COAST WHOLESALE APPLIANCES
INCOME FUND

Third Quarter Report to Unitholders

Three Months
and Nine Months
ended September 30

2007 >

Coast Wholesale
Appliances
"Innovative Products for Builders, Designers & Home Owners"

Coast Wholesale Appliances Income Fund

Coast Wholesale Appliances Income Fund is an unincorporated, open-ended limited purpose trust launched on June 23, 2005 with the completion of an initial public offering of 6,525,000 trust units. The Fund was created to acquire and hold a 65% indirect interest in Coast Wholesale Appliances LP (Coast). The remaining 35% interest has been retained by the previous ownership. Distributions to the retained interest are currently subordinated to those of public unitholders, subject to the Fund meeting certain EBITA and cash distribution targets, as set out in our June 15, 2005 prospectus. The subordination is expected to be removed following the Fund's next full financial audit, anticipated to be conducted subsequent to our 2007 year-end.

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

Coast Wholesale Appliances LP

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

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

The exceptional stability our business has shown over the past 29 years is due in large part to the essential nature of the major home appliances we sell. Over the past decade, our industry has also benefited from strong economic growth fundamentals, with new product innovations and an increasing focus on home décor working to drive up sales.

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

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

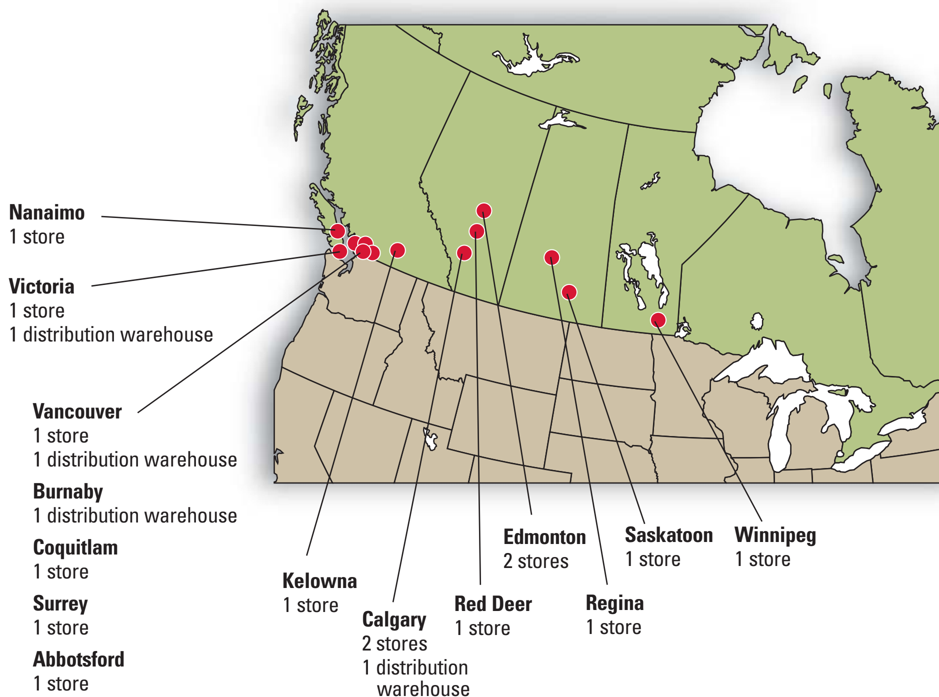
1. Enter new markets in Western Canada and explore opportunities to expand into Eastern Canada;

2. Increase sales from our existing branch locations; and

3. Continue to enhance our profitability.

15 wholesale/retail stores – designed as product showrooms

Four distribution warehouse facilities – strategically located near key branches



Performance Highlights

(in thousands of dollars except percentages and per-unit amounts)	Q1 $	Q2 $	Q3 $	2007 YTD $	Q1 $	Q2 $	Q3 $	2006 YTD $
Sales	31,161	36,809	37,759	105,729	27,717	30,802	34,674	93,193
Gross profit	7,732	9,228	9,496	26,456	6,659	7,710	8,717	23,086
As a percentage of sales	*24.8%*	*25.1%*	*25.1%*	*25.0%*	*24.0%*	*25.0%*	*25.1%*	*24.8%*
Net income before non-controlling interest	2,015	3,209	3,376	8,600	1,843	2,317	3,379	7,539
Basic and diluted net income per unit	0.200	0.320	0.337	0.857	0.184	0.231	0.337	0.752
EBITDA	2,792	3,884	4,208	10,884	2,747	3,249	4,343	10,339
EBITDA margin	*9.0%*	*10.6%*	*11.1%*	*10.3%*	*9.9%*	*10.5%*	*12.5%*	*11.1%*
Adjusted distributable cash	2,555	3,543	3,895	9,993	2,450	2,822	3,987	9,259
Adjusted distributable cash per unit	0.25	0.35	0.39	0.99	0.24	0.28	0.40	0.92
Distribution per unit	0.30	0.30	0.30	0.90	0.30	0.30	0.30	0.90
Adjusted distribution ratio	*117.8%*	*85.0%*	*77.3%*	*90.4%*	*122.9%*	*106.7%*	*75.5%*	*97.5%*

- Grew third quarter revenues by 8.9% and nine-month revenues by 13.5% year-over-year.
- Improved comparative store sales by 4.7% for the third quarter and 8.8% for the nine months ended September 30, 2007.
- Maintained third quarter gross profit margin at 25.1% and improved nine-month gross profit margin to 25.0%.
- Continued to fully meet cash distribution commitments.
- Reduced the Fund's trailing 12-month adjusted payout ratio to 89.2 % from 94.9% at September 30, 2006.
- Relocated our Calgary warehouse to a newer, larger facility.
- Subsequent to quarter-end, announced an increase in our monthly cash distribution to $0.1025 per unit from $0.10 per unit effective with the October 2007 distribution.

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To Our Unitholders

On behalf of the Board of Trustees of Coast Wholesale Appliances Income Fund, and all our employees across Western Canada, we are pleased to report to you on our strong performance in the three and nine months ended September 30, 2007. Coast delivered another quarter of healthy sales growth. Our gross margin remained strong as we continued to focus on profitability-enhancing initiatives. As a result, we again increased our adjusted distributable cash generation and significantly improved our year-over-year adjusted payout ratio. Subsequent to the end of the quarter, reflecting the strong performance of our business, we announced an increase in our monthly cash distributions to unitholders beginning in the fourth quarter.

Third quarter operating results

Our three-month revenues reached a new quarterly high of $37.8 million. This is an increase of $3.1 million or 8.9%, from the $34.7 million we recorded in the third quarter of 2006. At comparable stores – locations open for more than one year – our sales increased by $1.6 million, or 4.7%, quarter-over-quarter. New store sales growth during the quarter came from the two new Alberta locations we added in the first quarter of 2007. We opened our second Edmonton store in mid-February and our first Red Deer location at the end of March, bringing our total store count to 15.

We continue to expect that our retail business will grow at a faster rate than our contract sales to developers and builders as our new Alberta stores become more established. Our retail sales in the third quarter were slightly lower than in the second quarter, but in line with our first quarter levels. Our new Edmonton store continues to perform particularly well. In our contract business with developers and builders, as anticipated, we realized most of the remaining deferred sales from the lag we experienced in British Columbia during the second half of 2006. We expect that our contract business will remain strong in the fourth quarter.

Our cost of sales for the third quarter was $28.3 million, or 74.9% of sales. This resulted in a gross profit of $9.5 million, or 25.1% of sales. By comparison, in the third quarter of 2006, our cost of sales was $26.0 million, also 74.9% of sales, providing a gross profit of $8.7 million, again 25.1% of sales.

Our EBITDA for the third quarter was $4.2 million, compared to $4.3 million in 2006, while our EBITDA margin of 11.1% was down from 12.5% last year. Removing the full impact of the new stores, our 2007 third quarter EBITDA margin would have been 11.7%. The remainder of the year-over-year margin difference was due to the impact of our generally higher expenses with the growth of the business.

Net income before non-controlling interest for the three months was $3.4 million, or 8.9% of sales. This matches the $3.4 million we recorded in the third quarter of 2006, which equalled 9.7 % of sales. Removing the full impact of the new stores, net income before non-controlling interest would equal 9.3% of sales in 2007.

Nine-month operating results

Our financial results for the nine months to September 30, 2007 were also strong. Total sales for the first three quarters of the year were $105.7 million. This was up by $12.5 million, or 13.5%, from $93.2 million in 2006. Comparable store sales for the nine months increased by $8.2 million, or 8.8%, year-over-year.

Our year-to-date cost of sales was $79.3 million, or 75.0% of sales, resulting in a gross profit of $26.5 million, or 25.0% of sales. This compares favourably to cost of sales of $70.1 million, or 75.2% of sales, and a gross profit of $23.1 million, or 24.8% of sales, in the first nine months of 2006. The year-over-year gross margin improvement was partially due to the shift in our business mix toward retail sales, which generate a higher margin than our contract business. We also continued to benefit from the new, higher-margin product lines we added in early 2006.

During the first three quarters, Coast's EBITDA increased to $10.9 million from $10.3 million in 2006, while our EBITDA margin decreased to 10.3% from 11.1% in 2006. Removing the full impact of our new stores, this year's nine-month EBITDA margin would have been 10.9 %.

Profitability also improved, with net income before non-controlling interest growing to $8.6 million, or 8.1% of sales, from $7.5 million, also 8.1% of sales, in the first nine months of 2006. Removing the full impact of the new stores, our 2007 nine-month net income before non-controlling interest would have been 8.6% of sales.

Cash distributions

The Fund declared monthly cash distributions of $0.10 per unit for each of July, August and September 2007. By the end of the quarter, we had paid a total of 27 consecutive monthly cash distributions to our public unitholders, as well as nine consecutive quarterly cash distributions to the subordinated non-controlling interest held by the previous owners of the business. Effective with our October distribution, the monthly cash distribution amount will increase to $0.1025 per unit. On an annualized basis, this represents a distribution rate of $1.23 per unit.

During the third quarter, the Fund earned $3.9 million in adjusted distributable cash (before the non-controlling interest), or $0.39 per unit. This compared to $4.0 million, or $0.40 per unit, in the same period of 2006. In each of the first three quarters, we distributed and accrued for payment $3.0 million, or $0.30 per unit, to unitholders and the non-controlling interest.

For the first nine months of the year, our adjusted distributable cash (before non-controlling interest) totaled $10.0 million, or $0.99 per unit, up from $9.3 million, or $0.92 per unit in 2006. In both years, the Fund distributed and accrued for payment $9.0 million, or $0.90 per unit, to unitholders and the non-controlling interest.

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

We are very proud of the progress we have made in reducing our payout ratio, which remains one of our key strategic goals. For the nine months, our adjusted payout ratio improved to 90.4% from 97.5% in the first nine months of 2006. On a 12-month trailing basis, our adjusted payout ratio of 89.2% was down from 94.9% at September 30, 2006.

Outlook

The outlook for our business for the remainder of 2007 continues to be very positive. Although single family starts in Western Canada have slowed somewhat from the recent record levels, the multi-family market remains robust. In the fourth quarter, we expect to again see steady sales growth from our existing stores, as well as incremental sales gains from our new locations. We continue to actively seek additional locations in both BC and Alberta, as well as opportunities for expansion into Eastern Canada.

We are also continuing to concentrate on increasing sales from our existing stores and enhancing our profitability. As planned, we relocated our Calgary warehouse to a newer, larger facility in the third quarter and this new location became fully functional in October. We are now moving forward with our plans to relocate our Regina and Abbotsford stores to new, larger premises in higher-traffic areas in the first quarter of 2008.

Coast continues to evaluate the potential impact of the new tax on income trusts proposed by the federal government on October 31, 2007 and enacted as legislation on June 12, 2007. The taxation of distributions at the trust level will begin in 2011. As more information relating to transition rules becomes available, we will determine the most appropriate course of action for our Fund.

We are confident that our ongoing cash flow from operations and current credit facilities will be sufficient to allow Coast to meet ongoing requirements for capital expenditures, including investments in working capital and distributions, while enabling the Fund to meet our cash distribution commitments to all our unitholders.

In closing, we extend our appreciation to our employees, our suppliers and our customers for your support of our business, and to our unitholders for your continued confidence.

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

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

This letter may contain forward-looking statements relating to expected future events and financial and operating results of Coast that involve risks and uncertainties. The actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons. These include market and general economic conditions and the risks and uncertainties detailed from time to time in Coast's continuous disclosure materials filed with Canadian securities regulatory authorities, including the third quarter 2007 and the year-end Management's Discussion and Analyses filed at SEDAR (www.sedar.com). These forward-looking statements are based on assumptions that management considered reasonable at the time they were prepared. Due to the potential impact of these factors, Coast disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Management's Discussion and Analysis of Financial Conditions and Operations

For the period ended September 30, 2007

This management's discussion and analysis has been prepared as of November 1, 2007. It should be read in conjunction with the Fund's unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2007, which appear later in this report, and our audited consolidated financial statements for the year ended December 31, 2006. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The Fund commenced operations on June 23, 2005 following the completion of our initial public offering of trust units. This report presents our financial results for the period from January 1, 2007 to September 30, 2007.

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, are based on information currently available to the Fund and speak only as of the date of this discussion. They reflect current expectations regarding future events and operating performance, including, but not limited to: a continued strong western Canadian economy, relatively stable interest rates and continuing strength with the issuing of new building permits. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indicators of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: sensitivity to general economic conditions; maintenance of profitability and management of growth; competition; usage of extended warranty programs; changes to planning and supply chain processes; changes in consumer preferences; mix of product sales; reliance on suppliers; lack of supplier agreements; reliance on key personnel; 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.

Fund Overview

The Fund is an unincorporated, open-ended, limited-purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. We commenced operations on June 23, 2005, when we completed an initial public offering of trust units and acquired a 65.03% indirect interest in a chain of major household appliance stores in British Columbia, Alberta,

Saskatchewan and Manitoba from Coast Wholesale Appliances Ltd. (Coast Ltd.). The Fund holds, indirectly, 65.03% of the outstanding Class A Limited Partnership Units of Coast Wholesale Appliances LP (Coast), a limited partnership established under the laws of the Province of Manitoba, and our results are entirely dependent on Coast's operating results.

Economic and Industry Factors

The economic landscape in Canada has changed from that described in the Fund's 2006 Annual Report, dated March 5, 2007 (available at www.sedar.com or www.coastincomefund.com). The sub-prime mortgage crisis in the United States has brought a downturn to the US housing market. This has contributed to a significant slowing of the US economy. The US Federal Reserve has reacted by reducing interest rates, triggering a lowering in the value of the US dollar. As a consequence, we have seen a significant increase in the value of the Canadian dollar relative to the US dollar. Despite increasing inflationary pressures in Canada, the Bank of Canada has left our prime rate unchanged. The strength of the oil industry and related projects will likely keep the western Canadian economy relatively strong, but we expect to see a slowing in the eastern Canadian economy. In Western Canada, while single family housing starts have slowed somewhat from the recent record levels, we anticipate continued strength in multi-family starts.

Seasonality

While we have levelled the Fund's monthly distributions to provide a steady stream of income to unitholders, sales of our products are subject to seasonal fluctuations that follow our customers' building activities. Historically, the first quarter is our slowest, accounting for 21% to 22% of annual sales, and the third quarter is our strongest, representing 27% to 28% of sales. The second and fourth quarters 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 financial statements for the three-month and nine-month periods ended September 30, 2007. This material should be read in conjunction with the unaudited financial statements and notes that accompany this report.

(in thousands of dollars except percentages)	3 months ended Sept. 30 **2007** $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 **2007** $	9 months ended Sept. 30 2006 $
Sales	37,759	34,674	105,729	93,193
Cost of sales	28,263	25,957	79,273	70,107
Gross profit	9,496	8,717	26,456	23,086
As a percentage of sales	*25.1%*	*25.1%*	*25.0%*	*24.8%*
Expenses (1)	5,271	4,374	15,529	12,747
Amortization of leasehold inducements (netted with facility expenses)	17	–	43	–
EBITDA (2)	4,208	4,343	10,884	10,339
As a percentage of sales	*11.1%*	*12.5%*	*10.3%*	*11.1%*
Interest	237	214	706	696
Unrealized loss – derivative financial instrument	28	–	28	–
Future income taxes	(3)	–	(131)	–
Amortization	570	750	1,681	2,104
Net income before non-controlling interests	3,376	3,379	8,600	7,539
As a percentage of sales	*8.9%*	*9.7%*	*8.1%*	*8.1%*
Non-controlling interest	1,181	1,182	3,007	2,636
Net income	2,195	2,197	5,593	4,903

Notes:

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

(2) See "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures", page 22.

Operating Results

Sales

(in thousands of dollars except percentages)	3 months ended Sept. 30 **2007** $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 **2007** $	9 months ended Sept. 30 2006 $
Comparable stores (1)	36,311	34,674	101,388	93,193
% increase	*4.7%*		*8.8%*	
New stores	1,448		4,341	
Total	37,759	34,674	105,729	93,193
% increase	*8.9%*		*13.5%*	

Notes:

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

Sales for the three months ended September 30, 2007 reached a new quarterly record of $37.8 million, up by $3.1 million, or 8.9%, from the $34.7 million we recorded in the third quarter of 2006. At comparable stores – locations open for more than one year prior to the date of this report – sales grew by $1.6 million, or 4.7%, quarter-over-quarter. Our comparable store sales increased approximately equally across all four

provinces in Coast's western Canadian marketplace. New store sales growth came from the Edmonton and Red Deer locations we opened, respectively, in February and March of this year, both of which were strong contributors. With the addition of these primarily retail-focussed locations to our sales network, we are seeing a slight shift in our business mix in favour of retail sales. Historically, Coast's business has been fairly evenly divided between direct sales to retail customers and contract sales to developers and builders. We expect that our retail business will grow at a faster rate than our developer / builder business as the new Alberta stores become established in their respective markets. Retail sales in the third quarter were down slightly from our second quarter trend and on par with the first quarter of this year. In our contract business, as anticipated, we substantially caught up on our sales lag in British Columbia from the second half of 2006, realizing most of the remaining deferred sales to BC builders and developers. We expect that our contract business will remain strong in the fourth quarter.

Sales for the nine months ended September 30, 2007 were $105.7 million, up by $12.5 million, or 13.5%, from $93.2 million in the first nine months of 2006. Comparable store sales for this period increased by $8.2 million, or 8.8%, year-over-year.

Cost of sales and gross profit

Cost of sales for the three months ended September 30, 2007 was $28.3 million, or 74.9% of sales. This resulted in a gross profit of $9.5 million, or 25.1% of sales. By comparison, in the third quarter of 2006, cost of sales was $26.0 million, also 74.9% of sales, providing a gross profit of $8.7 million, again 25.1% of sales.

Cost of sales for the nine months ended September 30, 2007 was $79.3 million, or 75.0% of sales. This resulted in a gross profit of $26.5 million, or 25.0% of sales. For the first nine months of 2006, cost of sales was $70.1 million, or 75.2% of sales, providing a gross profit of $23.1 million, or 24.8% of sales. The slight improvement in margin was due in part to the growth of our retail business, as our retail business generates a higher margin than our contract business with developers and builders. The new higher-margin product offerings we added in 2006 also contributed to the margin increase.

Expenses

Selling, warehouse, facility, and general and administrative (SG&A) expenses for the three months ended September 30, 2007 were $5.3 million, or 14.0% of sales. This was up by $0.9 million from the third quarter of 2006, when SG&A expenses of $4.4 million equalled 12.6% of sales. The increase was mainly due to the following factors:

- New store costs of $0.5 million were incurred during the quarter. These expenses accounted for just over half of the year-over-year increase in SG&A expenses. Removing the full impact of the new stores, SG&A expenses would equal 13.4% of sales.
- Third quarter general and administrative expenses, net of the new stores, were up by $0.2 million over 2006, due in part to increased administrative staff and wages, and consulting costs related to a variety of projects.
- Although sales expenses, net of the new stores, as a percentage of sales are in line with revenue, we increased our marketing expenditures by approximately $0.1 million over the same quarter of 2006.
- Due to construction delays at our new Calgary warehouse location, we incurred increased rental costs, with an unanticipated overlap of rental periods at our former and new facilities. The new warehouse is now fully operational.

SG&A expenses for the nine months ended September 30, 2007 were $15.5 million, or 14.7% of sales. This was up by $2.8 million from the first nine months of 2006, when SG&A expenses of $12.7 million equalled 13.7% of sales. The increase was mainly due to the following factors:

- New store costs of $1.4 million were incurred during the nine months with limited sales realized from the recently opened locations in the first two quarters of the year. These expenses accounted for approximately half of the year-over-year increase in SG&A expenses. Removing the full impact of the new stores, SG&A expenses would equal 14.1% of sales.
- Nine-month general and administrative expenses, net of the new stores, were up by $0.6 million over 2006, due in part to increased administrative staff and wages, and consulting costs. We also saw a year-over-year change in our bad debt allowance as a result of bad debt recoveries experienced in 2006, which were not repeated in 2007.
- Although sales expenses, net of the new stores, as a percentage of sales are in line with revenue, we increased our marketing expenditures by approximately $0.3 million over the same period in 2006.

EBITDA

EBITDA and EBITDA margin are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP (see "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures" below).

A reconciliation of Net Income to EBITDA is as follows:

(in thousands of dollars except percentages)	3 months ended Sept. 30 **2007** $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 **2007** $	9 months ended Sept. 30 2006 $
Net income	2,195	2,197	5,593	4,903
Non-controlling interest	1,181	1,182	3,007	2,636
Interest	237	214	706	696
Unrealized loss - derivative financial instrument	28		28	–
Future income taxes	(3)		(131)	–
Amortization	570	750	1,681	2,104
EBITDA [1]	4,208	4,343	10,884	10,339
EBITDA margin [1]	*11.1%*	*12.5%*	*10.3%*	*11.1%*

Notes:

(1) See "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures", page 22.

EBITDA for the three months ended September 30, 2007 was $4.2 million, compared to $4.3 million in the third quarter of 2006. Our EBITDA margin of 11.1% for the three months was down from 12.5% in the third quarter of 2006. Removing the full impact of our new stores would increase this year's third quarter EBITDA margin to11.7%. The remainder of the year-over-year difference was due to the impact of our generally higher expenses with the growth of the business, as discussed under Expenses above.

For the nine months ended September 30, 2007, EBITDA was $10.9 million, compared to $10.3 million in the first nine months of 2006. Our EBITDA margin for this period was 10.3%, down from 11.1% in the same period of 2006. Again, removing the full impact of our new stores, this year's nine-month EBITDA margin would be comparable to the prior year's at 10.9%.

Amortization

Amortization for the three months ended September 30, 2007 was $0.6 million, compared to $0.7 million in the third quarter of 2006. The difference was mainly due to the completion in 2006 of the amortization of the intangible asset value attributed to the customer sales backlog on acquisition of the business. This was offset somewhat by the amortization of costs related to our new stores.

Amortization for the nine months ended September 30, 2007 was $1.7 million, compared to $2.1 million in the first nine months of 2006. As with the quarterly result, the reduction was mainly due to the completion in 2006 of the amortization of the intangible asset value attributed to the customer sales backlog on acquisition of the business.

Net income before non-controlling interest

Net income before non-controlling interest for the three months ended September 30, 2007 was $3.4 million, the same amount we recorded in the third quarter of 2006. As a percentage of sales, our three-month net income before non-controlling interest was 8.9%, down from 9.7% in the third quarter of 2006. Removing the full impact of the new stores, net income before non-controlling interest would equal 9.3% of sales.

For the nine months ended September 30, 2007, net income before non-controlling interest was $8.6 million, compared to $7.5 million in the first nine months of 2006. As a percentage of sales, nine-month net income before non-controlling interest was 8.1%, equal to the 8.1% in the first nine months of 2006. Removing the full impact of the new stores would bring the nine-month result to 8.6% of sales.

Summary of Quarterly Results

(in thousands of dollars except percentages and per-unit amounts)			**2007**				**2006**	**2005**
For the quarters ended:	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $
Sales	37,759	36,809	31,161	32,762	34,674	30,802	27,717	30,825
Gross profit	9,496	9,228	7,732	8,570	8,716	7,710	6,660	8,597
Gross profit percentage	*25.1%*	*25.1%*	*24.8%*	*26.2%*	*25.1%*	*25.0%*	*24.0%*	*27.9%*
Net income before non-controlling interest	3,376	3,209	2,015	2,835	3,379	2,317	1,844	2,818
Net income	2,196	2,087	1,310	1,844	2,197	1,507	1,199	1,883
Basic and diluted net income per unit	0.337	0.320	0.201	0.283	0.337	0.231	0.184	0.289
Distributions per unit	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30

Refer to the section on Seasonality above for a discussion of the impact of seasonality on our quarterly sales levels. Gross profit percentages are higher in the fourth quarter of each year due to the inclusion of specific annual supplier volume rebates.

Liquidity and Capital Resources

Cash flow from operating activities

Cash flow from operating activities for the three months ended September 30, 2007 was $1.2 million, down from the $2.0 million we reported in the third quarter of 2006. Although our net income was approximately equal year-over-year, we had a greater growth in receivables and inventory in the current quarter when compared to the same quarter in 2006.

For the nine months ended September 30, 2007, cash flow from operating activities was $8.8 million, compared to $6.9 million in the same period of 2006. The difference was mainly attributable to our improved results year-over-year and the increase in our accounts payable and accrued liabilities as a result of the timing of our payments to major suppliers.

Capital expenditures

(in thousands of dollars)	3 months ended Sept. 30 **2007** $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 **2007** $	9 months ended Sept. 30 2006 $
Total capital expenditures	160	549	654	975
Less tenant inducements	–	160	147	160
	160	389	507	815
Less:				
Growth capital expenditures on new stores net of inducements	–	247	221	415
Inventory computer project funded separately	84	1	101	17
	84	248	322	432
Maintenance capital expenditures (1)	76	141	185	383

(1) See "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures", page 22.

Capital expenditures during the third quarter of 2007 related primarily to the upgrading of our inventory system, and ongoing computer equipment and software upgrades.

For the nine months to September 30, 2007, capital expenditures related mainly to the completion of our new Edmonton and Red Deer stores. Tenant inducements also related to these two facilities.

Maintenance capital is not a recognized measure under GAAP and does not have standardized meanings prescribed by GAAP (see "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures" below). We consider maintenance capital expenditures to include leasehold improvements for existing locations, relocation of current facilities, furniture and fixture purchases, and computer hardware and software expenditures. Growth capital expenditures are capital costs related to opening new locations.

The upgrading of Coast's inventory management technology is being funded by cash set aside from the purchase agreement with Coast Ltd., the owner of the predecessor business. Net funds of $0.511 million advanced by Coast Ltd. to the Fund have been earmarked for completion of this project. As the inventory management upgrade has been separately funded, we will not treat it as a maintenance capital expenditure in 2007.

We anticipate that our maintenance capital expenditures for fiscal 2007 will total approximately $0.7 million. In subsequent years, our annual maintenance capital expenditures will grow somewhat as we increase our store count.

Distributions to unitholders

The Fund makes monthly distributions to unitholders of record on the last business day of each month, payable on or about the 15th of the following month. For the nine months ended September 30, 2007, distributions were $0.90 per unit, totalling $5.9 million. In addition, the subordinated units were paid $0.90 per unit totalling $3.2 million for the nine month period. These equalled the distributions made in the same period of 2006.

Distributions have remained consistent at $0.10 per unit per month since the Fund's inception, totalling $17.8 million for the period from June 23, 2005 to September 30, 2007. In addition, distributions to the non-controlling interest have been paid in full during this period, totalling $9.5 million.

Period	Record date	Payment date	Per unit	Amount
January 2007	January 31, 2007	February 15, 2007	$0.10	$652,500
February 2007	February 28, 2007	March 15, 2007	0.10	652,500
March 2007	March 30, 2007	April 16, 2007	0.10	652,500
April 2007	April 30, 2007	May 15, 2007	0.10	652,500
May 2007	May 31, 2007	June 15, 2007	0.10	652,500
June 2007	June 29, 2007	July 16, 2007	0.10	652,500
July 2007	July 31, 2007	August 15, 2007	0.10	652,500
August 2007	August 31, 2007	September 17, 2007	0.10	652,500
September 2007	September 28, 2007	October 15, 2007	0.10	652,500
			$0.90	$5,872,500

The accrued distributions payable to unitholders and the non-controlling interest at September 30, 2007 were paid on October 15, 2007.

Subsequent to the end of the quarter, we announced an increase in our monthly cash distribution to $0.1025 per unit, effective with the October 2007 distribution to be paid November 15, 2007 to unitholders of record on October 31, 2007.

Standardized Distributable Cash

On July 18, 2007, the Canadian Institute of Chartered Accountants (CICA) issued an interpretive release (Standardized Distributable Cash in Income Trusts and other Flow-through Entities) providing guidance on standardized preparation and disclosure of distributable cash for income trusts. The CICA calculation of standardized distributable cash is based on cash flows from operating activities, including the effects of changes in non-cash working capital, less total capital expenditures. The table below uses this calculation method to set out standardized distributable cash for the past eight quarters.

(in thousands of dollars except percentages and per-unit amounts)			**2007**				2006	2005
For the quarters ended:	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $
Cash from operations	1,183	1,078	6,539	4,416	1,954	1,108	3,854	284
Other capital expenditures	(84)	(142)	(96)	(419)	(248)	(173)	(11)	(489)
Maintenance capital expenditures	(76)	(104)	(5)	(36)	(141)	(192)	(50)	(313)
Standardized distributable cash	1,023	832	6,438	3,961	1,565	743	3,793	(518)
Distributions	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010
Standardized payout ratio	*294.2%*	*361.8%*	*46.8%*	*76.0%*	*192.3%*	*405.1%*	*79.4%*	*N/A*
Standardized distributable cash per unit	0.102	0.083	0.642	0.395	0.156	0.074	0.378	(0.052)
Distributions per unit	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
12-month trailing:								
Standardized distributable cash	12,254	12,796	12,707	10,062	5,583	7,684		
Distributions	12,040	12,040	12,040	12,040	12,040	12,040		
Standardized payout ratio	*98.3%*	*94.1%*	*94.8%*	*119.7%*	*215.7%*	*156.7%*		
Year to date:								
Standardized distributable cash	8,293				6,101			
Distributions	9,030				9,030			
Standardized payout ratio	*108.9%*				*148.0%*			
Cumulative since IPO June 23, 2005:								
Standardized distributable cash	20,803							
Distributions	27,324							
Standardized payout ratio	*131.3%*							

Management feels that the standardized distributable cash calculation distorts the Fund's quarter-to-quarter distributable cash and payout ratios, as our non-cash working capital fluctuates dramatically with the seasonality of our business and changes in the timing of the payment of payable transactions.

On a 12-month trailing basis, using the standardized distributable cash calculation, our standardized payout ratio of 98.3% at September 30, 2007 was significantly improved from 215.7% at September 30, 2006. Using the adjusted distributable cash calculation described below, the Fund's 12-month trailing payout ratio improved to 89.2% at September 30, 2007 from 94.9% at September 30, 2006.

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

Adjusted Distributable Cash

Historically, we have considered distributable cash to be our net income before non-controlling interest and amortization, less maintenance capital expenditures. This is the equivalent of cash flows from operating activities before changes in non-cash working capital, less maintenance capital expenditures. (See "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures" below.) We have adjusted the historical calculation to this base.

Our calculation of adjusted distributable cash in the second quarter of this year included the change in our deferred warranty sales, which generates significant cash for the Fund. Taking a more conservative approach, we have excluded this source of cash from our adjusted distributable cash calculations. All historical calculations have been recalculated in this manner.

(in thousands of dollars except percentages and per-unit amounts)			**2007**				2006	2005
For the quarters ended:	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $
Cash flow from operations before changes in non-cash working capital	3,971	3,647	2,560	3,548	4,128	3,014	2,500	3,744
Maintenance capital expenditures (1)	(76)	(104)	(5)	(36)	(141)	(192)	(50)	(313)
Adjusted distributable cash (1)	3,895	3,543	2,555	3,512	3,987	2,822	2,450	3,431
Distributions	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010
Adjusted payout ratio	*77.3%*	*85.0%*	*117.8%*	*85.7%*	*75.5%*	*106.7%*	*122.9%*	*87.7%*
Adjusted distributable cash per unit	0.39	0.35	0.25	0.35	0.40	0.28	0.24	0.34
Distributions per unit	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
12-month trailing:								
Adjusted distributable cash	13,505	13,597	12,876	12,771	12,690	12,029		
Distributions	12,040	12,040	12,040	12,040	12,040	12,040		
Adjusted payout ratio	*89.2%*	*88.5%*	*93.5%*	*94.3%*	*94.9%*	*100.1%*		
Year-to-date:								
Adjusted distributable cash	9,993				9,259			
Distributions	9,030				9,030			
Adjusted payout ratio	*90.4%*				*97.5%*			
Cumulative since IPO June 23, 2005:								
Adjusted distributable cash	30,034							
Distributions	27,324							
Adjusted payout ratio	*91.0%*							

(1) See "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures", page 22.

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

For the third quarter of 2007, our adjusted payout ratio of 77.3% was up slightly from the 75.5% we reported for the same period of 2006. The year-over-year difference was due to the combined impact of costs associated with our new stores and generally higher expenses with the growth of the business.

For the nine months ended September 30, 2007, our adjusted payout ratio improved to 90.4% from 97.5% for the same period of 2006. As the three new stores have achieved profitability, their impact on our adjusted payout ratio is now positive. On a 12-month trailing basis, our adjusted payout ratio of 89.2% at September 30, 2007 has improved significantly from 94.9% at September 30, 2006.

On a cumulative basis, from the Fund's inception at June 23, 2005, our adjusted payout ratio is 91.0%.

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

(in thousands of dollars)	3 months ended Sept. 30 **2007** $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 **2007** $	9 months ended Sept. 30 2006 $	12 months trailing Sept. 30 **2007** $	12 months trailing Sept. 30 2006 $
Standardized distributable cash	1,023	1,565	8,294	6,101	12,254	5,583
Change in non-cash working capital	2,788	2,174	1,377	2,726	510	6,186
Non maintenance capital expenditures	84	248	322	432	741	921
Adjusted distributable cash (1)	3,895	3,987	9,993	9,259	13,505	12,690

(1) See "Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures", page 22.

Contractual obligations and commitments

Payments due by period as at September 30, 2007

(in thousands of dollars)	Operating leases $	Term loan $
Less than one year	2,442	–
One to three years	4,399	–
Four to five years	2,120	20,000
After five years	3,474	–
	12,435	20,000

Coast has borrowed $20 million under a three-year committed-interest only non-revolving term loan due July 31, 2010. The loan was made available for the financing of capital assets and working capital. Advances under the loan bear interest at prime plus 0% to 0.25%, when borrowed directly, or at the banker's acceptance rate plus 1.00% to 1.50%, when a banker's acceptance facility is utilized, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. Coast entered into an interest-rate swap transaction on July 28, 2005 to fix the effective rate of interest on the term loan until June 23, 2008 at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The term loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier (see Note 6(b) of the unaudited financial statements). No principal repayments are required during the term of the loan.

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

Operating leases are in place for all premises. Coast paid total basic rent of $0.7 million for the three months ended September 30, 2007 and $2.0 million for the nine months ended September 30, 2007.

This compares to total basic rent of $0.6 million and $1.7 million for the three and nine months ended September 30, 2006, respectively. Agreements are in place to relocate our Abbotsford and Regina stores to new facilities in higher-traffic areas in the first half of 2008.

Working capital

(in thousands of dollars)	September 30 **2007** $	December 31 2006 $
Working capital	19,359	18,451
Total assets	130,873	127,460
Term loan	20,000	20,000

Working capital of $19.4 million at September 30, 2007 was in line with the $18.5 we reported at December 31, 2006 and has increased by $2.4 million from our working capital at September 30, 2006. Since December 31, 2006, our inventories and receivables have increased by $2.7 million and $1.5 million, respectively, while our customer deposits and net payables have increased by $0.6 million and $2.1 million, respectively.

In addition to working capital, we have available a $10 million, three-year committed revolving loan. This operating loan may be used for working capital requirements and general corporate purposes. Advances under the loan bear interest at the lender's prime rate plus 0% to 0.25%, or at the banker's acceptance rate plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The operating loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier (see Note 6(b) of the financial statements). The operating loan was $0.2 million at September 30, 2007 compared to nil for the same date in 2006. Our utilization of the operating loan during the quarter decreased year-over-year with borrowings approximately 33% of the time in the third quarter 2007 compared to 64% in 2006. Utilization in the first six months of 2007 was consistent with the prior year's. We had borrowings approximately 60% of the time in the first quarter and no usage during the second quarter. The operating loan is mainly used to fund short-term working capital requirements.

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

Total assets

Total assets at September 30, 2007 were $130.9 million, compared to total assets at December 31, 2006 of $127.5 million. The difference was mainly due to increased inventory and accounts receivable.

Inventory at September 30, 2007 was $22.3 million, compared to $19.6 million at both December 31, 2006 and September 30, 2006. The $2.7 million increase includes $1.6 million of inventory for our three new stores. The new higher-end product lines we added in 2006 have also put upward pressure on inventory values.

Accounts receivable at September 30, 2007 were $15.2 million, compared to $13.7 million at December 31, 2006. As charted below, our third quarter 2007 trade accounts receivable increased by $3.6 million from the 2006 year-end total. This year's higher receivables reflect our strong third quarter

contract sales, which utilize our credit terms. Supplier rebates have reduced from December 31, 2006 as we collected our year-end rebates in the first quarter.

(in thousands of dollars)	September 30 **2007** $	December 31 2006 $
Accounts receivable - trade	13,998	10,412
Supplier rebates and other	1,198	3,303
	15,196	13,715

Total liabilities

Total liabilities at September 30, 2007 were $40.9 million, compared to $37.1 million at December 31, 2006. The $3.8 million difference was mainly due to a $2.1 million increase in accounts payable, a $0.6 million increase in customer deposits, and a $0.6 million increase in cheques issued in excess of funds on deposit.

Since our 2006 year-end, our cheques issued in excess of funds on deposit have increased from $2.6 million to $3.2 million. At September 30, 2007, we had utilized our operating line in the amount of $0.2 million. This compares to cheques issued in excess of funds on deposit of $3.6 million and a nil operating line at September 30, 2006. The year-over-year difference was due to the timing of the processing of our outstanding cheques.

Accounts payable and accrued liabilities at September 30, 2007 were $8.8 million, compared to $6.7 million at December 31, 2006. This change is a result of the timing of payments for inventory and sold goods.

Customer deposits at September 30, 2007 were $4.0 million, compared to $3.4 million at both December 31, 2006 and at September 30, 2006, reflecting the continuing strength of our business. The $0.5 million reduction in our customer deposits since June 30, 2007 is a reflection of the modest softening of our retail business in the current quarter (see Sales above).

Total deferred warranty revenue (combined current and long-term) at September 30, 2007 was $2.3 million, compared to $2.2 million at December 31, 2006.

Deferred lease inducements in the amount of $0.5 million were received in accordance with leases for our new stores at September 30, 2007, compared to $0.4 million at December 31, 2006. These amounts are amortized over the terms of the leases.

With the changes to the accounting for our financial instruments (discussed below) we recorded a deferred financing item in the amount of $0.2 million.

Long-term incentive plan

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

As at September 30, 2007, the Fund has no liability or expenses recorded in respect of the LTIP.

Financial Instruments

Financial instruments of Coast consist of cash and cash equivalents, accounts receivable, accounts payable, customer deposits, our term loan 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 unaudited financial statements. These financial instruments are subject to credit risk, currency risk and concentration risk, as described in the unaudited financial statements presented elsewhere in this report.

To fix the interest rate on our $20 million term loan, a hedging strategy was established and a hedge was executed on July 28, 2005. This interest rate swap transaction fixed the effective rate of interest on the term loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes and amortization, calculated on a quarterly basis, until June 23, 2008. The derivative financial instrument previously qualified for hedge accounting. During the quarter we extended the maturity of our term loan to July 31, 2010. As a consequence, the hedging relationship ceased to be effective. The unrealized gain on the interest rate swap, in the amount of $0.2 million, was recorded on the balance sheet as deferred financing and will be amortized to income over the remaining term of the loan. Concurrently, the fair market value of the financial instrument was recorded on the balance sheet and changes in its fair market value will be recognized in the income statement on a market to market basis.

Off Balance Sheet Arrangements

Coast has not entered into any off balance sheet arrangements.

Critical Accounting Policies and Estimates

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

The significant accounting policies of Coast are described in Note 2 of the Fund's 2006 year-end audited 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:

Adoption of new accounting standards

On January 1, 2007, the Fund adopted the CICA new financial instruments accounting framework relating to Comprehensive Income, Financial Instruments and Hedges. Under these new standards, all financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. For derivatives that qualify as hedging instruments, unrealized gains or losses are included either in other comprehensive income or in earnings, depending on whether it is a "cash flow hedge" or a "fair value hedge". For derivatives that do not qualify as hedging instruments, unrealized gains or losses are reported in earnings. A hedging relationship is terminated if the hedge ceases to be effective, at which time any unrealized gain or loss on the derivative financial instrument is recognized in the consolidated statement

of income over the period ending when the related hedged item ceases to exist. The related derivative financial instrument is recorded at fair market value on the consolidated balance sheet and changes in its fair value are recognized in the consolidated statement of income on a market to market basis.

Revenue recognition

Coast recognizes revenue from the sale of products when a sales arrangement is entered into, the sales price is fixed and determinable, the products are shipped and collection is reasonably assured.

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

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

Valuation of goodwill

Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. The Fund compares goodwill to the fair value of the reporting unit to which the goodwill relates. Any impairment is charged to operations in the amount by which the carrying amount of the assets exceeds the fair value of the goodwill. Coast's goodwill was evaluated as at December 31, 2006. No adjustment for impairment was required.

Valuation of long-lived assets

We review long-lived assets and certain identified recorded intangibles for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the future undiscounted cash flows from the asset's expected use and eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets designated for disposal are valued at the lower of the carrying amount and the fair value, less costs to sell. Coast's long-lived assets and certain identified recorded intangibles were evaluated as at December 31, 2006. No adjustments for impairment were required.

Inventory valuation

Inventory is valued at the lower of cost and net realizable value using the first-in, first-out method. Coast assesses net realizable value of inventory at each reporting period based on sales patterns of inventory, expected selling prices and the level of inventory on hand. Incentives received from suppliers and any provisions are accounted for as a reduction in the related inventory and cost of sales.

Income taxes

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

Beginning in 2011, as proposed by the federal government on October 31, 2006 and substantively enacted into legislation by the House of Commons on June 12, 2007, distributions that are currently paid out and taxed in the hands of unitholders will first be taxed at the trust level at a rate of 31.5%. The net amount will then be paid out to unitholders, where it will be taxed as taxable dividends paid by a

Canadian corporation. In the interim period, the federal government has specified that "undue growth" may result in immediate taxation of income trusts that would otherwise not be subject to taxation until 2011.

In accordance with CICA Emerging Issues Committee bulletin EIC-111 (Determination of Substantively Enacted tax rates under CICA handbook section 3465) and the guidance in EIC-D67 (Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs), the Fund is required to recognize the future income tax assets or liabilities. The corresponding change to the future income tax expense must be based on the temporary timing differences between the book and tax bases of assets and liabilities expected to reverse after the tax is imposed. The adoption of these new standards resulted in a future income tax asset of $0.2 million in 2007 and a corresponding recovery of future income tax, which was recorded in our income statement. The Fund currently has an unused tax shield of approximately $46 million and we expect the future income taxes related to these deductions will increase as these timing differences will not reverse prior to 2011. This tax shield arose in the acquisition of the business in June 2005 and can be utilized to reduce the Fund's taxable income at the rate of approximately $4 million per year going forward.

For the three month period ended September 30, 2007 the future income tax recovery was $3,000.

Related Party Transactions

We lease six store locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two of our four warehouses (located in Vancouver and Victoria) from a company affiliated with Coast Ltd., the former owner of the business. For the nine-month period ended September 30, 2007, our lease payments for these facilities totalled $1.0 million. Each of the leases was modified as part of our initial public offering to provide for a term of five years from June 23, 2005, with two consecutive five-year options that enable us to renew at the greater of the existing rent or the fair market rent at the time of the renewal. In the third quarter, we began our relocation to a new warehouse facility in Calgary, which became fully functional in October 2007. We have now terminated our lease with Coast Ltd. for the original Calgary warehouse.

Disclosure Controls and Procedures

As at September 30, 2007, an evaluation was carried out for the effectiveness of the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109. Based on that evaluation, we concluded that the design and operation of these disclosure controls and procedures were effective.

Management of the Fund is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2007 that have materially effected, or are reasonably likely to materially effect, the Fund's internal control over financial reporting.

Outlook

As we announced on October 19, 2007, we increased our monthly distribution to $0.1025 from $0.10 with our twenty-eighth consecutive distribution, which is scheduled to be paid November 15, 2007 to public unitholders of record as at October 31, 2007. This increase represents an annualized distribution rate of $1.23 per unit and reflects the sustained strong performance of our business.

For the balance of 2007, the outlook for our business continues to be positive. The market for major household appliances remains strong in Western Canada, with continued healthy economic growth and in-migration to Alberta and Saskatchewan.

The two additional locations we opened in the first quarter of this year brought the total number of Coast stores to 15, five of them in the robust Alberta market. We expect to continue to see organic growth from our existing stores, as well as incremental sales gains from the new stores.

We are continually reviewing opportunities for expansion, both by increasing our coverage of Western Canada and by potentially entering the eastern Canadian market. We are also proceeding with a number of initiatives to increase sales from our existing stores and enhance our profitability. In the third quarter of this year, we relocated our Calgary warehouse to a newer and larger facility, which became fully operational in October. We are moving forward with our plans to relocate our Regina and Abbotsford stores to new, larger facilities in higher traffic areas in the first quarter of 2008. Finally, we are proceeding with our inventory management upgrade project. Phased implementation commenced in the second quarter and we expect to substantially complete the project by the end of the fourth quarter.

We continue to evaluate the potential impact of the new tax on income trusts enacted June 12, 2007. The taxation of distributions at the trust level will begin in 2011. As more information relating to transition rules becomes available, we will determine the most appropriate course of action for the Fund.

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

Risks and Uncertainties

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

- general economic conditions in Canada, particularly in Western Canada, along with interest rates and their impact on the housing market both new construction and renovation work;
- any significant change in competition from one or more competitors in Western Canada, as well as competition directly from suppliers;
- changes in the financial health of suppliers, changes in the quality of products sourced from suppliers, as well as changes in the ability of our suppliers to meet our supply requirements on a timely basis;
- fluctuations in the Canada / US dollar exchange rate, which may impact product costs from our major suppliers;
- changes to our product distribution processes, which may impact our ability both receive and deliver our products on a timely basis;
- changes to the credit worthiness of our developer / builder contract customers, which may impact their ability to meet their obligations on a timely basis;

- changes in labour relations or key personnel;
- demands on our extended warranty programs, which may cause costs to increase beyond historical patterns;
- changes in tax legislation; and
- other factors as described under "Forward-looking Statements".

Definition of EBITDA, Adjusted Distributable Cash and Non-GAAP Measures

References to "EBITDA" are to earnings before non controlling interest, interest, unrealized gains or losses related to our derivative financial instruments, taxes, depreciation and amortization. The term "EBITDA margin" refers to the percentage that EBITDA represents in relation to sales.

We view adjusted distributable cash as an operating performance measure. We consider adjusted distributable cash to be our cash flow from operations, before changes in non-cash working capital, less maintenance capital. For a reconciliation of adjusted distributable cash to standardized distributable cash see "Adjusted Distributable Cash".

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

Since many investors use EBITDA to compare issuers on the basis of the ability to generate cash from operations, we believe that, in addition to net income or loss and statements of cash flow, EBITDA is a useful supplemental measure from which to make adjustments to determine adjusted distributable cash. EBITDA and adjusted distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and adjusted distributable cash may not be comparable to similar measures presented by other entities. Readers are cautioned that EBITDA and adjusted distributable cash should not be construed as alternatives to net income or loss determined in accordance with GAAP as indicators of the performance of the Fund or our operating business. Similarly, these should not be seen as alternatives to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. We have used net income before non-controlling interest as the starting point for our determination of EBITDA. For a reconciliation of EBITDA to net income presented in accordance with GAAP, see "Selected Financial Information" above.

Additional Information

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

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.

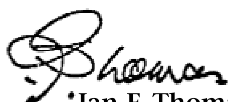
Interim Consolidated Balance Sheet

(Unaudited)

	September 30 2007 $	December 31 2006 $
Assets		
Current assets		
Accounts receivable	15,196,219	13,715,467
Inventory	22,279,308	19,566,438
Derivative financial instrument (Note3(a) & 10(c))	159,000	–
Prepaid expenses	318,573	318,134
	37,953,100	33,600,039
Leaseholds and equipment (Note 4)	3,922,431	4,032,267
Deferred financing costs	47,119	95,674
Future income taxes (Note 3(b))	131,000	–
Intangible assets (Note 5)	16,738,014	17,650,002
Goodwill	72,081,521	72,081,521
	130,873,185	127,459,503
Liabilities		
Current liabilities		
Cheques issued in excess of funds on deposit	3,172,901	2,623,396
Operating loan (Note 6(a))	187,361	–
Accounts payable and accrued liabilities	8,791,496	6,735,328
Accrued distributions payable to unitholders	652,500	652,500
Accrued distributions payable to non-controlling interests	1,052,750	1,052,750
Customer deposits	3,995,991	3,381,411
Current portion of deferred warranty revenue	740,692	703,784
	18,593,691	15,149,169
Term loan (Note 6(a))	20,000,000	20,000,000
Deferred financing (Note 3(a) & 10(c))	187,000	–
Long-term portion of deferred warranty revenue	1,597,051	1,488,162
Deferred lease inducements	532,962	428,780
	40,910,704	37,066,111
Non-controlling interest (Note 7)	31,459,285	31,610,171
Unitholders' equity	58,503,196	58,783,221
	130,873,185	127,459,503

Commitments (Note 9)

Approved on behalf of the Trustees



C. Kenneth Crump
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 2007 $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 2007 $	9 months ended Sept. 30 2006 $
Sales	37,758,648	34,673,567	105,728,845	93,192,776
Cost of sales	28,262,897	25,957,351	79,273,011	70,106,623
Gross profit	9,495,751	8,716,216	26,455,834	23,086,153
Expenses				
Selling	2,526,595	2,136,812	7,445,311	6,217,798
General and administrative	1,201,756	998,008	3,743,213	2,976,990
Facilities	1,016,747	813,017	2,965,388	2,326,687
Warehousing	525,018	426,459	1,374,458	1,225,821
Amortization:				
Leaseholds and equipment	266,735	219,370	763,834	512,670
Deferred financing costs	16,185	16,185	48,555	48,555
Intangible assets	303,996	514,329	911,988	1,542,987
Interest	237,374	213,504	706,248	695,654
Unrealized loss - derivative financial instrument (Note 10(c))	28,000	–	28,000	–
	6,122,406	5,337,684	17,986,995	15,547,162
Income before under noted items	3,373,345	3,378,532	8,468,839	7,538,991
Recovery of future income taxes (Note 3(b))	3,000	–	131,000	–
Income before non-controlling interest	3,376,345	3,378,532	8,599,839	7,538,991
Non-controlling interest (Note 7)	1,180,708	1,181,472	3,007,364	2,636,385
Net income	2,195,637	2,197,060	5,592,475	4,902,606
Basic and diluted net income per unit	0.3365	0.3367	0.8571	0.7514
Basic weighted average number of Units outstanding	6,525,000	6,525,000	6,525,000	6,525,000
Diluted weighted average number of units outstanding	10,034,166	10,034,166	10,034,166	10,034,166

See accompanying notes to the unaudited interim consolidated financial statements

Interim Consolidated Statement of Unitholders' Equity

(Unaudited)

For the nine month period ended September 30, 2007

	Fund units $	Cumulative earnings $	Cumulative distributions $	Total $
Balance, December 31, 2006	59,835,000	10,845,254	(11,897,033)	58,783,221
Net Income		5,592,475		5,592,475
Distributions			(5,872,500)	(5,872,500)
Balance, September 30, 2007	59,835,000	16,437,729	(17,769,533)	58,503,196

See accompanying notes to the unaudited interim consolidated financial statements

Interim Consolidated Statement of Cash Flows

(Unaudited)

	3 months ended Sept. 30 2007 $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 2007 $	9 months ended Sept. 30 2006 $
Operating activities				
Net income	2,195,637	2,197,060	5,592,475	4,902,606
Items not involving cash				
Amortization	586,916	749,884	1,724,377	2,104,212
Non-controlling interest	1,180,708	1,181,472	3,007,364	2,636,385
Amortization of leasehold inducements	(17,211)	–	(42,906)	–
Unrealized loss - derivative financial instrument (Note 10(c))	28,000	–	28,000	–
Future income taxes (Note 3(b))	(3,000)	–	(131,000)	–
	3,971,050	4,128,416	10,178,310	9,643,203
Change in non-cash working capital, net (Note 12)	(2,787,343)	(2,174,036)	(1,377,516)	(2,726,666)
	1,183,707	1,954,380	8,800,794	6,916,537
Investing activities				
Purchase of leaseholds and equipment	(160,450)	(548,876)	(653,998)	(974,896)
Deferred lease inducements	–	159,850	147,088	159,850
	(160,450)	(389,026)	(506,910)	(815,046)
Financing activities				
Increase (decrease) in operating loan	187,361	(625,633)	187,361	–
Distributions paid to unitholders	(1,957,500)	(1,957,500)	(5,872,500)	(5,872,500)
Distributions paid to non-controlling interest	(1,052,750)	(1,052,750)	(3,158,250)	(3,158,250)
	(2,822,889)	(3,635,883)	(8,843,389)	(9,030,750)
Net cash outflow	(1,799,632)	(2,070,529)	(549,505)	(2,929,259)
Cheques issued in excess of funds on deposit, beginning of period	(1,373,269)	(1,503,255)	(2,623,396)	(644,525)
Cheques issued in excess of funds on deposit, end of period	(3,172,901)	(3,573,784)	(3,172,901)	(3,573,784)
Supplemental cash flow information:				
Interest paid	237,374	213,504	706,248	695,654

See accompanying notes to the unaudited interim consolidated financial statements

Notes to the Interim Consolidated Financial Statements

(Unaudited)

September 30, 2007

1. Nature of Operations and Basis of Presentation

(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 holds a 65.03% indirect interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan and Manitoba.

(b) Basis of presentation

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

(c) Income taxes

As the Fund allocates all of its taxable income and taxable capital gains to Unitholders, the Fund itself is not subject to current income taxes until 2011 (see note 3(b) below).

2. Significant accounting policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with Canadian GAAP have been condensed or omitted and accordingly, these financial statements should be read in conjunction with the Fund's audited financial statements for the year ended December 31, 2006. The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Interim results are not necessarily indicative of the results expected for the fiscal year.

3. Adoption of new accounting standard

(a) Financial Instruments

On January 1, 2007, the Fund adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income.

Under these new standards, all financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. For derivatives that qualify as hedging instruments, unrealized gains or losses are included either in other comprehensive income or in earnings, depending on whether it is a "cash flow hedge" or a "fair value hedge". For derivatives that do not qualify as hedging instruments, unrealized gains or losses are reported in earnings. A hedging relationship is terminated if the hedge ceases to be effective, at which time any unrealized gain or loss on the derivative financial instrument is recognized

in the consolidated statement of income over the period ending when the related hedged item ceases to exist. The related derivative financial instrument is recorded at fair market value on the consolidated balance sheet and changes in its fair value are recognized in the consolidated statement of income on a market to market basis.

(b) Income Taxes

Legislation imposing a tax on the Fund for taxation years after December 31, 2010 was considered substantively enacted after it passed third reading by the House of Commons on June 12, 2007.

Effective June 12, 2007 the Fund has adopted EIC 111, Determination of Substantively enacted tax rates under CICA handbook section 3465, and the guidance in EIC D67, Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs. Under these new standards the Fund is required to recognize the future income tax assets or liabilities with the corresponding change to the future income tax expense based on the temporary timing differences expected to reverse after the date the tax is imposed. The adoption of these new standards resulted in a future income tax asset of $128,000 effective June 12, 2007 and a corresponding recovery of future income tax recorded in the income statement. As the Fund has an unused tax shield of approximately $45 million we would expect a future income tax liability related to these deductions to increase as they would not reverse until subsequent to 2010. This tax shield arose in the acquisition of the business in June 2005 and can be utilized to reduce the Fund's taxable income at the rate of approximately $4 million per year going forward.

4. Leaseholds and equipment

			September 30 2007			December 31 2006
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Leasehold improvements	2,756,172	695,513	2,060,659	2,341,129	379,454	1,961,675
Forklifts	444,051	58,751	385,300	444,051	36,548	407,503
Furniture and fixtures	262,395	39,294	223,101	252,178	21,015	231,163
Equipment	461,356	84,384	376,972	444,052	51,604	392,448
Computer hardware and software	1,684,189	807,790	876,399	1,472,755	433,277	1,039,478
	5,608,163	1,685,732	3,922,431	4,954,165	921,898	4,032,267

5. Intangible assets

			September 30 2007			December 31 2006
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Coast brand name	3,369,000	–	3,369,000	3,369,000	–	3,369,000
Supplier relationships	3,129,000	710,978	2,418,022	3,129,000	476,303	2,652,697
Customer relationships - builders/developers	10,060,000	1,523,907	8,536,093	10,060,000	1,020,906	9,039,094
Customer relationships - property managers	1,900,000	287,827	1,612,173	1,900,000	192,823	1,707,177
Retail customer list	478,000	108,603	369,397	478,000	72,756	405,244
Favourable leases	565,000	131,671	433,329	565,000	88,210	476,790
	19,501,000	2,762,986	16,738,014	19,501,000	1,850,998	17,650,002

6. Credit facilities

(a) Operating and term loans

	September 30 2007 $	December 31 2006 $
Term loan	20,000,000	20,000,000
Term revolving loan	–	–
Operating loan	187,361	–
	20,187,361	20,000,000

The Fund has utilized a $20,000,000 3-year non-revolving loan (the "Term Loan") due July 31, 2010. The Term Loan was made available for the financing of working capital, leaseholds and equipment. Advances bear interest at the lender's prime rate plus 0% to 0.25%, when borrowed directly, or at the banker's acceptance rate plus 1.00% to 1.50% when a banker's acceptance facility is utilized, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The Term Loan is secured by a general security agreement covering all assets of the Fund, subject to the security provided to a major supplier as noted in Note 6(b) below. Payments are monthly for interest only. On July 28, 2005 the Fund 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 Fund has available a $13,500,000 3-year revolving term loan (the "Revolving Term Loan") due July 31, 2010. The Revolving Term Loan is available for business acquisitions. Interest, terms and security are the same as for the Term Loan. Payments are monthly for interest only.

The Fund has utilized $187,361 of an available $10,000,000 3-year revolving loan (the "Operating Loan"). The Operating Loan is available for working capital requirements, capital expenditures and general corporate purposes. Interest, terms and security are the same as for the Term Loan.

(b) Third party security interest

Accounts payable net of rebates receivable due to a major supplier are secured by inventory on hand that was acquired from the supplier, which totaled $2,023,086 as at September 30, 2007 ($35,864 as at December 31, 2006).

7. Non-controlling interest

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

	$
Retained interest - December 31, 2006	31,610,171
Interest in earnings	3,007,364
Distributions to non-controlling interest	(3,158,250)
Retained interest, September 30, 2007	31,459,285

CWAL Investments Ltd. 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 EBITDA (see below) of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least $13.717 million (the “EBITDA Target); and
- cumulative cash distributions of at least $2.40 per Unit have been paid on the Units and cumulative cash advances or distributions of at least $2.40 per Exchangeable Unit have been paid on the Exchangeable Units (as adjusted for issuances, repurchases and redemptions of Units and Partnership Units subsequent to the closing of the Offering) for the 24 month period ending on the last day of the month immediately preceding such date (the “Distribution Target”).

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

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

After the Subordination End Date, the holders of the Exchangeable Units will be entitled to effectively exchange all or a portion of their Exchangeable Units for up to 3,509,166 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. The subordination is expected to be removed following the completion of the Fund’s next full financial audit, anticipated to be conducted subsequent to its 2007 year-end.

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

8. 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, 2007 and December 31, 2006	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.

9. Commitments

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

12 months ended September 30	$
2008	2,441,652
2009	2,400,400
2010	1,998,906
2011	1,141,273
2012	979,313
	8,961,544

10. Financial instruments

(a) Fair value

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits, accrued distributions payable to Unitholders and accrued distributions payable to non-controlling interests, the fair value of which are considered to approximate their carrying value due to their ability of prompt liquidation except as noted elsewhere in these 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 derivative financial instrument previously qualified for hedge accounting. During the quarter the Term Loan maturity was extended to July 31, 2010, and as a result, the hedge ceased to be effective. The unrealized gain on the interest rate swap of $187,000 was recorded as deferred financing and is being amortized to the consolidated income statement over the term of the debt as a reduction of interest expense using the effective interest rate method. Concurrently, the fair market value of the financial instrument was recorded on the balance sheet and changes in its fair market value will be recognized in the consolidated statement of income on a market to market basis. During the period ended September 30, 2007 the fund recorded an unrealized loss of $28,000 on this financial instrument.

(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, 2007, purchases by Coast from its three largest suppliers totaled $60,335,443. At September 30, 2007 amounts payable to these suppliers included in accounts payable and accrued liabilities net of rebates receivable totaled $5,196,216 ($346,618 as at December 31, 2006).

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

11. Related party transactions

Coast leases six of its branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two of its warehouses (Vancouver and Victoria) from a company affiliated with the former principal shareholders of the acquired business who have a non-controlling interest in the Fund (see Note 7). The total amount paid to related parties for the nine months ended September 30, 2007 was $994,617. Each of these leases was modified as part of the Offering, to provide for a term of five years from June 23, 2005 with two consecutive options to renew at the option of Coast at the greater of the existing rent or the fair market rent at the time of the renewal. The amounts were measured at the exchange amount which was the consideration agreed upon between the related parties.

12. Net change in non-cash working capital

	3 months ended Sept. 30 2007 $	3 months ended Sept. 30 2006 $	9 months ended Sept. 30 2007 $	9 months ended Sept. 30 2006 $
Accounts receivable	$255,274	($2,092,448)	($1,480,752)	($1,384,664)
Inventory	(127,887)	(761,355)	(2,712,870)	(2,448,563)
Prepaid expenses	155,640	138,817	(439)	(135,299)
Accounts payable and accrued liabilities	(2,653,181)	180,827	2,056,168	(237,667)
Customer deposits	(471,123)	243,679	614,580	1,211,880
Deferred warranty revenue	53,934	116,444	145,797	267,647
	($2,787,343)	($2,174,036)	($1,377,516)	($2,726,666)

13. Segmented information

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

14. Long-term incentive plan

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

As at September 30, 2007, the Fund has no liability nor recorded any expense in respect of the LTIP.

15. Subsequent events

On October 19, 2007 the Fund declared its twenty-eighth distribution for the period from October 1, 2007 to October 31, 2007 to Unitholders of record of the Fund on October 31, 2007 to be paid November 15, 2007. The distribution was increased to $0.1025 per Unit from $0.10 per Unit 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.

Unitholder Information

Coast Wholesale Appliances Income Fund

Harlow B. Burrows
Trustee of the Fund,
Director of Coast Wholesale Appliances GP Inc.

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

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

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

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

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Auditors

Deloitte & Touche LLP
Vancouver, BC

Trust Units Listed

Toronto Stock Exchange
Trading Symbol: CWA.UN

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Coast Wholesale Appliances LP: Management

R. Blain Lawson
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

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