



**Second Quarter
Report to
Unitholders**



**For the period from
June 23 – June 30,
2005**



PROFILE

Coast Wholesale Appliances Income Fund

Coast Wholesale Appliances Income Fund is an unincorporated, open-ended limited purpose trust launched on June 23, 2005 with the completion of an initial public offering of 6,525,000 trust units. The Fund was created to acquire and hold a 65% indirect interest in Coast Wholesale Appliances LP (Coast).

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

Coast Wholesale Appliances LP

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

Founded in 1978, Coast originally operated exclusively as a wholesale supplier to the developer and builder markets. We subsequently broadened our focus to encompass direct sales to retail customers. Today, our sales are almost evenly split between our developer and builder customers, and our retail customers.

Coast currently operates 12 branch locations and four warehouse distribution centres across the four Western provinces. We offer our customers the convenience of one-stop shopping for all of their major household appliances needs across more than 30 major brands.

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

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

► To Our Unitholders

This report presents our financial results for the eight days ended June 30, 2005, which represents the period between the closing of our initial public offering of units on June 23, 2005 and the end of the quarter. For comparative purposes, selected unaudited results for Coast Wholesale Appliances Ltd., the predecessor business of Coast Wholesale Appliances LP (Coast), are included in Management's Discussion and Analysis for the periods from March 1, 2004 to June 30, 2004 and March 1, 2005 to June 22, 2005, and for the fiscal year ended February 28, 2005.

On behalf of Coast Wholesale Appliances Income Fund, it is my pleasure to extend a warm welcome to our new unitholders. We thank you for your investment in our business.

On June 23, 2005, we were excited to make the transition from a privately-held company to an income trust with the completion of our successful initial public offering. The offering raised gross proceeds of \$65,250,000 through the sale of 6,525,000 units at a price of \$10.00 per unit.

Net proceeds of our offering, together with amounts advanced under new credit facilities, were used to acquire a 65% interest in Coast Wholesale Appliances LP (Coast), a leading independent supplier of major household appliances. Coast sells to an established base of developer, builder and retail customers throughout Western Canada. The financial results of the Fund are entirely dependent on the operations of Coast.

The remaining 35% interest in the business has been retained by the previous ownership. Distributions to this retained interest are subordinated to distributions to public unitholders for a minimum of two years from closing and are subject to the Fund meeting stringent EBITDA and cash distribution targets.

Over the past decade, the major household appliance industry has benefited from strong economic growth fundamentals, with new product innovations and an increasing focus on home décor both working to drive up sales. During this time, growth in spending on major appliances has outpaced overall economic growth. Over the last several years, Coast has also benefited from robust housing activity, as well as increasing levels of home renovation. In the months and years to come, we plan to create value for our unitholders by taking full advantage of the opportunities that exist to further grow and strengthen our business.

Cash Distributions

For the eight days ended June 30, 2005, the Fund accrued \$234,000, or \$0.0233 per unit, for distribution to unitholders. The accrued amount relates to the cash distribution of \$0.1233 per unit we announced on July 20, 2005. This distribution covers the period from the Fund's inception on June 23, 2005 to July 31, 2005. It will be paid on August 15, 2005 to unitholders of record on July 29, 2005.

On August 15, 2005, as this report was going to press, the Board of Trustees approved a further distribution of \$0.10 per unit for the period from August 1, 2005 to August 31, 2005. The August distribution will be paid on September 15, 2005 to unitholders of record on August 31, 2005. This is the Fund's second cash distribution and its first for a regular calendar monthly period.

Operating Results

During the eight days ended June 30, 2005, Coast generated sales of \$3.6 million. For the three-month period, Coast and Coast Ltd., the predecessor company, generated combined sales of \$30.1 million. This is up by \$1.6 million from the \$28.5 million generated by Coast Ltd. in the corresponding period of 2004. The increase was due primarily to the continued growth of our contract sales, and particularly sales to developers and builders of multi-family dwellings. In addition, we saw an increase in our retail business, which was directly attributable to our on-going strategy of relocating our branches to higher-traffic areas, making them more accessible to retail shoppers.

Our cost of sales for the eight-day period was \$2.7 million, or 75.7% of sales. For the three-month period, the combined cost of sales for Coast and Coast Ltd. was \$22.4 million, or 74.4% of sales. For the year

ended February 28, 2005, cost of sales as a percentage of sales for Coast Ltd. was 74.6%. Gross profit was \$0.9 million for the eight-day period, and \$7.7 million on a combined basis for the full second quarter.

EBITDA for the eight-day period was \$0.5 million. Adjusted to remove non-recurring items, EBITDA on a combined basis for the three months was \$3.9 million. EBITDA margin of 15.0% for the eight days compares favourably to the full-quarter's combined EBITDA margin of 13.0%, as well as to the 12.9% EBITDA margin recorded for the year ended February 28, 2005 by Coast Ltd.

Outlook

Across Canada, and particularly in our dynamic Western market, healthy growth in housing starts and resale activity shows no signs of slowing. Our sales for the third quarter are tracking well against our expectations, and we are proceeding with plans to expand our coverage of the Alberta market with new branches in Calgary and Edmonton.

We look forward to keeping you informed of our progress.



Harlow B. Burrows

Trustee; President and Chief Executive Officer

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

For the period ended June 30, 2005

The following management's discussion and analysis of Coast Wholesale Appliances Income Fund's (the "Fund") financial condition and results of operations is as of August 10, 2005 and should be read in conjunction with the unaudited interim consolidated financial statements and related notes thereto (the "Financial Statements") of the Fund for the quarter ended June 30, 2005. The Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and may not include all disclosures required by generally accepted accounting principles for annual financial statements. The fiscal year of the Fund ends on the last day of December of each year.

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

Forward-looking Statements

This discussion may contain forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements relate to future events or future performance and reflect the expectations of management regarding growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect current belief of management or of the third parties to which they are

attributed and are based on information currently available to the Fund. In some cases these statements use such words as "may", "will", "intend", "should", "expect", "believe", "plan", "anticipate", "estimate", "predict", "potential", "continue" or the negative of these terms or other such terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion or, in the case of third party statements, as of the date on which they were made. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: sensitivity to general economic conditions; maintaining profitability and managing growth; competition; extended warranty programs; improvements to planning and supply chain processes; distribution operations; changes in consumer preferences; mix of product sales; same store sales; reliance on suppliers; lack of supplier agreements; reliance on key personnel; interest rates; and, seasonality and fluctuations of results. The Fund cannot assure investors that actual results will be consistent with these forward-looking statements, and the Fund does not assume any obligation to update or revise these forward-looking statements to reflect new events or circumstances. Additional information on these and other factors that could affect the Fund's operations or financial results are included in the Fund's reports on file with Canadian securities regulatory authorities at www.sedar.com.

Definition of EBITDA, Adjusted EBITDA and Non-GAAP Measures

References to “EBITDA” are to earnings before interest, taxes, depreciation and amortization. References to “Adjusted EBITDA” are to EBITDA adjusted for the effects of non-recurring items. Non-recurring items are transactions or events which management believes are unusual in the context of a publicly-traded issuer in the business of supplying major household appliances and are not expected to recur within the foreseeable future, and include non-recurring management bonuses historically paid by Coast Ltd. References to “EBITDA Margin” are to the percentage that Adjusted EBITDA is to sales for that period.

Management views distributable cash as an operating performance measure, and it is a measure generally used by Canadian income funds as an indicator of financial performance. As the Fund will distribute substantially all of its cash on an ongoing basis (after providing for certain amounts disclosed in the Prospectus of the Fund dated June 15, 2005) and since EBITDA and Adjusted EBITDA are metrics used by many investors to compare issuers on the basis of the ability to generate cash from operations, management believes that, in addition to net income or loss and statements of cash flow, EBITDA and Adjusted EBITDA are useful supplemental measures from which to make adjustments to determine distributable cash.

EBITDA, Adjusted EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, Adjusted EBITDA and distributable cash may not be comparable to similar measures presented by other entities. Readers are cautioned that EBITDA, Adjusted EBITDA and distributable cash should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of Coast Ltd.’s or the Fund’s performance, or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. For

a reconciliation of EBITDA and Adjusted EBITDA to net income presented in accordance with GAAP, see “Results of Operations for the eight days ending June 30, 2005 for Coast, and the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) compared to the quarter ending June 30, 2004 for Coast Ltd.” below.

Business Overview

The Fund is an unincorporated, open-ended, limited purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. The Fund commenced operations on June 23, 2005, when it completed its Offering of Units and acquired a 65.03% interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan and Manitoba (the “Business”) from Coast Wholesale Appliances Ltd. (“Coast Ltd.”). The Fund holds its interest in the Business through an indirect acquisition of 65.03% of the outstanding Class A Limited Partnership (“LP”) Units of Coast Wholesale Appliances LP (“Coast”), a limited partnership established under the laws of the Province of Manitoba.

The Fund issued 6,525,000 Class A LP Units at \$10 per Unit pursuant to the Offering for net proceeds of \$61.8 million, after deducting expenses of the Offering of \$3.5 million (net of future income taxes of \$1.9 million).

The Fund used the net proceeds from the Offering, together with funds from the new credit facilities of \$19.8 million (net of \$0.2 million costs), to acquire indirectly a 65.03% interest in Coast for total consideration of \$81.6 million.

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

Unaudited (in millions of dollars)

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

Coast is a leading independent supplier of major household appliances to developers and builders of multi-family and single-family housing and to retail customers in Western Canada. The predecessor business, Coast Ltd., began business in 1978 as a wholesale supplier of major household appliances to the construction and renovation industry, but has more recently increased its focus on the retail customer. Today, Coast's sales are almost evenly divided between its developer and builder customers and its retail customers. The operations of Coast are currently carried out from 12 branch locations in Western Canada and four warehouse distribution locations.

Coast has utilized a \$20 million 3-year committed non-revolving loan (the "Term Loan"). The Term Loan was made available for the financing of capital assets and working capital as part of the acquisition of Coast Ltd. A Hedging Strategy relating to the Term Loan was developed, designated, determined to be effective, documented and approved by the Board of Trustees and a hedge was executed by Coast on July 28, 2005, in the form of an interest rate swap transaction (the "Swap") to fix the effective rate of interest rate on the Term Loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis.

Coast has available a \$10 million 3-year committed revolving loan (the "Operating Loan") for working capital requirements and for general corporate purposes.

Selected Financial Information

Selected financial information derived from Coast Financial Statements for the quarter ended June 30, 2005 is set out in on page 06. It is impracticable to present prior period information on a comparative basis for the interim period in the immediately preceding financial year as Coast Ltd. was privately held, had a February 28th year end and did not prepare quarterly reports for its shareholders. This information should be read in conjunction with the financial statements and the respective notes thereto. Selected unaudited financial information has been provided for comparative purposes only by the predecessor business of Coast Ltd. for the periods of April 1, 2004 to June 30, 2004 and April 1, 2005 to June 22, 2005, as well as for the 2004 fiscal year ended February 28, 2005.

Financial Instruments

Financial instruments of Coast consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits, accrued distributions payable to Unitholders, the fair value of which are 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 the Financial Statements. These financial instruments are subject to credit risk, currency risk and concentration risk, as described in the interim financial statements.

A Hedging Strategy relating to the Term Loan was developed, designated, determined to be effective, documented and approved by the Board of Trustees and a hedge was executed by Coast on July 29, 2005, in the form of the Swap to fix the effective rate of interest rate on the Term Loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis.

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

Critical Accounting Policies and Estimates

The Fund has prepared its Financial Statements in conformity with GAAP, which requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Management also evaluates its estimates on an ongoing basis.

Table of Selected Financial Information:*Unaudited (in thousands of dollars)*

Income Statement Data:	<i>Eight days</i> ⁽¹⁾	<i>Quarter 2005</i> ⁽²⁾	<i>Quarter 2004</i> ⁽³⁾	<i>Year 2004</i> ⁽⁴⁾
Sales	\$ 3,565	\$ 30,076	\$ 28,506	\$ 110,189
Cost of sales	2,700	22,400	n/a ⁽¹¹⁾	82,154
Gross profit	865	7,676	n/a ⁽¹¹⁾	28,035
Selling, general & administrative expenses ⁽⁵⁾	441	4,140	n/a ⁽¹¹⁾	26,277
Net income before non-controlling interests	424	3,536	n/a ⁽¹¹⁾	111
Interest	21	25	n/a ⁽¹¹⁾	860
Taxes	60	63	n/a ⁽¹¹⁾	91
Depreciation and amortization	29	191	n/a ⁽¹¹⁾	696
EBITDA ⁽⁶⁾	534	3,815	n/a ⁽¹¹⁾	1,758
Adjustments to EBITDA:				
Non-recurring management bonuses ⁽⁷⁾	—	—	n/a ⁽¹¹⁾	12,180
Other non-recurring expenses ⁽⁸⁾	—	88	n/a ⁽¹¹⁾	279
Adjusted EBITDA ⁽⁶⁾	534	3,903	n/a ⁽¹¹⁾	14,217
EBITDA Margin ⁽⁶⁾ (9)	15.0%	13.0%	n/a ⁽¹¹⁾	12.9%
Balance Sheet Data: As at	<i>June 30, 2005</i>	<i>June 30, 2004</i>	<i>February 28, 2005</i>	
Working capital ⁽¹⁰⁾	\$ 15,880	n/a ⁽¹¹⁾	\$ 14,746	
Total assets	129,776	n/a ⁽¹¹⁾	38,885	
Total long term liabilities	20,000	n/a ⁽¹¹⁾	16,628	

Notes:

(1) Eight days ending June 30, 2005 for Coast.

(2) Quarter ending June 30, 2005 for Coast and Coast Ltd. (combined).

(3) Quarter ending June 30, 2004 for Coast Ltd.

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

(5) Selling, general and administrative expenses include warehousing expenses, management bonuses, non-operating income and departmental allocations of head office administration charges.

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

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

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

(9) EBITDA Margin for any period is the percentage of Adjusted EBITDA to sales for such period.

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

(11) The amounts that comprise these accounts are not available historically on a quarterly basis.

The significant accounting policies of Coast are described in Note 2 of the Financial Statements. The policies which management believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

Revenue recognition

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

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

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

Allowance for doubtful accounts

Accounts receivable are carried at amounts due, net of a provision for amounts estimated to be uncollectible. Coast assesses uncollectible amounts based on past due balances, knowledge of its customer base and credit investigations of specific customers. Coast's bad debt expense has been negligible for the eight days ending June 30, 2005, and for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined).

Valuation of goodwill

Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. The Fund compares the goodwill to the fair value of the reporting unit to which the goodwill relates and if considered to be impaired, the impairment to be recognized is charged to operations in the amount by which the carrying amount of the assets exceeds the fair value of the goodwill. An evaluation of Coast's goodwill was performed as at June 30, 2005, and no adjustment for impairment was required.

Valuation of long-lived assets

Long-lived assets and certain identified recorded intangibles are reviewed by management for impairment whenever events or changes in

circumstances indicate that the carrying amount of an asset may not be recoverable from its expected use and disposition, and on an annual basis. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell. An evaluation of Coast's long-lived assets and certain identified recorded intangibles was performed as at June 30, 2005, and no adjustment for impairment was required.

Inventory valuation

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

Related Party Transactions

On June 23, 2005, Coast entered into agreements with two of the three former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8 of the Financial Statements) for management and consulting services at an annual fee of \$30,000 each.

Coast leases six of its branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria, Calgary) and its four warehouses (Surrey, Vancouver, Victoria, Calgary) from a company affiliated with the former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8 of the Financial Statements). The total amount paid for the year ended February 28, 2005 was \$1.3 million. Each of these leases was modified as part of the Offering, to provide for a term of five years from June

1, 2005 with two consecutive five-year 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.

Included in the accounts receivable balance of the Financial Statements is a total of \$904,084 relating to the working capital adjustment as outlined in the Prospectus, reimbursement of Offering costs and operational items paid on behalf of Coast by Coast Ltd. (the former owner of the acquired Business). This entity is currently affiliated with the former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8 of the Financial Statements).

The amounts were measured at the exchange amount which was the consideration agreed upon between the parties.

Results of Operations for the eight days ending June 30, 2005 for Coast, and the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) compared to the quarter ending June 30, 2004 for Coast Ltd.

Sales

Sales for the eight days ending June 30, 2005 were \$3.6 million. Sales for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) increased by \$1.6 million, or 5.5%, to \$30.1 million compared to \$28.5 million for the quarter ending June 30, 2004 for Coast Ltd. The majority of the sales increase is attributable to a continuing increase in contract sales to developers and builders resulting from the strong market for multi-family dwellings in Western Canada and the continuing strength in sales to retail customers.

Cost of sales

Cost of sales for the eight days ending June 30, 2005 was \$2.7 million. Cost of sales for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was \$22.4 million. Cost of sales for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a

quarterly basis as the information was not available. Cost of sales as a percentage of sales for the year ending February 28, 2005 for Coast Ltd. was 74.6%. Cost of sales as a percentage of sales for the eight days ending June 30, 2005 was 75.7%. Cost of sales as a percentage of sales for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was 74.4% (see "Gross profit" below for discussion).

Gross profit

Gross profit for the eight days ending June 30, 2005 was \$0.9 million. Gross profit for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was \$7.7 million. Gross profit for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Gross profit as a percentage of sales ("gross margin") for the year ending February 28, 2005 for Coast Ltd. was 25.4%. Gross margin for the eight days ending June 30, 2005 was 24.3%. Gross margin for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was 25.6%. The gross margin increase of 0.2% in the quarter ended June 30, 2005 over the year ended February 28, 2005 is consistent with historical results.

Selling, general & administrative expenses ("SG&A")

SG&A for the eight days ending June 30, 2005 was \$0.4 million. SG&A for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was \$4.1 million. SG&A for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. SG&A as a percentage of sales ("SG&A margin") for the year ending February 28, 2005 for Coast Ltd. was 23.8%. SG&A margin for the eight days ending June 30, 2005 was 12.4%. SG&A margin for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was 13.8%. The decrease in SG&A margin during the quarter ending June 30, 2005 compared to the year ending February 28, 2005 for Coast Ltd. is primarily due to the absence of management bonuses that were historically paid by Coast Ltd. as a private company. Bad debt expenses for the eight days ending June 30, 2005, for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined), and for the quarter ending June 30, 2004 for Coast Ltd., respectively, were negligible.

Adjusted EBITDA

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

Adjusted EBITDA for the eight days ending June 30, 2005 was \$0.5 million. Adjusted EBITDA for the quarter ending June 30, 2005 for Coast and Coast Ltd.

(combined) was \$3.9 million. Adjusted EBITDA for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Adjusted EBITDA as a percentage of sales ("Adjusted EBITDA margin") for the year ending February 28, 2005 for Coast Ltd. was 12.9%. Adjusted EBITDA margin for the eight days ending June 30, 2005 was 15.0%. Adjusted EBITDA margin for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was 13.0%. The Adjusted EBITDA margin increase of 0.1% in the quarter ended June 30, 2005 over the year ended February 28, 2005 is consistent with historical results.

Net income before non-controlling interests

Net income before non-controlling interests for the eight days ending June 30, 2005 was \$0.4 million. Net income before non-controlling interests for the quarter

Reconciliation of Income before Non-controlling Interest to Adjusted EBITDA.

Unaudited (in thousands of dollars)

	Eight days ⁽¹⁾	Quarter 2005 ⁽²⁾	Quarter 2004 ⁽³⁾	Year 2004 ⁽⁴⁾
Income before non-controlling interest	\$ 424	\$ 3,536	n/a ^{(5) (10)}	\$ 111(5)
Interest	21	25	n/a ⁽¹⁰⁾	860
Taxes	60	63	n/a ⁽¹⁰⁾	91
Depreciation and amortization	29	191	n/a ⁽¹⁰⁾	696
Non-recurring management bonuses ⁽⁶⁾	—	—	n/a ⁽¹⁰⁾	12,180
Other non-recurring expenses ⁽⁷⁾	—	88	n/a ⁽¹⁰⁾	279
Adjusted EBITDA ⁽⁸⁾	\$ 534	\$ 3,903	\$ n/a ⁽¹⁰⁾	\$ 14,217
EBITDA Margin ^{(8) (9)}	15.0%	13.0%	n/a ⁽¹⁰⁾	12.9%

Notes:

(1) Eight days ending June 30, 2005 for Coast.

(2) Quarter ending June 30, 2005 for Coast and Coast Ltd. (combined).

(3) Quarter ending June 30, 2004 for Coast Ltd.

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

(5) Amount is equal to Net Income because no non-controlling interest is recorded in Coast Ltd.

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

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

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

(9) EBITDA Margin for any period is the percentage of Adjusted EBITDA to sales for such period.

(10) The amounts that comprise these accounts are not available historically on a quarterly basis.

ending June 30, 2005 for Coast and Coast Ltd. (combined) was \$3.5 million. Net income before non-controlling interests for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Net income before non-controlling interests as a percentage of sales for the year ending February 28, 2005 for Coast Ltd. was 0.1%. Net income before non-controlling interests as a percentage of sales for the eight days ending June 30, 2005 was 11.9%. Net income before non-controlling interests as a percentage of sales for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was 11.8%.

Other income

Other income for the eight days ending June 30, 2005 and for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined), respectively, was negligible. Other income for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available.

Amortization

Amortization for the eight days ending June 30, 2005 was \$0.03 million. Amortization for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was

\$0.2 million. Amortization for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Amortization for Coast includes amortization of identifiable intangibles and deferred financing costs and depreciation of property and equipment.

Provision for income taxes

The provision for income taxes for the eight days ending June 30, 2005 was \$0.06 million. The provision for income taxes for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was \$0.06 million. The provision for income taxes for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. The provision for income taxes for the year ending February 28, 2005 for Coast Ltd. was \$0.09 million.

Segmented Revenue

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

Sales by Geographic Location

Unaudited (in thousands of dollars)

	<i>Eight days ⁽¹⁾</i>		<i>Quarter 2005 ⁽²⁾</i>		<i>Quarter 2004 ⁽³⁾</i>	
	<i>Sales</i>	<i>%</i>	<i>Sales</i>	<i>%</i>	<i>Sales</i>	<i>%</i>
British Columbia	\$ 2,285	64.1%	\$ 18,031	60.0%	\$ 16,193	56.8%
Prairie Region	1,280	35.9%	12,045	40.0%	12,313	43.2%

Notes:

- 1 Eight days ending June 30, 2005 for Coast.*
- 2 Quarter ending June 30, 2005 for Coast and Coast Ltd. (combined).*
- 3 Quarter ending June 30, 2004 for Coast Ltd.*

Liquidity and Capital Resources

Cash flow from operating activities

Cash flow from operating activities for the eight days ending June 30, 2005 was \$(0.7) million. Cash flow from operating activities for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available.

Cash flow from operating activities for the year ending February 28, 2005 for Coast Ltd. was \$(3.7) million.

Maintenance capital expenditures

Maintenance capital expenditures consist primarily of leasehold improvements, furniture and fixtures purchases, computer hardware and computer software expenditures. Maintenance capital expenditures for the eight days ending June 30, 2005, exclusive of the expenditures being made pursuant to the acquisition agreement of the Offering, were negligible. Maintenance capital expenditures for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined), exclusive of the expenditures being made pursuant to the acquisition agreement of the Offering, were \$0.1 million.

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

Contractual Obligations

Payments Due by Period (as at June 30, 2005)

Term Loans	
Less than 1 year	\$ —
1 to 3 years	20.0
4 to 5 years	—
After 5 years	—
Total	\$ 20.0
Operating Leases	
Less than 1 year	\$ 1.7
1 to 3 years	3.4
4 to 5 years	3.1
After 5 years	0.8
Total	\$ 8.4

Coast has utilized the \$20 million 3-year committed non-revolving Term Loan. The Term Loan was made available for the financing of capital assets and working capital as part of the Acquisition. Advances under the

agreement bear interest at the lender's prime rate plus 0% to 0.25% or at the banker's acceptance rate plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. As a part of Coast's hedging strategy, management has provided written notice to the lender of their intent not to utilize the prime rate option on the Term Loan for the duration of the Term Loan. The Term Loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier (see note 7(c) of the Financial Statements).

Operating leases are entered into for all premises. Total basic rent for the eight days ending June 30, 2005 was \$0.04 million. Total basic rent for the quarter ending June 30, 2005 for Coast and Coast Ltd. (combined) was \$0.4 million. Total basic rent for the quarter ending June 30, 2004 for Coast Ltd. cannot be determined on a quarterly basis as the information was not available. Total basic rent for the year ending February 28, 2005 for Coast Ltd. was \$1.5 million.

Working capital

Working capital as at June 30, 2005 was \$15.9 million. Working capital as at February 28, 2005 for Coast Ltd. was \$14.8 million.

In addition to working capital, Coast has available a \$10 million 3-year committed revolving loan (the "Operating Loan"). The Operating Loan is available for working capital requirements and for general corporate purposes. Advances under the agreement bear interest at the lender's prime rate plus 0% to 0.25% or at the banker's acceptance rate plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The Operating Loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier (see note 7(c) of the Financial Statements). The Operating Loan was not drawn during the eight day period ending June 30, 2005.

Coast's principal source of liquidity is cash provided by operations and the new credit facilities. Management believes that such sources of liquidity

will be sufficient to fund future working capital requirements, capital expenditures and Coast's planned growth.

Total assets

Total assets as at June 30, 2005 were \$129.7 million. Total assets as at February 28, 2005 for Coast Ltd. were \$38.9 million.

Accounts receivable as at June 30, 2005 were \$12.2 million. Accounts receivable as at February 28, 2005 for Coast Ltd. were \$8.7 million.

Inventory as at June 30, 2005 was \$16.2 million. Inventory as at February 28, 2005 for Coast Ltd. was \$15.0 million. The increase in inventory levels since February 28, 2005 is primarily due to an increased volume of sales, in addition to special pricing incentives by suppliers and amended delivery schedules made to accommodate current short-term project delays experienced by developers and builders resulting from a demand-induced shortage of manpower and construction steel in Western Canada and adverse weather conditions in the Prairies.

The balance of property and equipment as at June 30, 2005 was \$2.4 million, net of depreciation of \$0.003 million. The net balance of property and equipment as at February 28, 2005 for Coast Ltd. was \$2.0 million.

The value determined for the identifiable intangibles acquired at June 23, 2005 as part of the Offering was \$20.8 million. The balance of identifiable intangibles as at June 30, 2005 was \$20.7 million, net of amortization of \$0.1 million for the eight days ending June 30, 2005. No impairment in value was identified by Coast.

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

Total liabilities

Total liabilities as at June 30, 2005 were \$67.9 million, which includes \$33.3 million of non-controlling interest that was not present in Coast Ltd. Total liabilities as at February 28, 2005 for Coast Ltd. were \$38.1 million.

The balance of cheques issued in excess of cash on hand as at June 30, 2005 was \$0.7 million. The \$10 million Operating Loan was not drawn during the eight day period ending June 30, 2005. Fluctuations in Coast Ltd.'s cash balances were historically due to the absence of debt financing.

Customer deposits as at June 30, 2005 were \$3.0 million. Customer deposits as at February 28, 2005 for Coast Ltd. were \$2.2 million. The increase in customer deposits is seen to be reflective of the strong demand for the products of Coast.

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

Accounts payable and accrued liabilities and income taxes payable as at June 30, 2005 were \$8.1 million. Accounts payable and accrued liabilities and income taxes payable as at February 28, 2005 for Coast Ltd. were \$5.4 million.

Financing

Concurrent with closing of the Offering, Coast entered into new credit facilities (the Term Loan and the Operating Loan) with a Canadian chartered bank (see "Contractual obligations" and "Working capital" sections above).

A Hedging Strategy relating to the Term Loan was developed, designated, determined to be effective, documented and approved by the Board of Trustees and a hedge was executed by Coast on July 29, 2005, in the form of the interest-rate Swap transaction to fix the effective rate of interest rate on the Term Loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis.

Outlook

As announced in its news release dated July 20, 2005, the Fund will be making a distribution on August 15, 2005 of \$0.1233 per Unit to public Unitholders of record as at July 29, 2005.

The market for major household appliances remains strong and management believes that Coast and the Fund are on track to meet their expectations in 2005.

Management believes that the new credit facilities and its ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures, including investments in working capital and distributions. However, Coast and the Fund's needs may change and in such event Coast and the Fund's ability to satisfy its 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 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 more particularly, in Western Canada, the regional market in which Coast operates. A significant change in competition from one or more competitors in all geographic areas where Coast operations are located, as well as competition directly from suppliers, changes in the financial health of suppliers, changes in the quality of products sourced from suppliers, dependence on key personnel, changes in labour relations, changes in product warranty costs, and changes in tax legislation, or any of the other factors as described under "Forward-looking Statements", could have a material effect on Coast and the Fund's financial performance.

► Consolidated Interim Financial Statements

For the three months ending
June 30, 2005

Notice

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

Interim Consolidated Balance Sheet

(Unaudited)

As at June 30, 2005

ASSETS

CURRENT

Funds held in trust	\$ 1,000,432
Accounts receivable <i>(Note 3)</i>	12,242,906
Inventory	16,156,650
Prepaid expenses	338,544

29,738,532

PROPERTY AND EQUIPMENT *(Note 4)*

2,411,756

DEFERRED FINANCING COSTS *(Note 5)*

148,889

GOODWILL *(Note 1)*

76,736,307

INTANGIBLE ASSETS *(Note 6)*

20,740,141

 \$ 129,775,625

LIABILITIES

CURRENT

Cheques issued in excess of cash on hand	\$ 700,031
Accounts payable and accrued liabilities	8,109,771
Accrued distributions payable to Unitholders	152,033
Accrued distributions payable to non-controlling interests	81,764
Customer deposits	2,986,652
Deferred warranty revenue	1,828,683

13,858,934

TERM LOAN *(Note 7(b))*

20,000,000

FUTURE INCOME TAXES

750,000

NON-CONTROLLING INTEREST *(Note 8)*

33,279,783

 67,888,717

UNITHOLDERS' EQUITY

Fund Units <i>(Note 9)</i>	61,763,010
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Retained earnings	123,898
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 61,886,908

 \$ 129,775,625
COMMITMENTS *(Note 10)*

Approved on behalf of the trustees

Harlow B. Burrows

Patrick B. Dennett

See accompanying Notes to the Unaudited Consolidated Interim Financial Statements

Interim Consolidated Statement of Income and Retained Earnings

(Unaudited)

	<i>For the three months ended June 30, 2005</i>
SALES	\$ 3,565,266
COST OF SALES	2,700,318
GROSS PROFIT	864,948
EXPENSES	
Selling	189,264
General and administrative	74,027
Warehousing	66,852
Amortization:	
Property & equipment	5,102
Deferred financing costs	1,111
Intangible assets	22,859
Interest	21,420
	380,635
INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST	484,313
PROVISION FOR FUTURE INCOME TAXES	60,000
INCOME BEFORE NON-CONTROLLING INTEREST	424,313
NON-CONTROLLING INTEREST <i>(Note 8)</i>	148,382
NET INCOME	275,931
RETAINED EARNINGS, BEGINNING OF PERIOD	—
ACCRUED DISTRIBUTIONS TO UNITHOLDERS	(152,033)
RETAINED EARNINGS, END OF PERIOD	\$ 123,898
Basic and diluted earnings per unit	\$ 0.0275
Weighted average number of Units outstanding	10,034,167

See accompanying Notes to the Unaudited Consolidated Interim Financial Statements

Interim Consolidated Statement of Cash Flows

(Unaudited)

	<i>For the three months ended June 30, 2005</i>
OPERATING ACTIVITIES	
Net income	\$ 275,931
Items not involving cash:	
Amortization	29,072
Non-controlling interest	148,382
Future income taxes	60,000
	513,385
Change in non-cash working capital	(1,213,426)
	(700,041)
FINANCING ACTIVITIES	
Net proceeds from the issuance of units	61,763,000
Increase in bank indebtedness	20,000,000
Deferred financing costs	(150,000)
	81,613,000
INVESTING ACTIVITIES	
Acquisition of business <i>(Note 1)</i>	(81,613,000)
	(81,613,000)
NET CASH OUTFLOW	(700,041)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10
CHEQUES ISSUED IN EXCESS OF CASH ON HAND, END OF PERIOD	\$ (700,031)
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid	\$ 21,024
Income taxes paid	—

See accompanying Notes to the Unaudited Consolidated Interim Financial Statements

► Notes to the Consolidated Interim Financial Statements

For the three months ending
June 30, 2005

1. Nature of Operations

Coast Wholesale Appliances Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. The Fund commenced operations on June 23, 2005, when it completed an initial public offering (the "Offering") of Units and acquired a 65.03% interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan and Manitoba (the "Business") from Coast Wholesale Appliances Ltd. ("Coast Ltd."). The Fund holds its interest in the Business through an indirect acquisition of 65.03% of the outstanding Class A Limited Partnership ("LP") Units of Coast Wholesale Appliances LP ("Coast"), a limited partnership established under the laws of the Province of Manitoba.

The Fund issued 6,525,000 Class A LP Units at \$10 per Unit pursuant to the Offering for net proceeds of \$61,763,000, after deducting expenses of the Offering of \$3,487,000 (net of future income taxes of \$1,928,000).

The Fund used the net proceeds from the Offering, together with funds from the new credit facilities (Note 7), to acquire indirectly a 65.03% interest in Coast for total consideration of \$81,613,000.

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

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

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

2. Significant Accounting Policies

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

(a) Basis of presentation

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

(b) Measurement uncertainty

The preparation of these unaudited consolidated interim financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the unaudited consolidated interim financial statements and the reported amount of revenues and expenses during

the period. Areas requiring significant management estimates include the valuation of goodwill, other intangible assets, allowance for doubtful accounts, future income taxes, amounts of accrued receivables and amounts of accrued liabilities. Actual results could differ from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and bank balances.

(d) Inventory

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

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

(e) Property and equipment

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

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

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

(f) Deferred financing costs

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

(g) Intangible assets

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

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

Long-lived assets and certain identifiable recorded intangibles, including the Coast brand name, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its expected use and eventual

disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(h) Goodwill

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

(i) Foreign currency translations

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

(j) Revenue recognition

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

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

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

(k) Income taxes

Coast follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period

the change occurs. To the extent that Coast does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(l) Earnings per Unit

Basic earnings per Unit is calculated by dividing net income by the weighted average number of Units outstanding during the reporting period which commenced June 23, 2005. Diluted earnings per Unit is calculated by the application of the if-converted method for convertible securities. As the conversion of convertible securities

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

3. Accounts Receivable

Accounts receivable - trade	\$ 9,491,712
Supplier rebates and other	1,837,110
Amounts due from related parties (Note 12(c))	904,084
Deposits	10,000
	\$ 12,242,906

4. Property and Equipment

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net Book Value</i>
Computer software	\$ 230,615	\$ 227	\$ 230,388
Computer hardware	596,095	1,987	594,108
Service vehicles	267,858	893	266,965
Furniture and fixtures	88,314	196	88,118
Equipment	302,384	672	301,712
Leasehold improvements	931,592	1,127	930,465
	\$ 2,416,858	\$ 5,102	\$ 2,411,756

5. Deferred Financing Costs

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

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net Book Value</i>
Deferred financing costs	\$ 150,000	\$ 1,111	\$ 148,889

6. Intangible Assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net Book Value</i>
Coast brand name	\$ 3,369,000	\$ —	\$ 3,369,000
Supplier relationships	3,129,000	3,477	3,125,523
Customer backlog at acquisition	1,262,000	9,348	1,252,652
Customer relationships – builder/developer	10,060,000	7,452	10,052,548
Customer relationships – property managers	1,900,000	1,407	1,898,593
Retail customer list	478,000	531	477,469
Favourable leases	565,000	644	564,356
	\$ 20,763,000	\$ 22,859	\$ 20,740,141

7. Credit Facilities

(a) Operating Loan

Coast has available a \$10,000,000 3-year committed revolving loan (the "Operating Loan"). The Operating Loan is available for working capital requirements and for general corporate purposes. Advances under the agreement bear interest at the lender's prime rate plus 0% to 0.25% or at the banker's acceptance rate plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. The Operating Loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier as noted in Note 7(c) below.

(b) Term Loan

Coast has utilized a \$20,000,000 3-year committed non-revolving loan (the "Term Loan"). The Term Loan was made available for the financing of capital assets and working capital as part of the Acquisition. Advances under the agreement bear interest at the lender's prime rate plus 0% to 0.25% or at the banker's acceptance rate plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. As a part of Coast's hedging strategy, management has provided written notice to the lender of their intent not to use the prime rate option on the Term Loan for the duration of the Term Loan. The Term Loan is secured by a general security agreement covering all assets of Coast, subject to the security provided to a major supplier as noted in Note 7(c) below. See Note 13 for subsequent event relating to the Term Loan.

(c) Third party security interest

Accounts payable due to a major supplier are secured by inventory on hand that was acquired from the supplier, which was \$1,199,886 as at June 30, 2005.

8. Non-Controlling Interest

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

Retained interest in Coast	\$ 33,213,165
Interest in post-acquisition earnings	148,382
Accrued distributions payable to non-controlling interests	(81,764)
	\$ 33,279,783

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

The Class A LP Units and the Exchangeable Units (collectively, the "Coast Partnership Units") have economic and voting rights that are equivalent in all

material respects, except that distributions on the Exchangeable Units are subject to the subordination arrangements described below until the date (the "Subordination End Date") on which:

- the Subordination Period EBITDA (see below) of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least \$13.717 million (the "EBITDA Target") (based upon the audited consolidated financial statements of the Fund); and
- cumulative cash distributions of at least \$2.40 per Unit have been paid on the Units and cumulative cash advances or distributions of at least \$2.40 per Exchangeable Unit have been paid on the Exchangeable Units (as adjusted for issuances, repurchases and redemptions of Units and Partnership Units subsequent to the closing of the Offering) for the 24 month period ending on the last day of the month immediately preceding such date (the "Distribution Target").

Subordination Period EBITDA means Net Income (Subordination) of the Fund for such period plus the sum of all amounts deducted in arriving at such Net Income

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

Distributions are to be made monthly on the Class A LP Units equal to \$0.10 per Unit (\$0.1233 per Unit for the period June 23 to July 31, 2005, see Note 13(b) for subsequent event) to the extent that cash is available to make the distributions. Distributions of \$0.0233 per Unit have been accrued in the financial statements dated June 30, 2005, for the period from June 23 to June 30, 2005. Generally, distributions on the Exchangeable Units will be subordinated and will be made quarterly on a prorated basis to the amount distributed on the Class A LP Units during such fiscal quarter, only after the distributions have been made on the Class A LP Units and to the extent that cash is available to make such distributions.

After the Subordination End Date, the holders of the Exchangeable Units will be entitled to effectively exchange all or a portion of their Exchangeable Units for up to 3,509,167 Units of the Fund, representing 34.97%

of the issued and outstanding Units of the Fund on a fully diluted basis. In the event that the Fund enters into an agreement in respect of an acquisition transaction or a take-over bid, the holders of the Exchangeable Units will be entitled to exchange such Units for Units of the Fund.

(b) Special Voting Units

An unlimited number of Special Voting Units may be created and issued pursuant to the Declaration of Trust. The holders of the Exchangeable Units were issued 3,509,167 Special Voting Units of the Fund, the value of which is included in non-controlling interest. The Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Special Voting Unit entitles the holder thereof to one vote at all meetings of voting Unitholders. Such Special Voting Units are to be cancelled on the exchange of Exchangeable Units for Units of the Fund.

9. Fund Units

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Unit entitles the holder thereof to one vote at all meetings of voting Unitholders.

The Units are redeemable at any time on demand by the holders thereof, subject to the terms and conditions as outlined in the Prospectus. The total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees of the Fund may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month.

10. Commitments

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

July 1, 2005 to June 30, 2006	\$	1,735,247
July 1, 2006 to June 30, 2007		1,666,016
July 1, 2007 to June 30, 2008		1,556,233
July 1, 2008 to June 30, 2009		1,525,675
July 1, 2009 to June 30, 2010		1,100,825
	\$	7,583,996

11. Financial Instruments

(a) Fair value

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits, and accrued distributions payable to Unitholders, the fair value of which are considered to approximate their carrying value due to their ability of prompt liquidation except as noted elsewhere in these unaudited consolidated interim financial statements.

(b) Credit risk

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

(c) 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.

(d) Concentration risk

During the quarter ending June 30, 2005, purchases by Coast from its three largest suppliers totalled \$2,711,375. At June 30, 2005, amounts payable to these suppliers included in accounts payable and accrued liabilities totalled \$2,000,594.

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

12. Related Party Transactions

(a) Management and consulting services

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

(b) Leases

Coast leases six of its branch locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria, Calgary) and its four warehouses (Surrey, Vancouver, Victoria, Calgary) from a company affiliated with the former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8). The total amount paid for the quarter ended June 30, 2005 was \$23,840. Each of these leases was modified as part of the Offering, to provide for a term of five years from June 1, 2005 with two consecutive options to renew at the option of Coast at the greater of the existing rent or the fair market rent at the time of the renewal. The amounts were measured at the exchange amount which was the consideration agreed upon between the parties.

(c) Amounts receivable

Included in the accounts receivable balance is a total of \$904,084 relating to the working capital adjustment as outlined in the Prospectus, reimbursement of Offering costs and operational items paid on behalf of Coast by Coast Ltd. (the former owner of the acquired Business). This entity is currently affiliated with the former principal shareholders of the acquired Business who have a non-controlling interest in the Fund (see Note 8).

13. Subsequent Events*(a) Hedging*

On July 28, 2005 Coast entered into an interest-rate swap transaction to fix the effective rate of interest rate on the Term Loan at 3.55% plus 1.00% to 1.50%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis.

(b) Notice of distribution

On July 20, 2005, the Fund announced its first distribution of \$0.1233 per Unit for the period from June 23, 2005 to July 31, 2005, to be paid August 15, 2005 to Unitholders of record of the Fund on July 29, 2005. This initial distribution is consistent with the amount of the initial distribution contemplated by the Fund in its Prospectus of June 15, 2005. The Fund's policy is for Unitholders of record on the last business day of each month to receive distributions on or about the 15th day following the end of such month.

TRUSTEES AND DIRECTORS

Harlow Burrows

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

One of three founding shareholders of Coast Wholesale Appliances in 1978, Mr. Burrows has been a consistent, driving force behind Coast's development and growth. Immediately prior to establishing Coast, he spent several years with a major supplier of household appliances, carpets and lighting to the building industry in British Columbia. Mr. Burrows is a member of the Certified General Accountants Association of British Columbia.

Patrick B. Dennett

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

A management consultant in the glazing and aluminum industries, Mr. Dennett was the owner and president of Landmark Glass and Aluminum Inc. in Coquitlam, BC from 1981 to 2002. He is a past chairman of the Amalgamated Construction Association of BC and the BC Construction Association. Mr. Dennett previously served as a director for the Canadian Construction Association and the BC Construction Labour Relations Association. He holds a Building Technology degree from BC Institute of Technology.

Kevin C. Jardine

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

As president of Jardine Capital Corporation, a private holding company, Mr. Jardine oversees investments in the real estate, software development, plastic manufacturing, pharmaceutical and alternative fuel industries. In 1984, he founded Sport Mart Inc., which became one of Canada's largest independent sporting goods retailers. Following the sale of Sport Mart to the Forzani Group Ltd. in 2001, Mr. Jardine spent several years as a divisional president for the Forzani Group. He is a former director of the BC Lottery Corporation.

Anthony L. Soda, CA

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

A partner of Dale Matheson Carr-Hilton Labonte, Chartered Accountants, and a founding partner of its predecessor firm in 1976, Mr. Soda is active in both professional and community affairs. He is currently a member of the Canadian Tax Foundation and the discipline committee of the Institute of Chartered Accountants of British Columbia, and a director and chair of the finance committee of the Burnaby Winter Club. Mr. Soda also previously served as a director of the Coquitlam Chamber of Commerce.

Ian F. Thomas

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

Mr. Thomas is chairman of Thomas Consultants Inc., a private consulting company specialized in the planning and development of large-scale retail projects around the world, which he founded in 1979. He is also a trustee of the International Council of Shopping Centers in New York. A Certified Public Accountant, Mr. Thomas formerly served as a director of Future Shop, Downtown Parking Corporation and the Urban Development Institute.



COAST Wholesale
APPLIANCES
"Innovative Products for Builders & HomeOwners"

UNITHOLDER INFORMATION

Coast Wholesale Appliances Income Fund

Investor Relations

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Auditors

Deloitte & Touche LLP

Vancouver, BC

Trust Units Listed

Toronto Stock Exchange

Trading Symbol: CWA.UN

Registrar and Transfer Agent

Computershare

Trust Company of Canada

Head Office

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Coast Wholesale Appliances LP

Management

Harlow B. Burrows

President and Chief Executive Officer

Douglas R. Scott

Vice President and Chief Financial Officer

William L. Smith

Vice President, Sales and Marketing – Multi-Family

David R. Bast

Vice President, Sales and Marketing – Single-Family

