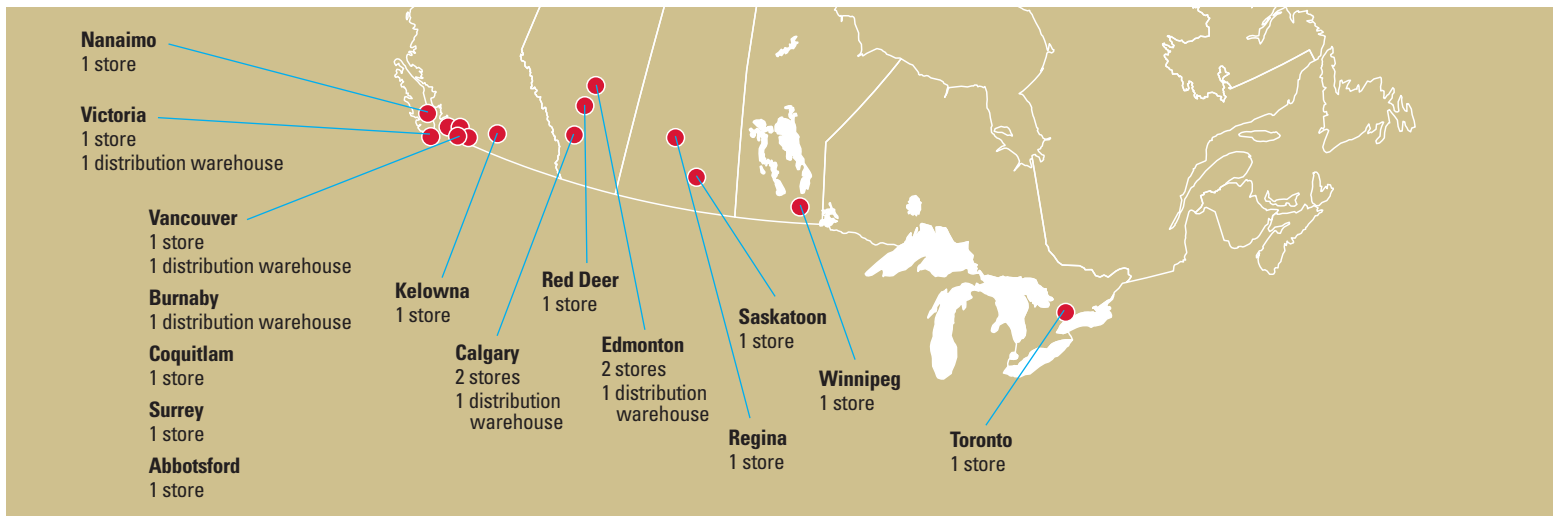


# Q2 2009

## Coast Wholesale Appliances Income Fund

Report to Unitholders  
six months ended  
June 30, 2009





## Coast Wholesale Appliances Income Fund

Coast Wholesale Appliances Income Fund (the 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.

Cash distributions, currently paid monthly to public unitholders and 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.

Founded in 1978, Coast originally operated exclusively as a wholesale supplier to developers and builders in Western Canada, later broadening our focus to include the retail market. In January 2009, we expanded geographically into the Greater Toronto Area (GTA) of Ontario.

Today, our business combines contract sales to developer and builder customers with direct sales to retail customers at 15 stores across the four western provinces and one store in the GTA. At each Coast location, we offer our customers the convenience of one-stop shopping for all of their major household appliance needs across more than 35 major brands.

The exceptional stability our business has shown over the past 30 years is due in large part to the essential nature of the major home appliances we sell. New product innovations and a focus on home décor and energy efficiency have also contributed to our sales results.

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

1. Build on our strong market position in Western Canada and explore additional growth opportunities in the Ontario market.
2. Increase sales from our existing stores; and
3. Continue to enhance our profitability.

## Performance Highlights Q2 2009

<i>(in thousands of dollars except percentages and per-unit amounts)</i>	2009	2008	2007	2009	2008	2007
	Q2	Q2	Q2	YTD	YTD	YTD
Sales	37,913	38,250	36,809	71,092	72,126	67,970
Gross margin	8,828	9,414	9,228	16,551	17,880	16,960
<i>As a percentage of sales</i>	23.3%	24.6%	25.1%	23.3%	24.8%	25.0%
Income before non-controlling interest	2,001	2,741	3,208	3,051	4,682	5,224
Basic and diluted net income per unit	0.199	0.273	0.320	0.304	0.467	0.521
EBITDA	2,780	3,542	3,883	4,769	6,391	6,676
<i>EBITDA margin</i>	7.3%	9.3%	10.5%	6.7%	8.9%	9.8%
Maintenance capital expenditures	100	385	104	143	566	109
Adjusted distributable cash	2,347	2,906	3,543	3,961	5,321	6,098
Adjusted distributable cash per unit	0.234	0.290	0.353	0.395	0.530	0.608
Distribution per unit	0.125	0.308	0.300	0.291	0.615	0.600
<i>Adjusted distribution ratio</i>	53.3%	106.2%	85.0%	73.8%	116.0%	98.7%

- Achieved revenues just slightly below the 2008 second quarter level, despite a much more challenging business environment.
- Recorded only a modest year-over-year increase in selling, warehouse, facility and general and administrative (SG&A) expenses, despite the added costs of operating our new store in the GTA and an additional warehouse in Edmonton.
- Completed final preparations for the relocation of our existing Edmonton North store to smaller premises in a higher-traffic area in the third quarter of 2009.
- Entered into a sales agreement with a Nova Scotia-based agent that will enable Coast to generate incremental contract sales revenue in the Maritime region without adding to fixed costs.
- Significantly improved cash position from December 31, 2008.
- Fully paid down operating line and, subsequent to the quarter-end, reduced term debt by \$1.0 million.
- Continued cash distributions to public unitholders and the retained interest.

## To Our Unitholders

### **We are pleased to present our 2009 second quarter report.**

The Fund's performance remains in line with our expectations, given the continuing economic recession in Canada and globally, and the corresponding slowdown in housing starts across the country. In light of the challenging business environment, we are continuing to focus on streamlining our non-selling functions and business processes in order to increase operating efficiency. We are also working to enhance profitability by increasing sales from our existing stores.

### **Second Quarter Results**

Despite the ongoing economic uncertainty in our key markets, Coast recorded second quarter revenues of \$37.9 million, just 0.9% lower than the \$38.3 million reported in 2008. Our contract business with developers, designers and builders continued to benefit from strong project completions. Retail sales, while stronger than in the first quarter of 2009, remained below the 2008 second quarter level, due to much more cautious consumer spending. As a result, our sales blend continued to favour contract sales.

In BC, the softening of our retail business was again offset by the strength of our contract sales. Business in Alberta remained generally down, particularly in the contract segment. Second quarter sales in Saskatchewan increased year-over-year, and revenues in Manitoba were comparable with the 2008 level. Finally, our new store in the Greater Toronto Area (GTA) continued to perform below expectations due to the exceptionally challenging economic conditions in southern Ontario.

Our second quarter cost of sales was in line with the 2008 amount. As in the first quarter, however, due mainly to changes in our sales mix, our gross margin percentage declined to 23.3% from 24.6% last year. The reduction in gross margin was mainly due to the year-over-year decrease in retail sales, which generate a higher margin than contract sales.

Due mainly to the slight revenue reduction and lower gross margin in 2009, second quarter EBITDA of \$2.8 million was down by \$0.7 million from \$3.5 million in 2008. As a result, our EBITDA margin declined to 7.3% from 9.3%. Net income before non-controlling interest decreased to \$2.0 million, or 5.3% of sales, from \$2.7 million, or 7.2% of sales, in the same period of 2008.

### **First Half Operating Results**

For the first six months of the year, our revenue of \$71.1 million was down by a modest 1.4% from \$72.1 million in 2008. As with the quarterly result, our gross margin was eroded by the shift in our business mix in favour of contract sales, declining to 23.3% from 24.8% in 2008. First half EBITDA of \$4.8 million was down by \$1.6 million from \$6.4 million in 2008, bringing our EBITDA margin down to 6.7% from 8.9% in 2008. Again, as with the quarterly result, the decrease in EBITDA was due to the lower sales and gross margin in 2009, and the added costs associated with our new GTA store. Net income before non-controlling interest was \$3.1 million, or 4.3% of sales, compared to \$4.7 million, or 6.5% of sales, in the first half of 2008.

### **Operating Highlights**

As part of our ongoing strategy to drive up our comparable store sales, we have been proceeding with final preparations for the relocation of our existing Edmonton North store to a smaller facility in a higher-traffic area late in the third quarter. With this move, all of Coast's original stores will have been renovated or relocated since the Fund's inception in 2005. We expect to officially open the new Edmonton North store early in the fourth quarter.

We have also expanded our geographic coverage to the Maritime region, entering into a sales agreement during the second quarter with an independent agent based in Nova Scotia. This opportunistic arrangement leverages our buying power and well-established ability to serve the needs of developers and builders. It will allow Coast to generate incremental contract sales revenue without adding to our fixed costs. Sales under the agreement, initially expected to be modest, will be administered under existing corporate systems, with deliveries flowing through a local third-party warehouse.

### **Balance Sheet Improvements**

The reduction in our monthly distributions to unitholders introduced in February 2009, together with the relative stability of our revenues, have enabled us to strengthen the Fund's balance sheet. At quarter-end, we had significantly improved our cash position from the 2008 year-end and fully paid down our operating line. Subsequent to the end of the quarter, we

further reduced our debt by applying \$1.0 million to our acquisition term loan.

## Cash Distributions

For each of the months of April, May and June 2009, the Fund declared and paid distributions in the amount of \$0.0416, equating to an annualized distribution of \$0.50 per unit. Since our inception, the Fund has paid a total of 48 consecutive monthly cash distributions to public unitholders, and equivalent cash distributions to the non-controlling interest held by CWAL.

During the second quarter, the Fund generated adjusted distributable cash (before non-controlling interest) of \$2.3 million, or \$0.23 per unit. This compares to \$2.9 million, or \$0.29 per unit, in 2008. The amount distributed and accrued for payment to unitholders and the non-controlling interest in the second quarter decreased to \$1.3 million, or \$0.12 per unit, in 2009 from \$3.1 million, or \$0.31 per unit, in 2008.

The Fund's adjusted payout ratio for the second quarter of 2009 was 53.3%, down from the 106.2% in 2008. The lower payout ratio in 2009 was due mainly to the February 2009 reduction in our distribution level. On a cumulative basis, from the Fund's inception, our adjusted payout ratio is 95.6%.

## Outlook

The following discussion is qualified in its entirety by the forward-looking statements report at the beginning of the management's discussion and analysis, which follows this letter, and by the section on risks and uncertainties at the end of the management's discussion and analysis.

The outlook for Coast's business through the second half of 2009 remains very cautious. In the contract segment, while we have benefited from strong project completions over the past 12 months, the ability of our major contract customers to start new projects continues to be restrained by tight credit markets. On the retail side, although sales have improved in certain markets since the beginning of the year, customers remain cautious about major purchases due to their general lack of confidence in the Canadian economy.

We are continuing to benefit from the cost control initiatives we have successfully implemented since 2008, and we believe the

current level of cash distributions will allow us to maintain the balance sheet strength we require to manage through the current market downturn. Over the longer term, we remain confident of our ability to grow our business when market conditions improve by capitalizing on our balanced business model and our recently established foothold in the Greater Toronto Area.

We are also continuing to evaluate the most advantageous course of action in response to the taxation of distributions at the trust level set to begin in 2011, as well as the timing of any such action. We expect to complete these plans by the end of the year.

In closing, we extend our thanks to all of our partners in success – our employees across Western Canada and Ontario, our suppliers and our customers – and our appreciation to you, our unitholders for your continued support of our business. We look forward to reporting back to you at the end of the third quarter.

Sincerely,



**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.

# Management's Discussion and Analysis of Financial Conditions and Operations

*For the period ended June 30, 2009*

*This management's discussion and analysis has been prepared by Coast Wholesale Appliance Income Fund (the Fund) as of August 5, 2009. It should be read in conjunction with the Fund's unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2009 and our audited consolidated financial statements for the year ended December 31, 2008 (available at [www.sedar.com](http://www.sedar.com) or [www.coastincomefund.com](http://www.coastincomefund.com)). 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 an initial public offering of trust units. This report presents our financial results for the period from January 1, 2009 to June 30, 2009.*

## **Forward-looking Statements**

This report includes forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "may", "plan", "will", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to, comments with respect to the sustainability of our distributions and the level of our payout ratio in the future.

These statements reflect current expectations of management regarding future events and operating performance as of the date of this report. Forward-looking statements involve significant risks and uncertainties, should not be read as

guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: sensitivity to general economic conditions; maintenance of profitability and management of growth; competition; fluctuations in fuel and commodity pricing, which may impact freight and other costs; usage of extended warranty programs and the costs to deliver these services; changes to planning and supply chain processes; changes in consumer preferences; changes in the mix of product sales; reliance on suppliers; lack of supplier agreements; reliance on key personnel; foreign exchange rates as they relate to imported products; and interest rates.

Although the forward-looking statements contained in this report are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements reflect management's current beliefs and are based on information currently available to the Fund. They speak only as of the date of this report, and reflect current assumptions regarding future events and operating performance. These assumptions include, without limitation: a continuing recession in the Canadian economy, including Western Canada and the Greater Toronto Area (our current market areas); continuing access to current credit facilities; volatility in exchange rates; low and stable interest rates; difficult credit markets for our major builder customers to obtain financing for their current and future building activities; reduced consumer confidence in light of the recessionary environment and its impact on the willingness of consumers to purchase household appliances; and a significant reduction in new building permits compared to the last few years. These forward-looking statements are made as of the date of this report and the Fund assumes no obligation to update or revise them to reflect new events or circumstances, other than as required by law.

## 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, now called CWAL Investments Ltd. The business has since been expanded geographically into Ontario. 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 and industry factors impacting our business have not changed substantially from those discussed in our 2008 annual report, dated March 18, 2009 and our first quarter interim report, dated May 6, 2009 (both available at [www.sedar.com](http://www.sedar.com) or [www.coastincomefund.com](http://www.coastincomefund.com)). The Canadian and worldwide economic recession and uncertain business environment has persisted, and we expect little change to this uncertainty during 2009. Credit markets remain extremely tight, directly impacting the ability of our builder and developer customers to finance both their current and future projects. The significant reduction in housing starts and building permits for new home construction that occurred across Canada in the second half of 2008 has continued through the first half of 2009. Fluctuations in the value of the Canadian dollar relative to the US dollar have put pressure on our major suppliers, resulting in pressure on our gross margins. The current global economic uncertainty may result in continuing volatility in currency exchange rates. Consumer confidence in the Canadian economy remains low and continues to be affected by ongoing job losses. Although we have seen some improvement in our retail traffic in certain markets since the beginning of the year, we expect that the decline in consumer confidence will continue to negatively impact retail activity in our stores. Given all of these factors, we remain very cautious about the outlook for our business in the coming months.

## Acquisition

On January 2, 2009, we completed the acquisition of the business of Morley's Appliance Centre, located in the Greater Toronto Area (GTA) in the Township of Vaughan. Founded in 1954, Morley's operates one store that serves a well-established customer base across the developer, builder, designer and retail markets, which is consistent with our business model. This transaction was in keeping with one of our key strategic objectives – expanding the business of Coast into the central Canadian market. We purchased the business, business assets, inventory, accounts receivable and customer deposits of Morley's, as well as one accounts payable (which was due to the Fund), for approximately \$5.2 million. This amount included all the costs related to the transaction, which was funded from a partial utilization of our acquisition term loan. An allocation of the purchase price, and related costs of acquisition, to the fair value of the assets acquired and liabilities assumed is as follows:

*Table 1: Acquisition of Morley's Appliance Centre  
(in thousands of dollars)*

	\$
Accounts receivable	839
Inventory	2,004
Prepaid expenses	21
Customer deposits	(329)
Accounts payable	(162)
<b>Net working capital acquired</b>	<b>2,373</b>
Leaseholds and equipment	179
Goodwill	2,211
Other intangible assets	485
<b>Cash consideration paid inclusive of acquisition costs incurred</b>	<b>5,248</b>

## Seasonality

The Fund establishes an annual distribution rate and the monthly distributions paid to unitholders are averaged through the year. This payment pattern may not correlate to our income, on a monthly basis, as sales of our products are subject to seasonal fluctuations that follow our customers' building activities. Historically, the first quarter has been our slowest, accounting for 21% to 22% of annual sales, and the third quarter our strongest, representing 27% to 28% of sales. The second and fourth quarters have generally been approximately equal, each accounting for 25% to 26% of sales. In both 2007

and 2008, we saw a slight variation in this seasonality. While the first quarter remained our slowest, sales in the balance of the year were relatively evenly distributed.

## Selected Financial Information

The following selected financial information has been derived from the Fund's unaudited interim consolidated financial

statements for the three and six months ended June 30, 2009. It should be read in conjunction with these statements, as well as with our audited consolidated financial statements for the year ended December 31, 2008 (available at [www.sedar.com](http://www.sedar.com) or [www.coastincomefund.com](http://www.coastincomefund.com)).

## Operating Results

(in thousands of dollars except percentages and per-unit amounts)

	3 months ended June 30 2009	3 months ended June 30 2008	3 months ended June 30 2007	6 months ended June 30 2009	6 months ended June 30 2008	6 months ended June 30 2007
Sales	37,913	38,250	36,809	71,092	72,126	67,970
Cost of sales	29,085	28,836	27,581	54,541	54,246	51,010
Gross margin	8,828	9,414	9,228	16,551	17,880	16,960
<i>As a percentage of sales</i>	23.3%	24.6%	25.1%	23.3%	24.8%	25.0%
Expenses <sup>(1)</sup>	6,023	5,851	5,328	11,732	11,447	10,258
Amortization of leasehold inducements (netted with facility expenses)	25	21	17	50	42	26
EBITDA <sup>(2)</sup>	2,780	3,542	3,883	4,769	6,391	6,676
<i>As a percentage of sales</i>	7.3%	9.3%	10.5%	6.7%	8.9%	9.8%
Interest	325	238	236	651	561	469
Gain on interest rate swap	(125)	–	–	(143)	–	–
Future income taxes (recovery)	(96)	(55)	(128)	(116)	(79)	(128)
Amortization	675	618	567	1,326	1,227	1,111
Net income before non-controlling interest	2,001	2,741	3,208	3,051	4,682	5,224
<i>As a percentage of sales</i>	5.3%	7.2%	8.7%	4.3%	6.5%	7.7%
Non-controlling interest	700	958	1,122	1,067	1,637	1,827
Net income	1,301	1,783	2,086	1,984	3,045	3,397
Net income per unit (basic & diluted)	0.199	0.273	0.320	0.304	0.467	0.521
Cash distributions per unit	0.125	0.308	0.300	0.291	0.615	0.600
EBITDA <sup>(2)</sup> per unit	0.277	0.353	0.387	0.475	0.637	0.665
Total assets	133,309	130,349	131,421	133,309	130,349	131,421
Total long-term financial liabilities	27,875	22,316	22,105	27,875	22,316	22,105

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

(2) See definition of EBITDA under Non-GAAP Measures.

## Sales

Sales for the three months ended June 30, 2009 were \$37.9 million, down by \$0.4 million, or 0.9%, from the \$38.3 million we reported in the second quarter of 2008. As in the second half of 2008 and first quarter of 2009, our contract sales benefited from strong project completions with developers and builders. Retail sales were stronger than in the first quarter of 2009 but remained below the 2008 second quarter level due to continued cautious consumer spending. As a result, our business mix continued to be skewed in favour of contract sales.

In BC, the soft retail business was offset by the continued strength of our contract sales. Sales remained depressed in Alberta, and particularly in the contract segment of our business, as low housing starts have persisted. In Saskatchewan, sales remained robust, with continued growth after a strong first quarter, while sales in Manitoba were comparable to the prior year level. Our new Greater Toronto Area (GTA) store continued to perform below expectations due to the exceptionally difficult economic conditions in that market.

Sales for the six months ended June 30, 2009 were \$71.1 million, down by \$1.0 million, or 1.4%, from the \$72.1 million we reported in the first half of 2008. On a regional basis, our first half sales were consistent with the second quarter result, remaining approximately equal to the 2008 level in both BC and Manitoba, declining in Alberta, and increasing in Saskatchewan. As noted above, our new GTA store had a slow start to 2009.

### *Cost of sales and gross margin*

Cost of sales for the three months ended June 30, 2009 was \$29.1 million, or 76.7% of sales. This resulted in a gross margin of \$8.8 million, or 23.3% of sales. By comparison, in the second quarter of 2008, cost of sales was \$28.8 million, or 75.4% of sales, providing a gross margin of \$9.4 million, or 24.6% of sales.

The 1.3% decrease in gross margin percentage was mainly due to the shift in our business mix in favour of contract sales to developers and builders, which historically generate a lower margin than our retail business. The gross margin reduction was partially offset by the modest improvement we saw in our retail business compared to the first quarter of 2009, when our gross margin percentage declined by 1.7% year-over-year.

Cost of sales for the six months ended June 30, 2009 was \$54.5 million, or 76.7% of sales. This resulted in a gross margin of \$16.6 million, or 23.3% of sales. By comparison, in the first half of 2008, cost of sales was \$54.2 million, or 75.2% of sales, providing a gross margin of \$17.9 million, or 24.8% of sales. As with the quarterly result, the gross margin decline was driven by the shift in our business mix in favour of contract sales.

### *Expenses*

Selling, warehouse, facility and general and administrative (SG&A) expenses for the three months ended June 30, 2009 were \$6.0 million, or 15.9% of sales. This was up by a relatively modest \$0.1 million from the second quarter of 2008, when SG&A expenses of \$5.9 million equalled 15.3% of sales, despite the added costs of operating our new GTA store.

The increase in SG&A expenses was mainly due to higher facilities costs, which increased by \$0.1 million year-over-year. Lease costs were up as a result of the September 2008 relocation of our Regina, Saskatchewan store to new, larger premises in a higher-traffic area, the addition of a new warehouse in Edmonton in the first quarter of 2009 and the addition of the GTA store. The incremental costs associated with our new GTA store were substantially offset by the positive impact of the cost control initiatives we implemented across our stores in 2008. Excluding facilities costs, our second quarter SG&A expenses represented 12.8% of sales, compared to 12.4% in 2008.

For the six months ended June 30, 2009, SG&A expenses were \$11.7 million, or 16.5% of sales. Again, this was up by a relatively modest \$0.3 million from the first six months of 2008, when SG&A expenses of \$11.4 million equalled 15.9% of sales, despite the added costs of operating our new GTA store.

As with the quarterly result, the increase in our six-month SG&A expenses was mainly driven by higher facilities costs, which increased by \$0.2 million year-over-year. Lease costs were up due to the Regina store relocation, and the February 2008 relocation of our Abbotsford, BC store, again to larger premises in a higher traffic area, as well as the addition of our Edmonton warehouse and GTA store. The balance of our first half SG&A expenses (excluding facilities costs) were up slightly from 2008, representing 13.1% of sales, compared to 12.9% in 2008. For the six months, the additional costs associated with our new GTA store were more than offset by the positive impact of our 2008 cost control initiatives.

Table 2: Reconciliation of net income to EBITDA  
(in thousands of dollars except percentages)

	3 months ended June 30 2009	3 months ended June 30 2008	3 months ended June 30 2007	6 months ended June 30 2009	6 months ended June 30 2008	6 months ended June 30 2007
Net income	1,301	1,783	2,086	1,984	3,045	3,397
Non-controlling interest	700	958	1,122	1,067	1,637	1,827
Interest	325	238	236	651	561	469
Gain on interest rate swap	(125)	–	–	(143)	–	–
Future income taxes (recovery)	(96)	(55)	(128)	(116)	(79)	(128)
Amortization	675	618	567	1,326	1,227	1,111
EBITDA <sup>(1)</sup>	2,780	3,542	3,883	4,769	6,391	6,676
EBITDA margin <sup>(1)</sup>	7.3%	9.3%	10.5%	6.7%	8.9%	9.8%

(1) See definition of EBITDA and EBITDA margin under Non-GAAP Measures.

### EBITDA

EBITDA and EBITDA margin are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP (see Non-GAAP Measures).

EBITDA for the three months ended June 30, 2009 was \$2.8 million, down by \$0.7 million from the \$3.5 million we reported in the second quarter of 2008. Our EBITDA margin of 7.3% was down from 9.3% in the same three months of 2008. The decrease in EBITDA was due to the slight reduction in total sales and lower gross margin in 2009, as discussed above, combined with the impact of the added expenses for our new GTA store.

EBITDA for the six months ended June 30, 2009 was \$4.8 million, down by \$1.6 million from the \$6.4 million we reported in the first half of 2008. Our EBITDA margin was 6.7%, down from 8.9% in 2008. As with the quarterly result, the decrease in EBITDA was due to the reduction in total sales and lower gross margin in 2009, combined with the added costs for our new GTA store, as discussed above.

### Interest

Second quarter interest expense of \$0.3 million was greater than the \$0.2 million we recorded in 2008, due mainly to the additional term debt related to our GTA acquisition.

For the six-month period, interest expense similarly increased to \$0.7 million from \$0.6 million in 2008, again mainly as a result of the additional term debt related to our acquisition.

### Amortization

Amortization for the three months ended June 30, 2009 was \$0.7 million, up from the \$0.6 million we recorded in 2008. The increase was mainly due to amortization of the leaseholds and equipment, and intangible assets related to the acquisition of our GTA store.

For the six months ended June 30, 2009, amortization was \$1.4 million, up from \$1.2 million in 2008, again mainly due to amortization of the leaseholds and equipment, and intangible assets related to the acquisition of our GTA store.

### Net income before non-controlling interest

Net income before non-controlling interest for the three months ended June 30, 2009 was \$2.0 million, compared to \$2.7 million in the second quarter of 2008. As a percentage of sales, this amount equalled 5.3%, down from 7.2% in 2008. The reduction in net income was mainly due to the reduced gross margin.

For the six months ended June 30, 2009, net income before non-controlling interest was \$3.1 million, or 4.3% of sales, compared to \$4.7 million, or 6.5% of sales, in the same period of 2008. As with the quarterly result, the reduction in net income was mainly due to the reduced gross margin.

### Summary of Quarterly Results

See the section on seasonality above for a discussion of the impact of seasonality on our quarterly sales levels.

Table 3: Summary of quarterly results

(in thousands of dollars except percentages and per-unit amounts)

	2009		2008				2007	
	Q2	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$
Sales	37,913	33,179	36,077	38,547	38,250	33,876	37,306	37,759
Gross margin	8,828	7,723	9,200	9,686	9,414	8,466	9,317	9,496
Gross margin percentage	23.3%	23.3%	25.5%	25.1%	24.6%	25.0%	25.0%	25.1%
Income before non-controlling interest	2,001	1,050	1,959	2,352	2,741	1,941	2,227	3,376
Net income	1,301	683	1,274	1,529	1,782	1,263	1,448	2,196
Basic and diluted net income per unit	0.199	0.105	0.195	0.234	0.273	0.194	0.222	0.337
Distributions per unit	0.125	0.166	0.250	0.308	0.308	0.308	0.308	0.300

## Liquidity and Capital Resources

### Cash flow from operating activities

Cash flow from operating activities for the three months ended June 30, 2009 was \$3.9 million, up from \$1.2 million in the second quarter of 2008. Our net income and resulting cash flow before changes in non-cash working capital was down by \$0.8 million year-over-year. The cash generated from the change in our non-cash working capital was \$1.5 million in 2009, compared to a use of cash of \$2.1 million in 2008. Specific changes in our non-cash working capital items are detailed in the table below. During the second quarter of 2009, the most significant changes were decreases in both our accounts receivable and inventories, compared to increases in these categories in the same period of 2008. At June 30, 2009, our operating line of credit was nil and we had a small cash balance

on hand, compared to an operating line of \$2.2 million and cheques issued in excess of funds on deposit of \$3.1 million at June 30, 2008.

Cash flow from operating activities for the six months ended June 30, 2009 was \$9.3 million, up from \$6.7 million in the first half of 2008. Our net income and resulting cash flow before changes in non-cash working capital was down by \$1.7 million year-over-year. The cash generated from the change in our non-cash working capital was \$5.1 million in 2009, compared to \$0.9 million in 2008. Specific changes in our non-cash working capital items are detailed on the table below. Since December 31, 2008, the most significant changes were a decrease in our accounts receivable, mainly due to collection of 2008 year-end supplier rebates, and an increase in our accounts payable, which related to the timing of payments at the end of the quarter.

Table 4: Changes in non-cash working capital items (source (use) of cash)  
(in thousands of dollars)

	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2009	6 months ended June 30 2008
Accounts receivable	460	(1,058)	2,109	(852)
Inventory	745	(825)	722	304
Prepaid expenses	(91)	46	(211)	(64)
Accounts payable and accrued liabilities	267	(1,141)	1,783	(410)
Customer deposits	13	826	589	1,822
Deferred warranty revenue	76	77	124	104
Change in non-cash working capital	1,470	(2,075)	5,116	904

## Capital Expenditures

Table 5: Capital Expenditures  
(in thousands of dollars)

	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2009	6 months ended June 30 2008
Total capital expenditures	100	385	214	566
Less tenant inducements	–	–	–	–
	100	385	214	566
Less:				
Growth capital expenditures	–	–	71	–
Maintenance capital expenditures <sup>(1)</sup>	100	385	143	566

(1) See definition of maintenance capital under Non-GAAP Measures.

Maintenance capital is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP (see Non-GAAP Measures). We consider maintenance capital expenditures to include leasehold improvements for existing locations, relocation of existing facilities, furniture and fixture purchases, and computer hardware and software expenditures. These expenditures are required to maintain and enhance our sales capacity, and to sustain our current store configuration. Growth capital expenditures are capital costs related to the opening of new store locations. These expenditures expand our sales capacity and create new sales opportunities.

Maintenance capital expenditures during the second quarter of 2009 related mainly to ongoing computer system upgrades and enhancements. In the first quarter of 2009, maintenance costs mainly related to the opening of our new warehouse in Edmonton in February, while growth capital expenditures related to our new store in the GTA.

In fiscal 2009, we anticipate that our net capital expenditures will range between approximately \$0.7 million and \$0.8 million. These expenditures will include the estimated net costs related to the planned relocation of our Edmonton North store late in the third quarter.

## 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 six months ended June 30, 2009, distributions of \$0.29 per unit were paid to public unitholders, totalling \$1.9 million. In addition, distributions of \$0.29 per unit were paid to the non-controlling interest held by the former owner of the Coast business, totalling \$1.0 million.

Distributions for the month of January 2009 were paid at a per-unit rate of \$0.833. On February 18, 2009, due to the continuing worldwide and Canadian economic uncertainty, the Trustees determined that it was prudent to reduce our monthly distribution rate by 50% to \$0.0416 per unit. The new rate equates to an annualized distribution of \$0.50 per unit. Distributions in this amount were made for each of the five months from February to June 2009.

From the Fund's inception on June 23, 2005 through June 30, 2009, distributions totalling \$29.3 million have been paid to public unitholders. Distributions to the non-controlling interest have also been paid in full during this period, totalling \$15.8 million. The accrued distributions payable to unitholders and the non-controlling interest at June 30, 2009 were paid on July 15, 2009.

In fiscal 2009, we anticipate that our distributions will be treated for tax purposes as 99% taxable income and 1% return of capital.

Table 6: Distributions to unitholders

Period	Record Date	Payment Date	Per unit \$	Amount \$
January 2009	January 30, 2009	February 16, 2009	0.0833	543,533
February 2009	February 27, 2009	March 16, 2009	0.0416	271,440
March 2009	March 31, 2009	April 15, 2009	0.0416	271,440
April 2009	April 30, 2009	May 15, 2009	0.0416	271,440
May 2009	May 29, 2009	June 15, 2009	0.0416	271,440
June 2009	June 30, 2009	July 15, 2009	0.0416	271,440
			0.2913	1,900,733

*Standardized distributable cash*

In 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.

We believe 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 with the seasonality of our business and changes in the timing of the payment of payable transactions, as well as with the management of our inventory levels.

Table 7: Standardized distributable cash

(in thousands of dollars except percentages and per-unit amounts)

	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2009	6 months ended June 30 2008	12-month trailing June 30 2009	12-month trailing June 30 2008
Cash from operations	3,934	1,229	9,253	6,734	15,683	10,401
Other capital expenditures	-	-	(71)	-	(71)	(264)
Maintenance capital expenditures <sup>(1)</sup>	(100)	(385)	(143)	(566)	(489)	(1,137)
Standardized distributable cash	3,834	844	9,039	6,168	15,123	9,000
Distributions	1,252	3,086	2,922	6,172	8,515	12,268
Standardized distributable cash per unit	0.382	0.084	0.901	0.615	1.507	0.897
Distributions per unit	0.125	0.308	0.291	0.615	0.849	1.223
<i>Standardized payout ratio</i>	32.7%	365.6%	32.3%	100.1%	56.3%	136.3%
Cumulative since IPO June 23, 2005						
Standardized distributable cash	43,903					
Distributions	45,097					
<i>Standardized payout ratio</i>	102.7%					

(1) See definition of maintenance capital under Non-GAAP Measures.

On a 12-month trailing basis, using the standardized distributable cash calculation, our standardized payout ratio of 56.3% at June 30, 2009 was improved from the 136.3% we reported at June 30, 2008. Using the adjusted distributable cash calculation described below, the Fund's 12-month trailing payout ratio at June 30, 2009 was 90.9%, down from 105.3% at June 30, 2008.

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

### Adjusted distributable cash

Historically, we have considered distributable cash to be our cash flows from operating activities before changes in non-cash working capital, less maintenance capital expenditures (see Non-GAAP Measures), plus the non-cash component of interest expense. The table below uses this calculation method to set out our adjusted distributable cash.

Table 8: Adjusted distributable cash

(in thousands of dollars except percentages and per-unit amounts)

	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2009	6 months ended June 30 2008	12-month trailing June 30 2009	12-month trailing June 30 2008
Cash flow from operations - before changes in non-cash working capital	2,463	3,304	4,136	5,830	9,924	12,652
Non-cash interest charges netted with interest	(16)	(13)	(32)	57	(64)	135
Maintenance capital expenditures <sup>(1)</sup>	(100)	(385)	(143)	(566)	(489)	(1,137)
Adjusted distributable cash <sup>(1)</sup>	2,347	2,906	3,961	5,321	9,371	11,650
Distributions to unitholders and non-controlling interest	1,252	3,086	2,922	6,172	8,515	12,268
Adjusted distributable cash per unit <sup>(1)</sup>	0.234	0.290	0.395	0.530	0.934	1.161
Distributions per unit	0.125	0.308	0.291	0.615	0.849	1.223
Adjusted payout ratio	53.3%	106.2%	73.8%	116.0%	90.9%	105.3%
Cumulative since IPO June 23, 2005						
Adjusted distributable cash <sup>(1)</sup>	47,160					
Distributions	45,097					
Adjusted payout ratio	95.6%					

(1) See definition of maintenance capital and adjusted distributable cash under Non-GAAP Measures.

Our adjusted distributable cash payout ratio varies throughout the year according to the seasonality of our business.

For the second quarter of 2009, our adjusted payout ratio of 53.3% was down from the 106.2% we reported for the same period of 2008. The decrease was mainly due to the reduction in our distribution level beginning in February 2009. Adjusted distributable cash for the second quarter decreased to \$2.3 million from \$2.9 million in 2008, while distributions paid were reduced to \$1.3 million from \$3.1 million in 2008.

For the six months ended June 30, 2009, our adjusted payout ratio decreased to 73.8% from 116.0% in the first half of 2008.

With the reduction in the per-unit monthly distribution amount, distributions during the first half of the year decreased to \$2.9 million from \$6.2 million in 2008. Adjusted distributable cash for the six-month period was \$4.0 million, compared to \$5.3 million in 2008.

On a 12-month trailing basis, our adjusted payout ratio at June 30, 2009 was 90.9%, down from the 105.3% we reported at June 30, 2008.

On a cumulative basis, from the Fund's inception at June 23, 2005, our adjusted payout ratio is 95.6%.

Table 9: Reconciliation of standardized distributable cash to adjusted distributable cash  
(in thousands of dollars)

	3 months ended June 30 2009	3 months ended June 30 2008	6 months ended June 30 2009	6 months ended June 30 2008	12-month trailing June 30 2009	12-month trailing June 30 2008	Since June 23 2005
Standardized distributable cash	3,834	844	9,039	6,168	15,123	9,000	43,903
Change in non-cash working capital	(1,471)	2,075	(5,117)	(904)	(5,759)	2,251	1,273
Non-cash interest charges netted with interest	(16)	(13)	(32)	57	(64)	135	71
Non maintenance capital expenditures <sup>(1)</sup>	-	-	71	-	71	264	1,913
Adjusted distributable cash <sup>(1)</sup>	2,347	2,906	3,961	5,321	9,371	11,650	47,160

(1) See definition of maintenance capital and adjusted distributable cash under Non-GAAP Measures.

### Contractual obligations, commitments and financing

Table 10: : Payments due by period as at June 30, 2009  
(in thousands of dollars)

	Operating leases	Term loan
Less than one year	3,001	-
One to three years	3,454	25,300
Four to five years	2,841	-
After five years	4,052	-
	13,348	25,300

The Fund has borrowed \$20.0 million under a three-year 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 agreement bear interest at prime plus 0% to 0.5%, when borrowed directly, or at the banker's acceptance rate plus 1.50% to 2.00%, when a banker's acceptance facility is utilized. This is based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, and is 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 (see Note 7 of the June 30, 2009 unaudited interim consolidated financial statements). No principal repayments are required during the term of the loan.

The Fund entered into an interest-rate swap transaction on August 28, 2008 to fix the effective rate of interest on the term loan until July 30, 2010 at 3.53% plus 1.50% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes,

depreciation and amortization, calculated on a quarterly basis. At June 30, 2009, the fair market value of the swap, on a mark-to-market basis, was an unrealized loss of \$0.6 million, compared to an unrealized loss of \$0.8 million at December 31, 2008, and is recorded in the balance sheet as an unrealized loss on interest rate swap. In the second quarter of 2009, \$0.1 million of the unrealized loss was reversed.

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 facility are effectively the same as those of the term loan, as described above. A standby fee of 0.25% to 0.375%, based on the ratio described above, is charged on any unutilized portion of the facility. On January 2, 2009, we drew down \$5.3 million on this facility to fund the acquisition of Morley's Appliance Centre, as detailed above. Subsequent to the end of the second quarter, we made a \$1 million repayment on this term loan.

Operating leases are in place for all premises. We paid total basic rent of \$0.8 million for the three months ended June 30, 2009, compared to \$0.7 million for the same three months of 2008. For the six-month period, total basic rent was \$1.6 million, compared to \$1.3 million for the same period in 2008. The year-over-year differences were due to increased rents for our relocated Abbotsford and Regina stores, and the addition of our GTA store and Edmonton warehouse. During the current year, we will start negotiations with our landlords regarding the nine of our 19 leased facilities that are due for renewal in 2010. None of our leased facilities are due for renewal in fiscal 2009.

### Working capital and liquidity

Table 11: Working capital and liquidity  
(in thousands of dollars)

	June 30 2009	Dec 31 2008
Working capital	20,288	16,674
Total assets	133,309	130,563
Total liabilities	46,848	44,230
Total long-term liabilities	27,875	22,561

Working capital of \$20.3 million at June 30, 2009 was up by \$3.6 million from \$16.7 million at December 31, 2008. Since our 2008 year-end, we have added \$2.4 million in working capital related to our GTA acquisition, leaving a net increase in working capital of \$1.2 million. Excluding the impact of the acquisition, we experienced a \$2.1 million reduction in our accounts receivable, a \$0.7 million reduction in our inventories, a \$1.8 million increase in our accounts payable, a \$0.6 million increase in our customer deposits, and a \$5.0 million decrease in our combined operating line and outstanding cheques.

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 0.50%, or at the banker's acceptance rate plus 1.50% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. A standby fee of 0.25% to 0.375%, based on this ratio, is charged on any unutilized portion of the facility. The operating loan is secured by a general security agreement covering all assets of the Fund, subject to the security provided to a major supplier. The operating loan was nil at June 30, 2009, compared to \$3.5 million at December 31, 2008. During the second quarter of 2009, our average daily utilization of this facility was decreased dramatically over the second quarter of 2008.

Our principal source of liquidity is cash provided by operations and the above noted credit facilities. In addition, we review our cash flows on an ongoing basis and can adjust our annual distribution rate accordingly. At this time, 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 June 30, 2009 were \$133.3 million, compared to total assets at December 31, 2008 of \$130.6 million. The increase was mainly due to the acquisition of our GTA store. With this transaction, we added a total of \$5.7 million to current assets, leaseholds and equipment, goodwill and intangible assets.

Inventory at June 30, 2009 was \$23.7 million, up by \$1.3 million from \$22.4 million at December 31, 2008. Our new GTA store added \$2.0 million to our 2009 inventory. At our other locations, we were successful in our ongoing efforts to reduce inventory levels.

Accounts receivable at June 30, 2009 totalled \$14.4 million, compared to \$15.6 million at December 31, 2008. As charted below, our trade accounts receivable decreased by \$0.6 million from the 2008 year-end total, despite the \$0.8 million in trade accounts receivable that was added with our GTA acquisition, while our supplier rebate and other receivables was reduced by \$0.7 million.

Table 12: Accounts receivable  
(in thousands of dollars)

	June 30 2009	Dec 31 2008
Accounts receivable - trade	13,257	13,810
Supplier rebates and other	1,112	1,829
	14,369	15,639

### Total liabilities

Total liabilities at June 30, 2009 were \$46.8 million, compared to \$44.2 million at December 31, 2008. The \$2.6 million increase was mainly due to the \$5.3 million added to our term debt to fund our GTA acquisition and the \$1.8 million increase in accounts payable, offset by a \$5.0 million decrease in our combined operating line and outstanding cheques. At June 30, 2009, our operating line was nil, compared to \$3.5 million at December 31, 2008. At June 30, 2009 we had a small cash balance of \$0.7 million, compared to cheques issued in excess of funds on deposit of \$1.6 million at December 31, 2008.

Accounts payable and accrued liabilities at June 30, 2009 were \$12.7 million, compared to \$10.7 million at December 31, 2008. The increase was due to the timing of payments to our major suppliers at the end of the quarter. This resulted in the decrease to our operating line noted above. The reduction in our monthly distribution amount in February 2009 resulted in a

\$0.4 million decrease in the accrued distribution payable since the 2008 year-end.

Customer deposits at June 30, 2009 were \$4.4 million, up by \$0.9 million from \$3.5 million at December 31, 2008. Our GTA acquisition accounted for \$0.3 million of the increase, with the balance coming from additional customer orders during the first half of 2009.

Total deferred warranty revenue (combined current and long-term) at June 30, 2009 was \$2.8 million, approximately equal to the amount at December 31, 2008.

In the fourth quarter of 2008, we recorded an unrealized loss on our interest rate swap in the amount of \$0.8 million. During the second quarter of 2009, this was reduced to \$0.6 million. The reduction is reflected in our income.

Deferred lease inducements of \$0.7 million at June 30, 2009 were approximately equal to the total at December 31, 2008.

#### *Long-term incentive plan*

The Fund adopted a form of long-term incentive plan (LTIP) in 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 liability is accrued in the period when distributable cash exceeds the thresholds established for the LTIP and the related cost is amortized to expenses over the three-year vesting period of the applicable participant award. Benefits forfeited under the plan are returned to the Fund.

At June 30, 2009, the Fund had a prepaid compensation balance of approximately \$21,000 in relation to the LTIP for fiscal 2007. This amount will be amortized to expense over the vesting period of the awards. In fiscal 2008, no further amounts were accrued under the LTIP as the distributable cash thresholds were not attained. During the second quarter of 2009, approximately \$6,000 was charged to expense.

#### **Fund Units**

At June 30, 2009, the Fund had 6,525,000 units issued and outstanding, for an aggregate amount of \$59,835,000, which was unchanged from December 31, 2008. In addition, there are 3,509,166 exchangeable units of Coast Wholesale Appliances LP issued and outstanding, exchangeable on a one-for-one basis for units of the Fund at the option of the holder, CWAL Investments Ltd. (CWAL), the former owner of the Coast business.

Until such time as CWAL completes the exchange, it has been issued 3,509,166 special voting units of the Fund, the value of which is included in the non-controlling interest. These 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.

As of the date of this report, August 5, 2009, there have been no changes to the issued and outstanding units of the Fund since December 31, 2008.

For additional information on the Fund units issued and the exchangeable units, refer to Notes 8 and 9 of the December 31, 2008 consolidated financial statements, available at [www.sedar.com](http://www.sedar.com) or [www.coastincomefund.com](http://www.coastincomefund.com).

#### **Financial Instruments**

Financial instruments of the Fund consist of cash and cash equivalents, accounts receivable, accounts payable, customer deposits, our term and operating loans and accrued distributions payable to unitholders. These financial instruments are classified into one of the following categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Fund when the financial instrument is initially recorded, based on the underlying purpose of the instrument. These financial instruments are subject to credit risk, currency risk and concentration risk, as described in the June 30, 2009 unaudited interim consolidated financial statements.

*Table 13: Classification and measurement of financial assets and financial liabilities*

Financial Instrument	Category	Measurement
Cash	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Operating loan	Held-for-trading	Fair value
Term loan	Held-for-trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Customer deposits	Other financial liabilities	Amortized cost
Distributions payable	Other financial liabilities	Amortized cost

To fix the interest rate on our \$20 million term loan, a hedging strategy was established and an economic hedge was executed on August 28, 2008. This interest rate swap transaction fixed the effective rate of interest on the term loan at 3.53% plus 1.50% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes and amortization, calculated on a quarterly basis, until July 30, 2010. At December 31, 2008, the Fund recorded an unrealized loss of \$0.8 million to reflect the fair value of the interest rate swap. This was included as an unrealized loss on interest rate swap on the balance sheet. In the second quarter of 2009, we recorded a realized gain on this swap, leaving the unrealized loss at \$0.6 million at June 30, 2009.

The Fund's financial risk management activities are further outlined in Note 12 to the June 30, 2009 unaudited interim consolidated financial statements.

### **Off Balance Sheet Arrangements**

The Fund has not entered into any off balance sheet arrangements.

### **Critical Accounting Policies and Estimates**

We have prepared our consolidated 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, as well as 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 the Fund are described in Note 2 of the Fund's consolidated financial statements for the year ended December 31, 2008, available at [www.sedar.com](http://www.sedar.com) or [www.coastincomefund.com](http://www.coastincomefund.com). The policies that we believe are the most critical in aiding a full understanding and evaluation of our reported financial results are summarized below.

#### *New accounting standards adopted*

##### *Goodwill and intangible assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and

Development Costs". The new pronouncement established standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. There have been no changes to our unaudited interim consolidated financial statements as a result of adopting this new standard.

#### *New accounting standards issued*

##### *International financial reporting standards*

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. We will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable for our reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS.

We have reviewed our current financial statements and accounting policies in comparison to the IFRS standards. The majority of our policies and practices are in compliance with IFRS or are readily convertible. Still to be finalized are the accounting treatment related to intangibles, goodwill and financial instruments. These matters, including appropriate calculations, will be completed by the end of the third quarter of 2009. We have reviewed the elections permitted under IFRS 1 and have finalized all with the exception of two, which respectively relate to acquisition accounting and hedge accounting. These will be finalized as we complete our review of the accounting treatment for these items. We will ensure that the accounting for our recent GTA acquisition is in compliance with, or readily convertible to, IFRS.

Our systems, internal controls and operating procedures require only minor changes to convert to IFRS. We have planned the procedures required to accumulate appropriate comparative data through 2010 to facilitate reporting under IFRS in 2011. During the first half of 2010, we will work with our bank to amend our debt covenants for any changes resulting from the IFRS conversion.

In the second half of 2010, we will finalize the IFRS financial statement presentation and note disclosure for presentation in our first quarter 2011 financial reporting.

### *Revenue recognition*

The Fund 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.

Extended 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.

The Fund determines the fair value of the reporting unit using a discounted cash flow model, corroborated by other valuation techniques, such as market multiples. The process of determining these fair values requires us to make estimates and assumptions, including, but not limited to, projected future sales, earnings and capital investment, discount rates, and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Fund's Board of Trustees. Discount rates are based on an industry weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

The Fund's goodwill was evaluated as at December 31, 2008. No adjustment for impairment was required.

### *Valuation of long-lived assets*

We review long-lived assets and certain identified recorded intangibles for impairment whenever events or changes in

circumstances indicate that the carrying amount of an asset may not be recoverable from 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. The Fund's long-lived assets and certain identified recorded intangibles were evaluated as at December 31, 2008. 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. The Fund 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, when new taxation rules for Specified Investment Flow-through (SIFT) trusts such as ours come into effect.

Beginning in 2011, distributions that are currently paid out and taxed in the hands of unitholders will first be taxed at the trust level. 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.

The Fund accounts for future income taxes in accordance with EIC-167 (Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs). Under these standards, the Fund is required to recognize future income tax assets and liabilities with a corresponding change to the future income tax expense for the temporary differences between the book and tax bases of assets and liabilities expected to reverse after the tax is imposed.

The Fund currently has an unused tax shield of approximately \$47 million. The majority of 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 \$3 million to \$4 million per year going forward.

For the six-month period ended June 30, 2009, the future income tax recovery was \$0.1 million.

### **Related Party Transactions**

We lease six store locations (Vancouver, Kelowna, Langley, Coquitlam, Victoria and Calgary) and two warehouses from a company affiliated with CWAL, the former owner of the business. For the six-month period ended June 30, 2009, our lease payments for these facilities totalled \$0.6 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.

### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

#### *Disclosure controls and procedures*

Disclosure controls and procedures are processes designed to provide reasonable assurance that information required to be disclosed by the Fund in annual, interim or other filings is collected and reported to the Fund's management in a timely manner to facilitate the required reporting. Due to the inherent limitations of control systems, an evaluation can only provide reasonable assurance over the effectiveness of the controls. The Fund's CEO and CFO designed, and evaluated, or had these functions completed under their direction, the effectiveness and operation of our disclosure controls and procedures. Based on that evaluation, we concluded that the design and operation of these disclosure controls and procedures were effective as at June 30, 2009.

#### *Internal control over financial reporting*

Internal control over financial reporting are controls and processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management of the Fund are responsible for establishing and maintaining these controls. The Fund's management, under the supervision of and with the participation of the CEO and CFO, carries out, on an ongoing basis, an assessment of the design of these internal controls. We use the criteria set forth by the Committee of Sponsoring

Organizations of the Treadway Commission ("COSO"). The assessment includes a risk evaluation of internal controls and documentation, and testing of the key processes and controls. Due to the inherent limitations in any control system, an evaluation can only provide reasonable assurance over the effectiveness of the controls and internal controls are not expected to prevent and detect all misstatements due to error or fraud. Based on our ongoing assessment, the CEO and CFO concluded that the Fund's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes as at June 30, 2009.

There were no changes in internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

### **Outlook**

The following discussion is qualified in its entirety by the forward-looking statements proviso at the beginning of the management's discussion and analysis, and by the section on risks and uncertainties following this outlook.

As previously announced, the Fund's forty-ninth consecutive monthly distribution will be paid to public unitholders of record as at July 31, 2009 on August 17, 2009 in the amount of \$0.0416 per unit (\$0.50 per annum). The distribution to the exchangeable units held by CWAL Investments Ltd. in the amount of \$0.0416 per unit will also be paid on the same date. This rate of distribution has been paid since February 2009, when the per-unit monthly amount was reduced by 50%. The lower rate of distribution, together with the relative stability of our business, have enabled us to significantly improve our cash position from the 2008 year-end. At June 30, 2009, we had eliminated our operating line. Subsequent to the end of the second quarter, we applied \$1.0 million to our term loan. We believe the present level of distribution will allow us to maintain the balance sheet strength we require during the current uncertain economic times.

As we move through the second half of 2009, given the continuing Canadian and worldwide economic uncertainty, the outlook for our business remains extremely cautious. The Canadian economy continues to perform poorly. In the contract segment of our business, while we have benefited from strong project completions over the past 12 months, the ability of our major customers to start new projects continues to be

restrained by tight credit markets. In the retail segment, although sales have improved somewhat in certain markets since the beginning of the year, consumers remain generally very cautious about major purchases due to their general lack of confidence in the Canadian economy.

In light of these market challenges, we are continuing to focus on streamlining our non-selling functions in order to increase our operating efficiency, as well as working to enhance profitability by increasing sales from our existing stores. To this end, we are proceeding with preparations for the relocation of our Edmonton North location to a smaller site in a higher-traffic location late in the third quarter of 2009. This store and our existing Edmonton South location will be supported by the small warehouse we opened in February 2009 in the north end of Edmonton.

We are also continually refining our product offering. The success we experienced with the addition of the quality Miele product line at the beginning of the year has continued in the second quarter, creating new sales opportunities across our business and particularly in our contract business with developers and builders. The Miele products are sold under an agency agreement on a consignment basis, so there was no cost to the Fund to add the new line to Coast's inventories.

The acquisition of the Morley's Appliance Centre business in the Greater Toronto Area at the beginning of 2009 has given us a foothold in the largest market in Canada and should significantly enhance our ability to expand our business over the longer term. We believe that our full-service approach to meeting the needs of developers and builders, and retail consumers is well-suited to the GTA market.

During the second quarter, we further expanded our geographic coverage to the Maritime region, entering into an agreement with a contract sales agent based in Nova Scotia. Leveraging Coast's buying power and well-established ability to serve the needs of developers and builders, this unique business opportunity fits well with our business model and will allow us to generate incremental sales growth without adding significantly to our cost structure. Sales under the agreement, initially expected to be modest, will be administered under existing corporate systems, with deliveries flowing through a local third-party warehouse.

As of the date of this report, we have not finalized our plans in response to the introduction of taxation of distributions at the trust level in 2011 and associated federal legislation concerning the conversion of trusts to corporations. In general, the

legislated process is designed to facilitate such conversions without triggering a tax event for investors. We have started our review of the options with our legal and tax advisors to determine the most advantageous course of action for the Fund and our unitholders, as well as the timing of that action, and expect to finalize our plans prior to the end of the year.

We believe that our current credit facilities and ongoing cash flow from operations will be sufficient to allow the Fund to meet ongoing requirements for capital expenditures, including investments in working capital and cash distributions to unitholders. 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 the products sold by Coast is particularly sensitive to the health of the economy in Canada as a whole, and especially in our western and central Canadian marketplace. A number of factors could have a material effect on the financial performance of the Fund. These include but are not limited to the following:

- Continued recessionary economic conditions globally and in Canada, which could negatively impact our sales to both retail customers, who may defer or cancel purchase plans, and developer / builder customers, who may defer or cancel projects.
- The impact of current economic conditions on the credit worthiness of our developer / builder customers, and their ability to meet their obligations to us on a timely basis. Slower collection of our trade receivables could result in bad debts in excess of our historical patterns.
- Interest rates and the availability of credit to both builders and purchasers of homes, which may impact the housing market and may reduce both new home construction and renovation work.
- The ability of the Fund to continue to access our current credit facilities.
- Any significant change in competition from one or more competitors, as well as competition directly from suppliers, which may impact our sales results.

- 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, which may impact the success of our sales programs. We have attempted to mitigate this risk by working with multiple suppliers who can provide a variety of comparable products.
- Fluctuations in the Canadian / US dollar exchange rate, which may impact product costs from our major suppliers as well as our gross margins if we are unable to react with appropriate price adjustments.
- Changes to our product distribution processes, which may impact our ability to both receive and deliver our products on a timely basis. These processes are currently contracted out to outside suppliers and alternate suppliers are available.
- Fluctuations in fuel prices, which may drive up inbound and outbound freight costs, as well as other related costs. Higher fuel prices can have a dramatic and rapid impact of our gross margin from freight revenue if our rates are not adequately adjusted.
- Changes in labour costs, labour relations or key personnel, which may impact our overall cost structure.
- Customer service demands on our extended warranty programs. These programs are managed in-house. Increased demand may cause costs to increase beyond historical patterns, resulting in a degradation of gross margin from this component of our business.
- Changes in tax legislation, which may impact certain aspects of our business model and also may impact our unitholders' investment in the Fund.
- Other factors as described earlier under Forward-looking Statements.

## Non-GAAP Measures

References to EBITDA are to earnings before non-controlling interest, interest, 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 and the non-cash component of interest expense.

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. 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. For a reconciliation of adjusted distributable cash to standardized distributable cash, see Adjusted Distributable Cash.

## Additional Information

Additional information relating to the Fund, including the Fund's Annual Information Form and other public filings, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Fund's website at [www.coastincomefund.com](http://www.coastincomefund.com).

## Interim Consolidated Balance Sheets

(Unaudited)

	June 30, 2009 \$	December 31, 2008 \$
<b>Assets</b>		
Current assets		
Cash	674,842	–
Accounts receivable	14,368,526	15,638,679
Inventory	23,731,556	22,449,477
Prepaid expenses	486,414	254,424
	39,261,338	38,342,580
Leaseholds and equipment (Note 5)	3,911,200	4,194,481
Future income taxes	842,000	726,000
Intangible assets (Note 6)	15,001,807	15,218,034
Goodwill	74,292,968	72,081,521
	133,309,313	130,562,616
<b>Liabilities</b>		
Current liabilities		
Cheques issued in excess of funds on deposit	–	1,558,028
Operating loan (Note 7)	–	3,459,677
Accounts payable and accrued liabilities	12,665,827	10,720,138
Accrued distributions payable to unitholders	271,440	543,533
Accrued distributions payable to non-controlling interest	145,981	292,314
Customer deposits	4,368,808	3,451,266
Current portion of deferred warranty revenue	877,246	856,536
Unrealized loss on interest rate swap (Note 12(c))	644,000	787,000
	18,973,302	21,668,492
Term loan (Note 7)	25,261,040	20,000,000
Long-term portion of deferred warranty revenue	1,927,579	1,824,402
Deferred lease inducements	686,357	736,778
	46,848,278	44,229,672
Non-controlling interest (Note 8)	30,234,439	30,189,711
<b>Unitholders' equity</b>	56,226,596	56,143,233
	133,309,313	130,562,616

Commitments (Note 10)

Approved on behalf of the Trustees


C. Kenneth Crump  
Trustee

Donald J. A. Smith  
Trustee

These unaudited interim consolidated financial statements 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 unaudited consolidated financial statements.

See accompanying notes to the unaudited interim consolidated financial statements

## Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited)

	3 months ended June 30, 2009 \$	3 months ended June 30, 2008 \$	6 months ended June 30, 2009 \$	6 months ended June 30, 2008 \$
<b>Sales</b>	37,912,666	38,250,279	71,092,028	72,125,907
Cost of sales	29,085,001	28,836,090	54,540,773	54,245,721
<b>Gross margin</b>	<b>8,827,665</b>	<b>9,414,189</b>	<b>16,551,255</b>	<b>17,880,186</b>
Expenses				
Selling	2,820,488	2,677,757	5,439,244	5,340,685
General and administrative	1,520,366	1,475,355	2,882,220	2,784,495
Facilities	1,191,211	1,127,955	2,412,405	2,196,900
Warehousing	491,421	570,399	998,013	1,125,042
	6,023,486	5,851,466	11,731,882	11,447,122
<b>Income before under noted items</b>	<b>2,804,179</b>	<b>3,562,723</b>	<b>4,819,373</b>	<b>6,433,064</b>
Amortization:				
Leaseholds and equipment	348,708	320,515	674,894	629,799
Intangible assets	350,613	303,996	701,227	607,992
Interest	324,973	252,624	651,210	592,246
(Gain) on interest rate swap	(125,000)	–	(143,000)	–
<b>Income before future income taxes and non-controlling interest</b>	<b>1,904,885</b>	<b>2,685,588</b>	<b>2,935,042</b>	<b>4,603,027</b>
Future income taxes (recovery)	(96,000)	(55,000)	(116,000)	(79,000)
Income before non-controlling interest	2,000,885	2,740,588	3,051,042	4,682,027
Non-controlling interest (Note 8)	699,709	958,384	1,066,949	1,637,305
<b>Net income and comprehensive income</b>	<b>1,301,176</b>	<b>1,782,204</b>	<b>1,984,093</b>	<b>3,044,722</b>
Basic and diluted net income per unit	0.199	0.273	0.304	0.467
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 Statements of Unitholders' Equity

(Unaudited)

	Fund units \$	Cumulative income \$	Cumulative distributions \$	Retained earnings (Deficit) \$	Total \$
Balance, December 31, 2007	59,835,000	17,885,982	(19,775,967)	(1,889,985)	57,945,015
Net income and comprehensive income	–	5,848,129	–	5,848,129	5,848,129
Distributions	–	–	(7,649,911)	(7,649,911)	(7,649,911)
Balance, December 31, 2008	59,835,000	23,734,111	(27,425,878)	(3,691,767)	56,143,233
Net income and comprehensive income	–	682,917	–	1,984,093	1,984,093
Distributions	–	–	(1,900,730)	(1,900,730)	(1,900,730)
<b>Balance, June 30, 2009</b>	<b>59,835,000</b>	<b>25,718,204</b>	<b>(29,326,608)</b>	<b>(3,608,404)</b>	<b>56,226,596</b>

See accompanying notes to the unaudited interim consolidated financial statements

## Interim Consolidated Statements of Cash Flows

(Unaudited)

	3 months ended June 30, 2009 \$	3 months ended June 30, 2008 \$	6 months ended June 30, 2009 \$	6 months ended June 30, 2008 \$
<b>Operating activities</b>				
Net income and comprehensive income	1,301,176	1,782,204	1,984,093	3,044,722
Items not involving cash				
Amortization	699,321	624,511	1,376,121	1,237,791
Non-controlling interest	699,709	958,384	1,066,949	1,637,305
Amortization of deferred finance costs	8,991	14,749	17,982	30,934
Amortization of deferred lease inducements	(24,940)	(20,904)	(49,881)	(41,808)
Unrealized (gain) on interest rate swap	(125,000)	–	(143,000)	–
Future income taxes	(96,000)	(55,000)	(116,000)	(79,000)
	2,463,257	3,303,944	4,136,264	5,829,944
Change in non-cash working capital (Note 14)	1,470,414	(2,075,123)	5,116,150	903,735
	3,933,671	1,228,821	9,252,414	6,733,679
<b>Investing activities</b>				
Purchase of leaseholds and equipment	(99,631)	(384,951)	(212,594)	(565,927)
Lease inducement received	–	–	(540)	–
Acquisition of Morley's Appliance Centre (Note 3)	–	–	(5,248,415)	–
	(99,631)	(384,951)	(5,461,549)	(565,927)
<b>Financing activities</b>				
Operating loan (Note 7)	(417,552)	2,236,358	(3,459,677)	(1,437,616)
Term loan (Note 7)	–	–	5,243,058	–
Distributions paid to unitholders	(814,320)	(2,006,440)	(2,172,825)	(4,012,879)
Distributions paid to non-controlling interest	(437,942)	(1,798,449)	(1,168,551)	(2,877,515)
	(1,669,814)	(1,568,531)	(1,557,995)	(8,328,010)
Net cash inflow (outflow)	2,164,226	(724,661)	2,232,870	(2,160,258)
Cheques issued in excess of funds on deposit, beginning of period	(1,489,384)	(2,355,679)	(1,558,028)	(920,082)
<b>Cash (cheques issued in excess of funds on deposit), end of period</b>	674,842	(3,080,340)	674,842	(3,080,340)
Supplemental cash flow information:				
Interest paid	332,233	250,995	665,730	504,316
Income taxes paid	–	–	–	–

See accompanying notes to the unaudited interim consolidated financial statements

## Notes to the Interim Consolidated Financial Statements

Six month period ended June 30, 2009 (unaudited)

### 1. Nature of Operations

Coast Wholesale Appliances Income Fund (the Fund) is an unincorporated, open-ended, limited purpose trust created by the Declaration of Trust made on March 24, 2005 and governed under the laws of the Province of Alberta. The Fund holds a 65.03% indirect interest in a chain of major household appliance stores in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

### 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 consolidated financial statements for the year ended December 31, 2008. 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 unaudited interim consolidated financial statements and the reported amount of revenues and expenses during the period. These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the year ended December 31, 2008, except as described in Note 4. Interim results are not necessarily indicative of the results expected for the fiscal year.

#### (a) 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 (Coast). All material inter-company transactions have been eliminated upon consolidation.

#### (b) Revenue recognition

Revenue from the sale of products is recognized when a sale arrangement exists, the sale 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.

The Fund 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, net of commission expense, is initially recorded as deferred warranty revenue and is taken into income over the life of the warranty contracts. The costs associated with delivering the warranty services are expensed as they are incurred during the life of the contracts.

#### (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.

The Fund accounts for future income taxes in accordance with EIC-167 (Future Income Tax Liabilities and Income Trusts and other Specified Investment Flow-throughs). Under these standards the Fund is required to recognize future income tax assets and liabilities with a corresponding charge to the future income tax expense for the temporary differences between the book and tax bases of assets and liabilities expected to reverse after the tax is imposed.

### 3. Business acquisition

On January 2, 2009, the Fund purchased the business and business assets of Morley's Appliance Centre Ltd. by way of an asset purchase. The acquisition was accounted for under the purchase method and the results of operations have been included in the Fund's unaudited interim consolidated income statement from the date of the acquisition. A preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

	\$
Accounts receivable	839,021
Inventory	2,003,741
Prepaid expenses	21,210
Customer deposits	(328,946)
Accounts payable	(162,078)
Net working capital acquired	2,372,948
Leaseholds and equipment	179,018
Goodwill	2,211,449
Other limited life intangible assets	485,000
	<u>5,248,415</u>
Cash consideration paid inclusive of acquisition costs incurred	<u>5,248,415</u>

The goodwill and intangible assets are deductible for tax purposes.

#### 4. Adoption of new accounting policies

##### Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the

recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. The Fund adopted this new standard effective January 1, 2009. The adoption of this section had no impact on the Fund's unaudited interim consolidated financial statements.

#### 5. Leaseholds and equipment

	June 30, 2009			December 31, 2008		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Leasehold improvements	3,735,073	1,659,410	2,075,663	3,670,553	1,343,824	2,326,729
Forklifts and trucks	541,974	116,973	425,001	427,628	79,645	347,983
Furniture and fixtures	386,978	98,376	288,602	370,295	77,033	293,262
Equipment	632,633	186,812	445,821	593,673	152,887	440,786
Computer hardware and software	2,495,294	1,819,181	676,113	2,338,191	1,552,470	785,721
	7,791,952	3,880,752	3,911,200	7,400,340	3,205,859	4,194,481

#### 6. Intangible assets

	June 30, 2009			December 31, 2008		
	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	1,258,553	1,870,447	3,129,000	1,102,103	2,026,897
Customer relationships - builders/developers	10,060,000	2,697,576	7,362,424	10,060,000	2,362,242	7,697,758
Customer relationships - property managers	2,100,000	519,505	1,580,495	1,900,000	446,167	1,453,833
Retail customer list	688,000	262,248	425,752	478,000	168,348	309,652
Favourable leases	640,000	246,311	393,689	565,000	204,106	360,894
	19,986,000	4,984,193	15,001,807	19,501,000	4,282,966	15,218,034

#### 7. Credit facilities

	June 30 2009 \$	December 31 2008 \$
Operating loan (a)	–	3,459,677
Term loan (b)	20,000,000	20,000,000
Term revolving loan (c)	5,300,000	–
Deferred financing costs	(38,960)	–
Term loan	5,261,040	–
Total term debt	25,261,040	20,000,000

a) The Fund has available a \$10,000,000 three-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 described below. Payments are monthly for interest only.

b) The Fund has utilized a \$20,000,000 three-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 0.50%, when borrowed directly, or at the banker's acceptance rate plus 1.50% to 2.00% 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. A standby fee of 0.25% to 0.375%, based on the same ratio, is charged on any unutilized portion of the facility. As a part of the Fund's hedging strategy, on August 28, 2008 the Fund entered into an interest-rate swap transaction to fix the effective rate of interest on the Term Loan until July 30, 2010 at 3.53% plus 1.50% to 2.00%, 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 below. Payments are monthly for interest only.

c) The Fund has available a \$13,500,000, three-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 substantially the same as for the Term Loan. On January 2, 2009, \$5,300,000 was drawn down on this facility to fund the acquisition described in Note 3.

#### *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 that supplier and totaled \$4,258,598 (\$2,835,615 as at December 31, 2008).

## 8. Non-controlling interest

### *(a) Coast Exchangeable Units*

	\$
Non-controlling interest - December 31, 2008	30,189,711
Interest in earnings	1,066,949
Distributions to non-controlling interest	(1,022,221)
Non-controlling interest, June 30, 2009	30,234,439

CWAL Investments Ltd. has retained a 34.97% interest in Coast through ownership of 100% of the issued, and outstanding, Coast Exchangeable Units.

The Class A LP Units of Coast, representing a 65.03% interest in Coast, held indirectly by the Fund, and the Coast Exchangeable Units have economic and voting rights that are equivalent in all material respects.

The holders of the Coast Exchangeable Units, at their option, are entitled to effectively exchange all or a portion of their Coast 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.

### *(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 Coast 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 Coast Exchangeable Units for Units of the Fund.

## 9. Fund units

	Units	Amount \$
Units issued on June 23, 2005		
Initial public offering	6,525,000	65,250,000
Expenses of offering		(5,415,000)
Balance as at June 30, 2009 and December 31, 2008	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.

The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and, until declared payable by the Board of Trustees of the Fund, the Fund has no contractual requirement to pay cash distributions to unitholders of the Fund.

## 10. Commitments

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

12 months ended June 30	\$
2010	3,000,996
2011	1,840,207
2012	1,614,191
2013	1,511,696
2014	1,329,426
	9,296,516

## 11. Capital risk management

The Fund's objectives when managing capital are:

- a) To safeguard the Fund's ability to continue as a going concern, so that it can continue to provide returns for Unitholders and benefits for other stakeholders.
- b) To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

In the management of capital, the Fund includes Unitholders' equity, non-controlling interest and bank financing in the definition of capital. The Fund manages the capital structure and may make adjustments to it in light of changes in economic conditions or business opportunities. In order to maintain or adjust the capital structure the Fund may incur additional bank financing, issue additional units or adjust distributions. The Fund has established a term revolving facility (Note 7) to assist with the financing of business acquisitions.

The Fund's Board of Trustees determines the level of distributions. To date the strategy has been to maintain a consistent level of monthly distributions to maximize the cash return to the Unitholders while retaining an appropriate amount of capital to fund our business growth and ongoing investments in leaseholds and equipment. The Board of Trustees adjusts the annual distribution rate to maintain the capital of the Fund at an appropriate level.

The Fund uses temporary bank financing during the year as cash flows are required to finance the cyclical nature of our business. The Fund is required to comply with certain financial covenants under its credit facilities (Note 7). At June 30, 2009, the Fund was in compliance with these financial covenants.

## 12. Financial risk management

### (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 unaudited interim consolidated financial statements. The operating and term loans approximate fair value because they carry market interest rates.

### (b) Credit risk

The Fund is exposed to credit risk only with respect to uncertainties as to the timing of collectability of accounts receivable. The customers are large and mainly located throughout Western Canada, with no material concentration. The Fund mitigates credit risk through standard credit reference checks, registering security documents where appropriate and ongoing monitoring of the counter party's financial condition. An allowance has been made to provide for the possible non-collection of accounts which are considered to be

doubtful. Of the trade receivables at June 30, 2009, 3.5% are 90 days or more past due (3.1% as at December 31, 2008)

Included in accounts receivable are \$1,112,016 in other receivables (\$1,889,617 as at December 31, 2008), which are mainly due from our suppliers as a result of product rebate programs.

### (c) Interest rate risk

The Fund's bank financing arrangements (Note 7) bear interest based on the bank prime lending rates and are subject to fluctuations in that rate. As a part of the Fund's hedging strategy, on August 28, 2008 the Fund entered into an interest-rate swap transaction to fix the effective rate of interest on the Term Loan until July 30, 2010 at 3.53% plus 1.50% to 2.00%, based on the ratio of senior debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis.

At June 30, 2009, the fair market value of the swap is an unrealized loss of \$644,000 (\$787,000 as at December 31, 2008), which has been recorded as an unrealized loss on interest rate swap on the balance sheet.

Interest on the operating loan and the revolving term loan has not been fixed and therefore fluctuate with changes in the bank prime lending rate. At current utilization levels for these two loan facilities, there is a potential annual increase or decrease in the Fund's net income of approximately \$53,000 with each per cent change in the bank prime rate.

### (d) Currency risk

The Fund is exposed to minimal financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The amount of foreign currency purchases is about 2% of our cost of sales. Therefore the Fund considers this risk to be low.

### (e) Concentration risk

During the period ended June 30, 2009, purchases by the Fund from its three largest suppliers totaled approximately \$20,200,000 or 69% of cost of sales. At June 30, 2009, amounts payable to these suppliers included in accounts payable and accrued liabilities net of rebates receivable totaled \$7,317,464 (\$5,331,259 as at December 31, 2008).

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

### (f) Liquidity risk

The Fund has a planning and budgeting process to determine the cash flow required to support the Fund's normal operating and expansion plans. The Fund reviews the cash flows and adjusts the annual distribution to Unitholders accordingly. The Fund ensures that there are sufficient committed loan facilities (Note 7) in place to meet its short-term business requirements taking into account its anticipated cash flows from operations and planned distributions to Unitholders. The \$10 million operating loan can be drawn upon at any time to fund general operating costs. The unutilized portion of the \$13.5 million revolving term loan can be utilized to finance acquisitions.

### 13. Related party transactions

The Fund 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 (Note 8). The total amount paid to related parties for the six months ended June 30, 2009 was \$568,542.

Each of these leases was modified as part of the Initial Public Offering, to provide for a term of five years from June 23, 2005 with two consecutive options to renew at the option of the Fund at the greater of the existing rent or the fair market rent at the time of the renewal. The amounts were measured at the exchange amount which was the consideration agreed upon between the related parties.

### 14. Net change in non-cash working capital

	3 months ended June 30 2009 \$	3 months ended June 30 2008 \$	6 months ended June 30 2009 \$	6 months ended June 30 2008 \$
Accounts receivable	460,334	(1,057,670)	2,109,174	(851,913)
Inventory	745,118	(825,108)	721,662	304,480
Prepaid expenses	(91,243)	46,207	(210,780)	(64,041)
Accounts payable and accrued liabilities	266,587	(1,141,851)	1,783,611	(410,079)
Customer deposits	13,594	826,248	588,596	1,821,835
Deferred warranty revenue	76,024	77,051	123,887	103,453
	1,470,414	(2,075,123)	5,116,150	903,735

### 15. Segmented information

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

### 16. Long-term incentive plan

The Fund adopted a long-term incentive plan ("LTIP") in 2007. As at June 30, 2009, the Fund has a prepaid compensation balance in respect of the LTIP of \$20,830 and has recorded a \$5,941 expense in the period for the awards which were vested during the period.

### 17. Cost of sales

Included in cost of sales for the six months ended June 30, 2009 are inventory costs in the amount of \$50,139,476 (2008 - \$49,826,832).

### 18. Subsequent events

#### (a) Distributions

On July 22, 2009, the Fund declared its forty-ninth consecutive monthly distribution. The distribution, in the amount of \$0.0416 per Unit, was for the period from July 1, 2009 to July 31, 2009 to Unitholders of record of the Fund on July 31, 2009 to be paid August 17, 2009.

#### (b) Term debt

On July 23, 2009, the Fund paid down the Revolving Term Loan (Note 7 (c)) in the amount of \$1,000,000.

## Unitholder Information

### Coast Wholesale Appliances Income Fund

Harlow B. Burrows  
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.

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

Donald J.A. Smith, CA  
Trustee of the Fund,  
Director of Coast Wholesale Appliances GP Inc.

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

### Investor Relations

604.301.3400  
invest@coastappliances.com  
www.coastincomefund.com

### 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

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

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



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