

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Interim Financial Statements
April 30, 2005

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Balance Sheets

	<i>April 30,</i> 2005 <i>(Unaudited)</i>	<i>October 31,</i> 2004
Assets		
Current		
Cash	14,286,727	1,779,726
Short-term investments	-	5,283,664
Rebate and other receivables	150,869	1,334,200
Inventory	16,940,585	19,150,193
Prepaid expenses and deposits	543,546	207,480
Deposits on inventory	3,779,612	1,815,106
	35,701,339	29,570,369
Property and equipment <i>(Note 3)</i>	1,965,974	1,217,794
Deferred charges <i>(Note 4)</i>	124,288	-
Investment <i>(Note 5)</i>	209,000	209,000
Future income taxes <i>(Note 6)</i>	214,615	116,177
	38,215,216	31,113,340
Liabilities		
Current		
Accounts payable and accrued liabilities	4,635,910	3,970,058
Line of credit and interest payable to Famous Brands Inc. <i>(Note 10)</i>	3,593,478	3,638,873
Contributions payable to employee profit sharing plan <i>(Note 10)</i>	8,621,000	12,711,038
Loan payable to employee profit sharing plan <i>(Note 10)</i>	12,151,597	3,701,534
Class E redeemable, retractable preferred shares <i>(Note 8)</i>	727,970	727,970
	29,729,955	24,749,473
Unamortized lease inducements <i>(Note 7)</i>	365,564	145,591
	30,095,519	24,895,064
Shareholders' Equity		
Share capital <i>(Note 8)</i>	7,145,430	5,062,270
Retained earnings	974,267	1,156,006
	8,119,697	6,218,276
	38,215,216	31,113,340

Approved on behalf of the board

(Signed) Michael McKenna

Director

The accompanying notes are an integral part of these financial statements

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Statements of Operations and Retained Earnings

	<i>Three months ended April 30, 2005 (Unaudited)</i>	<i>Three months ended April 30, 2004 (Unaudited)</i>	<i>Six months ended April 30, 2005 (Unaudited)</i>	<i>Six months ended April 30, 2004 (Unaudited)</i>
Sales	20,035,920	14,991,447	49,483,330	38,518,868
Cost of sales	12,650,206	9,745,731	31,505,255	24,640,265
Gross margin	7,385,714	5,245,716	17,978,075	13,878,603
Expenses				
Administrative and operating	4,079,960	2,771,691	8,770,810	6,400,186
Amortization of property and equipment	153,881	105,772	289,341	209,599
Management salaries	136,839	135,626	270,286	269,046
	4,370,680	3,013,089	9,330,437	6,878,831
Earnings from operations	3,015,034	2,232,627	8,647,638	6,999,772
Other income (expense)				
Employee profit sharing plan contributions <i>(Note 10)</i>	(3,060,000)	(2,027,750)	(8,621,000)	(6,775,750)
Interest income	73,415	41,467	113,837	67,955
Foreign exchange loss	(8,287)	(13,361)	(64,264)	(15,971)
Finance charges <i>(Note 10)</i>	(148,750)	(148,750)	(285,000)	(246,343)
Interest on loan from employee profit sharing plan <i>(Note 10)</i>	(54,670)	(30,179)	(71,389)	(50,423)
	(3,198,292)	(2,178,573)	(8,927,816)	(7,020,532)
Income (loss) before income taxes	(183,258)	54,054	(280,178)	(20,760)
Provision for (recovery of) income taxes				
Future <i>(Note 6)</i>	(66,374)	17,837	(98,439)	(10,080)
Net (loss) income	(116,884)	36,217	(181,739)	(10,680)
Retained earnings, beginning of period	1,091,151	1,224,304	1,156,006	1,271,201
Retained earnings, end of period	974,267	1,260,521	974,267	1,260,521

The accompanying notes are an integral part of these financial statements

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Statements of Cash Flows

	<i>Three months ended April 30, 2005 (Unaudited)</i>	<i>Three months ended April 30, 2004 (Unaudited)</i>	<i>Six months ended April 30, 2005 (Unaudited)</i>	<i>Six months ended April 30, 2004 (Unaudited)</i>
Cash provided by (used for) the following activities				
Operating activities				
Cash received from customers	19,938,217	14,904,830	49,483,330	38,518,868
Cash paid to suppliers and employees	(16,199,224)	(15,032,736)	(38,793,978)	(33,609,605)
Interest received	73,415	41,467	113,837	67,955
Interest paid	(160,542)	(110,652)	(401,784)	(302,968)
	3,651,866	(197,091)	10,401,405	4,674,250
Payment to employee profit sharing plan	(12,711,038)	(5,296,000)	(12,711,038)	(5,296,000)
	(9,059,172)	(5,493,091)	(2,309,633)	(621,750)
Financing activities				
Redemption of preferred shares	-	-	(1,000,000)	(1,000,000)
Issuance of preferred shares	3,083,160	3,494,092	3,083,160	3,494,092
Advance from Famous Brands Inc.	-	1,000,000	-	1,000,000
Loan advances from employee profit sharing plan	12,711,038	5,296,000	12,711,038	5,296,000
Repayments of loan from employee profit sharing plan	(3,555,486)	(4,506,725)	(4,260,975)	(5,375,288)
	12,238,712	5,283,367	10,533,223	3,414,804
Investing activities				
Purchases of property and equipment	(750,114)	(30,234)	(1,037,521)	(116,740)
Net effect of translation on foreign currency cash	614	46,326	37,268	24,319
Increase in cash and cash equivalents	2,430,040	(193,632)	7,223,337	2,700,633
Cash and cash equivalents, beginning of period	11,856,687	8,132,837	7,063,390	5,238,572
Cash and cash equivalents, end of period	14,286,727	7,939,205	14,286,727	7,939,205

The accompanying notes are an integral part of these financial statements

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

1. Basis of presentation

The company commenced operations on November 15, 1997 as a result of an amalgamation of Famous Brands (Edmonton) Inc. and a predecessor company. The company operates 21 (as at October 31, 2004 –17; as at April 30, 2004 – 15) retail stores under the name XS Cargo.

2. Accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and may not include all necessary disclosures required by generally accepted accounting principles for annual financial statements. The financial statements include the following significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less at acquisition.

Short-term investments

Short-term investments are carried at the lower of cost and market value.

Inventory

Inventory is valued at the lower of cost, determined using the average cost basis, and net realizable value.

Vendor volume rebate

The company receives a volume rebate from a particular vendor, which is accrued based on purchases from that vendor and included in rebate and other receivables. The portion of the rebate related to goods that the company has subsequently sold is recorded as a reduction of cost of sales and the portion related to goods that remain in inventory is recorded as a reduction of inventory costs.

Deposits on inventory

On certain purchases the company pays either a deposit or the balance in full prior to taking possession of the goods. Such payments are recorded as deposits on inventory until the company takes possession of the goods, at which time the balance is transferred to inventory.

Property and equipment

Property and equipment are recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	Method	Rate
Leasehold improvements	straight-line	Shorter of lease term and 5 years
Office, computer and mobile equipment	straight-line	20 %
Signs	straight-line	20 %

Investments

Portfolio investments are recorded at cost. If the market value of investments is lower than cost, and the decline in market value is other than temporary, the investments are written down to market value.

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

Future income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Revenue recognition

Revenue from retail sales is recognized at the point of sale.

Lease inducements

Lease inducements are received from certain of the company's landlords, primarily in the form of rent-free periods. Lease inducements are recorded as a liability when received and are amortized as a reduction of rent expense over the terms of the related leases.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in current earnings.

Variable interest entities

Effective November 1, 2004, the company adopted new guidance issued by the Canadian Institute of Chartered Accountants relating to the consolidation of variable interest entities. Under this guidance, the company must identify entities in which it has a variable interest by either contract, ownership or other pecuniary interests. Where the company is the primary beneficiary of an entity in which it has a variable interest, that entity is consolidated. As disclosed in note 12, the company has a variable interest in one company, but has determined that it is not the primary beneficiary of that entity.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. For example, amortization is based on the estimated useful lives of property and equipment and inventory is recorded after an evaluation as to the net realizable value and is appropriately reduced if net realizable value is estimated to be below cost. As well, freight costs are allocated to inventory based on a percentage of the freight paid in the year in comparison to the total purchases made in the year. This percentage is then applied to the ending inventory balance.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

3. Property and equipment

	<i>April 30, 2005</i>			<i>October 31, 2004</i>		
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net book value</i>	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net book value</i>
Leasehold improvements	537,349	324,781	212,568	450,678	275,247	175,431
Office, computer and mobile equipment	2,780,999	1,141,369	1,639,630	1,871,419	921,968	949,451
Signs	227,195	113,419	113,776	185,925	93,013	92,912
	3,545,543	1,579,569	1,965,974	2,508,022	1,290,228	1,217,794

4. Deferred charges

Deferred charges represent amounts paid for professional fees and other costs incurred in connection with the disposition of the assets and liabilities of the business as described in note 16. On closing of the transaction, the deferred amounts will be deducted from the gross proceeds of the sale and reduce the gain on disposition.

5. Investment

Investment consists of a guaranteed investment certificate with a Canadian chartered bank. The company has an agreement with that financial institution that allows it to enter into foreign exchange forward contracts and the investment is restricted and pledged as collateral under the agreement. No contracts were outstanding during the current or comparative periods.

6. Future income taxes

The nature and tax effect of items that give rise to the company's future income tax asset are as follows:

	<i>April 30, 2005</i>	<i>October 31, 2004</i>
Property and equipment	71,089	52,054
Lease inducements	135,259	55,324
Other	8,267	8,799
	214,615	116,177

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

6. Future income taxes - continued

The provision for income taxes is at an effective tax rate which differs from enacted corporate tax rates for the following reasons:

	<i>Three months ended April 30, 2005</i>	<i>Three months ended April 30, 2004</i>	<i>Six months ended April 30, 2005</i>	<i>Six months ended April 30, 2004</i>
Income (loss) before income taxes	(183,258)	54,054	(280,178)	20,760
Substantially enacted federal and provincial corporate income tax rates	36%	37.5%	36%	37.5%
Expected tax provision	(65,973)	20,270	(100,864)	(7,785)
Adjustments				
Non-deductible items	1,744	151	2,417	377
Other	(2,145)	(2,584)	8	(2,672)
Provision for (recovery of) income taxes	(66,374)	17,837	(98,439)	(10,080)

7. Unamortized lease inducements

	<i>April 30, 2005</i>	<i>October 31, 2004</i>
Cost	603,151	345,712
Accumulated amortization	(237,587)	(200,121)
	365,564	145,591

Lease inducements received are non-cash transactions in the form of rent-free periods and, as such, have been excluded from the statement of cash flows.

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

8. Share capital

	<i>April 30,</i> 2005	<i>October 31,</i> 2004
Authorized		
Class A common voting shares		
Class B common voting shares		
Class C common non-voting shares		
Class D common non-voting shares		
Class E redeemable, retractable, non-voting preferred shares		
Class F redeemable, non-voting preferred shares		
All unlimited in number		
Issued		
Classified as shareholders' equity:		
200 Class A shares	100	100
100 Class C shares	100	100
71,452 (October 31, 2004 – 50,621) Class F shares, redeemable at \$100 per share	7,145,230	5,062,070
	7,145,430	5,062,270
Classified as liabilities:		
765 Class E shares, redeemable at \$951.59 per share	727,970	727,970

Class F preferred shares are redeemable at the option of the company at any time and are not retractable at the option of the holder. Redemption of Class F preferred shares is only mandatory in the event of death or termination of employment of the holder. Class F preferred share transactions from the period November 1, 2003 to April 30, 2005 are summarized below:

	<i>Number</i>	<i>Amount</i>
Balance, October 31, 2003	24,939	2,493,892
Shares issued	41,882	4,188,178
Shares redeemed	(16,200)	(1,620,000)
Balance, October 31, 2004	50,621	5,062,070
Shares issued	30,831	3,083,160
Shares redeemed	(10,000)	(1,000,000)
Balance, April 30, 2005	71,452	7,145,230

Class E preferred shares are retractable by the holder and therefore have the properties of a liability. The Class E preferred shares are classified as a current liability on the balance sheet at their redemption amount.

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

9. Commitments

The company occupies the premises of its stores, warehouses and office under lease agreements requiring basic monthly rents for the periods indicated and in aggregate as follows:

Remaining 6 months ending October 31, 2005	1,172,992
Years ending October 31,	
2006	2,148,238
2007	1,676,851
2008	1,344,089
2009	1,082,811
2010	583,224
Thereafter	776,148
<hr/>	
Total	8,784,353

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

10. Related party transactions

Related party transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Advances from Famous Brands Inc.

An inventory line of credit not to exceed \$3,500,000 has been made available to the company by Famous Brands Inc., which is wholly owned by the controlling shareholder of the company. The company pays interest to Famous Brands Inc. at a rate equal to the greater of the prime lending rate charged by the Royal Bank of Canada plus 5% per annum or 12% per annum. In addition, in any fiscal year where the company's earnings before management bonuses, contributions to the employee profit sharing plan and taxes exceed \$600,000, an interest participation payment shall be paid to Famous Brands Inc. equal to the lesser of 5% of the outstanding principal amount or the amount by which the company's earnings before management bonuses, employee profit sharing plan contributions and taxes exceed \$600,000. Such financing changes amounted to \$148,750 (2004 - \$148,750) for the three months ended April 30, 2005 and \$285,000 (2004 - 246,343) for the six months ended April 30, 2005.

The company has signed a general security agreement as collateral on advances from Famous Brands Inc.

b) Accounts payable

Included in accounts payable is \$226,908 (October 31, 2004 - \$412,035) due to shareholders for reimbursement of expenses paid and property and equipment purchased by shareholders on behalf of the company. Amounts payable to shareholders are non-interest bearing and are due within the next fiscal year.

c) Contributions and loan payable to employee profit sharing plan

The Famous Brands (Edmonton) Inc. employee profit sharing plan (the "Plan") is a trust established to administer and distribute profits of the company to certain employees. The controlling shareholder of the company is the trustee of the Plan.

Contributions payable to the employee profit sharing plan represent accruals of current year earnings to the Plan and will be paid to the Plan within 120 days of the year-end.

Loan payable to employee profit sharing plan represents amounts that have been loaned back to the company from the Plan. The loan bears interest at 2% per annum and is due within the next fiscal year. Interest of \$54,670 (2004 - \$30,179) for the three months ended April 30, 2005 and \$71,389 (2004 - \$50,423) for the six months ended April 30, 2005 was recorded on the loan.

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

11. Financial instruments

Foreign currency risk

The company purchases a significant amount of its inventory from suppliers in the United States. Consequently, the company's gross margin is exposed to foreign exchange fluctuations. This exposure is limited because the company does not enter into significant future purchase commitments, but wires funds in advance upon placing orders with United States suppliers.

Interest rate risk

The company pays interest on advances from Famous Brands Inc. based on the Royal Bank of Canada prime lending rate, thus exposing the company to interest rate fluctuations, if interest rates go above 7% (see note 10(a)).

Fair value of financial instruments

The company's financial instruments consist of cash, short-term investments, rebate and other receivables, accounts payable and accrued liabilities, investment, contributions and loan payable to employee profit sharing plan, the line of credit from Famous Brands Inc., and Class E preferred shares. The amount of short-term investments, rebate and other receivables, accounts payable and accruals, contributions and loan to employee profit sharing plan and Class E preferred shares approximate their fair values due to either their demand nature or relatively short terms to maturity. The carrying values of the investment and line of credit approximate fair values since the interest rates fluctuate with the prime rate.

12. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

Famous Brands (Edmonton) Inc.
Operating as XS Cargo
Notes to the Interim Financial Statements
April 30, 2005

(All amounts as at and for the three-month and six-month periods ended April 30, 2005 and 2004 are unaudited)

13. Variable interest entity

During the year ended October 31, 2004 the company entered into a vendor supply and volume rebate agreement with Samra Imports Ltd., ("Samra"). Samra imports products from China which it sells to the company and other customers. Samra is the company's largest supplier accounting for approximately 19.2% of the company's purchases since the commencement of the agreement and the company is Samra's largest customer. The purpose of the agreement is to outline the supply terms and to provide the company with a rebate based on its significant volume of purchases from Samra. The company has determined that Samra is a variable interest entity and that the supply and rebate agreement represents a variable interest in Samra. The company has determined, however, that it is not the primary beneficiary under the supply and rebate agreement since the company is not entitled to receive a majority of Samra's expected residual returns or absorb a majority of its expected losses.

During the three months ended April, 2005, the company purchased approximately \$1,200,000 of inventory from Samra, and as at April 30, 2005 the company had made deposits of \$1,270,759, for inventory that had not yet been delivered. Samra issued the company a volume rebate for purchases made from the period February 1, 2005 to April 30, 2005 in the amount of \$104,000, which is included in rebate and other receivables as at April 30, 2005.

14. Seasonal nature of the business

The company's results for the period are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in sales levels. The company historically experiences a higher level of sales in the first quarter due to seasonal shopping patterns. Occupancy-related expenses, certain administrative and operating expenses, amortization, and interest expense remain relatively steady throughout the year.

15. Segmented information

Each store constitutes an operating segment in that its performance is monitored by senior management and discreet financial information is available. Since each store sells the same products to the same types of customers and uses similar distribution and sales processes, they have been aggregated for reporting purposes into one segment.

16. Subsequent events

On May 6, 2005 XS Cargo Income Fund (the "Fund") filed a prospectus relating to the initial public offering of units of the Fund (the "Offering"). The Fund is an unincorporated open-ended trust established under the laws of the Province of Alberta pursuant to the Fund Declaration of Trust dated April 6, 2005. The Fund has been created to invest in the discount retail business, through an indirect acquisition of the controlling interest of XS Cargo Limited Partnership and its general partner XS Cargo GP Inc. Concurrent with the closing of the Offering, XS Cargo Limited Partnership will acquire substantially all of the assets and assume some of the liabilities of the company.

Subsequent to the balance sheet date the company entered into lease agreements for two new stores which opened in May 2005.

All of the Class F preferred shares were redeemed and the line of credit from Famous Brands Inc. was repaid subsequent to the balance sheet date.