	253,082	417,810
Deferred warranty revenue	116,444	267,647	61,438	70,584
	$ (2,174,036)	$ (2,726,666)	$ 340,429	($872,997)

16. Segmented Information

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

17. Subsequent Events

On October 17, 2006 the Fund declared its sixteenth distribution of $0.10 per Unit for the period from October 1, 2006 to October 31, 2006 to Unitholders of record of the Fund on October 31, 2006 to be paid November 15, 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.

Coast Wholesale Appliances | Income Fund

Unitholder Information

Coast Wholesale Appliances Income Fund

Coast Wholesale Appliances LP: Management

Harlow B. Burrows
President and Chief Executive Officer

Jack G. Peck, CA
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

Investor Relations

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Registrar and Transfer Agent

Computershare Investor
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