

**XS Cargo Income Fund**  
**Interim Consolidated Financial Statements**  
Unaudited  
*March 31, 2006*

**XS Cargo Income Fund**  
**Consolidated Balance Sheets**

*March 31, December 31,*  
**2006 2005**  
*(Unaudited)*

**Assets**

<b>Current</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	-	7,442,496
Rebate and other receivables	234,046	501,486
Inventory	24,360,418	15,752,388
Deposits on inventory	4,327,388	4,079,482
Prepaid expenses and deposits	508,985	612,151
	<b>29,430,837</b>	<b>28,388,003</b>
<b>Deferred charges</b>	<b>190,681</b>	<b>124,414</b>
<b>Property and equipment</b>	<b>3,286,290</b>	<b>2,730,783</b>
<b>Intangible assets</b>	<b>7,612,000</b>	<b>7,910,000</b>
<b>Goodwill (Note 3)</b>	<b>101,788,426</b>	<b>101,788,426</b>
	<b>142,308,234</b>	<b>140,941,626</b>

**Liabilities**

<b>Current</b>		
Bank indebtedness (Note 4)	6,043,348	-
Accounts payable and accrued liabilities	3,982,713	7,094,948
Deferred revenue	671,022	417,152
Distributions payable to unitholders (Note 5)	629,681	572,438
Distributions payable to non-controlling interest (Note 6)	1,056,051	1,000,943
	<b>12,382,815</b>	<b>9,085,481</b>
<b>Term loan (Note 4)</b>	<b>15,000,000</b>	<b>15,000,000</b>
<b>Deferred revenue</b>	<b>469,760</b>	<b>352,753</b>
<b>Unamortized lease inducements</b>	<b>127,192</b>	<b>142,116</b>
	<b>27,979,767</b>	<b>24,580,350</b>
<b>Non-controlling interest (Note 6)</b>	<b>58,545,731</b>	<b>59,527,529</b>
	<b>86,525,498</b>	<b>84,107,879</b>

**Unitholders' Equity**

<b>Fund Units (Note 5)</b>	<b>56,131,876</b>	<b>56,131,876</b>
<b>Cumulative earnings</b>	<b>5,706,944</b>	<b>4,983,399</b>
<b>Cumulative distributions declared</b>	<b>(6,056,084)</b>	<b>(4,281,528)</b>
	<b>55,782,736</b>	<b>56,833,747</b>
	<b>142,308,234</b>	<b>140,941,626</b>

The accompanying notes are an integral part of these financial statements

**XS Cargo Income Fund**  
**Consolidated Statements of Earnings**  
For the three months ended March 31, 2006

	<i>Three Months Ended March 31, 2006 (Unaudited)</i>
	\$
<b>Sales</b>	<b>20,671,865</b>
<b>Cost of sales</b>	<b>13,069,342</b>
<b>Gross margin</b>	<b>7,602,523</b>
<b>Expenses</b>	
Administrative and operating	5,473,139
Amortization of property and equipment	174,857
Amortization of intangible assets	298,000
	<b>5,945,996</b>
<b>Earnings before the undernoted</b>	<b>1,656,527</b>
<b>Other expenses</b>	
Interest on bank indebtedness <i>(Note 4)</i>	39,765
Interest on term loan <i>(Note 4)</i>	222,632
Foreign exchange gain	(25,964)
	<b>236,433</b>
<b>Earnings before non-controlling interest</b>	<b>1,420,094</b>
<b>Non-controlling interest <i>(Note 6)</i></b>	<b>696,549</b>
<b>Net earnings for the period</b>	<b>723,545</b>
 <b>Basic and diluted earnings per unit <i>(Note 10)</i></b>	 <b>0.1185</b>

*The accompanying notes are an integral part of these financial statements*

**XS Cargo Income Fund**  
**Statement of Cumulative Earnings and Cumulative Distributions**  
For the three months ended March 31, 2006

---

	<i>Three Months Ended March 31, 2006 (Unaudited)</i>
<b>Cumulative earnings, beginning of period</b>	<b>4,983,399</b>
<b>Net earnings for the period</b>	<b>723,545</b>
<b>Cumulative earnings, end of period</b>	<b>5,706,944</b>
<b>Cumulative distributions, beginning of period</b>	<b>4,281,528</b>
<b>Distributions declared during the period</b>	<b>1,774,556</b>
<b>Cumulative distributions, end of period</b>	<b>6,056,084</b>
<b>Cumulative distributions declared in excess of cumulative earnings</b>	<b>(349,140)</b>

---

*The accompanying notes are an integral part of these financial statements*

**XS Cargo Income Fund**  
**Consolidated Statement of Cash Flows**  
For the three months ended March 31, 2006

*Three  
Months Ended  
March 31,  
2006  
(Unaudited)*

**Cash provided by (used for) the following activities**

	\$
<b>Operating activities</b>	
Net earnings for the period	723,545
Items not affecting cash	
Non-controlling interest	696,549
Amortization of property and equipment	174,857
Amortization of intangible assets	298,000
Unit-based compensation ( <i>Note 8</i> )	30,000
Lease inducements received, net of amortization of lease inducements	(14,924)
	1,908,027
Net change in non-cash working capital	(11,292,956)
	(9,384,929)

<b>Financing activities</b>	
Proceeds from bank indebtedness	6,043,348
Distributions paid on Fund Units	(1,717,312)
Distributions paid to non-controlling interest	(1,653,239)
	2,672,797

<b>Investing activities</b>	
Purchases of property and equipment	(730,364)
	(730,364)

<b>Decrease in cash and cash equivalents</b>	(7,442,496)
<b>Cash and cash equivalents, beginning of period</b>	7,442,496
<b>Cash and cash equivalents, end of period</b>	-

**Supplementary cash flow information:**

Interest paid	262,397
---------------	---------

*The accompanying notes are an integral part of these financial statements*

# XS Cargo Income Fund

## Notes to the Interim Consolidated Financial Statements

March 31, 2006

Unaudited

---

### 1. The Fund

XS Cargo Income Fund (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 broadline closeout retail business, through an indirect acquisition of the controlling interest of XS Cargo Limited Partnership ("XS Cargo LP") and its general partner ("GP") (collectively "XS Cargo"), and such other investments as the Trustees may determine. Income tax obligations related to the distributions of the Fund are obligations of the Unitholder.

The Fund commenced business operations on May 17, 2005, when it completed an initial public offering (the "IPO") of 6,106,000 trust units ("Fund Units"), at a price of \$10 per unit, for aggregate gross proceeds of \$61,060,000. Concurrent with the closing of the IPO, the Fund acquired a 51% indirect interest in XS Cargo LP (note 3) and XS Cargo LP acquired the net assets (the "Acquired Business") of Famous Brands (Edmonton) Inc. (the "Vendor"). As of March 31, 2006, XS Cargo LP operates 28 closeout retail stores in Alberta, British Columbia, Manitoba, Saskatchewan and Ontario.

### 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those for the audited financial statements for the period ended December 31, 2005. However, the interim consolidated financial statements do not include all information and footnote disclosures required under Canadian GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with audited financial statements and notes thereto, for the period ended December 31, 2005.

### 3. Issuance of Units and business acquisition

On May 17, 2005, the Fund completed the IPO for aggregate proceeds of \$61,060,000. The cost of the issuance of Units was \$4,928,124 resulting in net proceeds of \$56,131,876. The Fund used the net proceeds from the IPO to acquire an indirect 51% interest in XS Cargo LP, represented by 6,106,000 Ordinary LP Units. XS Cargo LP combined these Funds with proceeds from new credit facilities (note 6) to acquire 100% of the net business assets of the Vendor.

The acquisition of the Fund's interest in the Acquired Business has been accounted for using the purchase method and has been allocated to the assets acquired and liabilities assumed, as follows:

Property and equipment	\$ 2,373,558
Goodwill	101,788,426
Intangible assets	8,655,000
	<hr/> 112,816,984
Net working capital	16,979,392
	<hr/> 129,796,376
Consideration, being cash from IPO and new credit facilities	71,131,876
XS Cargo LP Exchangeable LP Units	34,719,700
XS Cargo LP Subordinated LP Units	23,944,800
	<hr/> 129,796,376

Included in net working capital is cash acquired of \$64,095.

---

*The accompanying notes are an integral part of these financial statements*

**XS Cargo Income Fund**  
**Notes to the Interim Consolidated Financial Statements**

*March 31, 2006*

Unaudited

---

**4. Credit facilities**

**Term loan**

Term loan consists of a committed non-revolving term loan facility. The maximum available on the term loan facility is \$17,500,000, of which \$15,000,000 was outstanding at March 31, 2006. The remaining credit available may be drawn at the Fund's option prior to August 31, 2006. The term loan is collateralized by a first charge on all present and after acquired personal property and an assignment of inventory. Interest on the term facility is charged at the lender's Canadian prime rate or U.S. base rate plus 0.25% to 0.75% or the Bankers' Acceptance rate plus 1.75% to 2.25%, depending on the Fund's senior debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio. The credit facility includes limits on incurring additional indebtedness or granting encumbrances without the consent of the lender and is subject to the maintenance of senior debt to EBITDA, current assets to current liabilities and fixed charge coverage ratios and minimum equity.

The term loan was drawn in the form of prime rate loans on May 17, 2005 concurrent with the acquisition described in note 3. During the three months ended March 31, 2006, interest was charged at a rate of prime plus 0.25% and totaled \$222,632. As at March 31, 2006, prime rate was 5.5%. The principal balance of the term loan is due on May 17, 2007 and may be extended for an additional year to May 17, 2008 based on approval by the lender.

**Operating loan**

The Fund has available under its credit facilities a \$10,000,000 demand revolving loan. Under the terms of the credit facility agreement, the operating loan is collateralized along with the term loan as described above. Interest on the operating loan will vary between the lender's prime rate and the lender's prime rate plus 0.25% depending on the Fund's ratio of senior debt to EBITDA. During the period, the Fund paid interest of \$39,765 on amounts drawn on the operating loan at a rate of prime. As at March 31, 2006 prime rate was 5.5%, and \$6,043,348 was outstanding on the operating loan at the end of the period.

**5. Unitholders' Equity**

**Fund Units**

The following units were issued and outstanding at the end of the period:

	<i>Number of Units #</i>	<i>Issue Costs \$</i>	<i>Net Capital Contributions \$</i>
Fund Units issued	6,106,000	4,928,124	56,131,876
	<hr/> 6,106,000	<hr/> 4,928,124	<hr/> 56,131,876

An unlimited number of Fund Units may be created and issued pursuant to the Declaration of Trust. Each Fund 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. All Fund Units have equal voting rights or privileges. There were no changes in the number or amount of Fund Units issued during the period.

**XS Cargo Income Fund**  
**Notes to the Interim Consolidated Financial Statements**  
*March 31, 2006*  
Unaudited

---

**Distributions to Unitholders**

The Fund's policy is to distribute annually to unitholders available cash from operations after cash required for capital expenditures, working capital reserve and other reserves considered advisable by the Trustees of the Fund. The policy allows the Fund to make stable monthly distributions to its unitholders based on its estimate of distributable cash for the year. Distributions totaling \$0.290625 per Fund Unit (\$1,774,556) were declared by the Fund during the three months ended March 31, 2006. The distribution declared for the month of March 2006 in the amount of \$0.103125 per Fund Unit (\$629,681) was included in distributions payable to unitholders at March 31, 2006 and was paid on April 15, 2006.

**6. Non-controlling interest**

	<i>XS Cargo LP Exchangeable LP Units #</i>	<i>XS Cargo LP Subordinated LP Units #</i>	<i>Total #</i>
Number of units issued	3,478,914	2,399,269	5,878,183
	\$	\$	\$
Issue price	34,789,140	23,992,690	58,781,830
Non-controlling interest – cumulative earnings	3,251,559	2,242,471	5,494,030
Cumulative distributions declared	(3,450,473)	(2,379,656)	(5,830,129)
	34,590,226	23,855,505	58,445,731
Accrued contingent unit based compensation award ( <i>Note 13</i> )			100,000
			58,545,731

**XS Cargo LP Exchangeable LP Units (“Exchangeable LP Units”)**

The Exchangeable LP Units issued by XS Cargo LP have economic and voting rights equivalent to the Fund Units (note 9), except in connection with the exchangeability terms as described below. They are exchangeable directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of the Exchange Agreement. The Exchangeable LP Units are not required to be exchanged for Fund Units before transferring to third parties. As a result, they have been treated as non-controlling interest, in accordance with the CICA Emerging Issues Committee Abstract #151.

Each Exchangeable LP Unit entitles the holder to receive distributions from XS Cargo LP pro rata with distributions made by XS Cargo LP on Fund Units.

**XS Cargo Income Fund**  
**Notes to the Interim Consolidated Financial Statements**

*March 31, 2006*

Unaudited

---

**XS Cargo LP Subordinated LP Units (“Subordinated LP Units”)**

The Subordinated LP Units have economic and voting rights equivalent to the Fund Units (note 9), except in connection with the subordination terms as described below. As a result, they have been treated as non-controlling interest, in accordance with the CICA Emerging Issues Committee Abstract #151.

Distributions are to be made monthly on the Fund Units (note 9) and Exchangeable LP Units equal to \$0.103125 per Unit to the extent cash is available to make cash distributions. Distributions on the Subordinated LP Units are subordinated and are made quarterly in an amount equal to the amount distributed on Fund Units and Exchangeable LP Units and to the extent cash is available to make such distributions.

The Subordinated LP Units will be automatically exchanged for Exchangeable LP Units on a one-for-one basis and the subordination provisions will apply until the end of any fiscal year ending on or after December 31, 2006 if, for that fiscal year the Fund has earned EBITDA of at least \$14.432 million and the Fund has paid distributions of at least \$1.125 per Fund Unit for such fiscal year.

**Fund Special Voting Units**

	<i>Number</i>	<i>Amount</i>
	#	\$
Issued and outstanding	5,878,183	-

---

Fund Special Voting Units are non-participating and are used solely for providing voting rights to persons holding Exchangeable LP Units and Subordinated LP Units. Fund Special Voting Units are not transferable separately from Exchangeable LP Units and Subordinated LP Units to which they relate. The Fund 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 Fund Unit and Fund Special Voting Unit entitles the holder thereof to one vote at all meetings of the Unitholders.

If the Exchangeable LP Units or the Subordinated LP Units are purchased in accordance with the Exchange Agreement, a like number of Fund Special Voting Units will be redeemed by the Fund for a nominal amount.

**Distributions to non-controlling interest**

The Fund’s policy is to distribute annually to holders of Fund Units, Exchangeable LP Units and Subordinated LP Units available cash from operations after cash required for capital expenditures, working capital reserve and other reserves considered advisable by the Trustees of the Fund. The policy allows the Fund to make stable monthly distributions to holders of Exchangeable LP Units and quarterly distributions to holders of Subordinated LP Units based on its estimate of distributable cash for the year. Distributions totaling \$0.290625 per Exchangeable LP Unit (\$1,011,059) and \$0.290625 per Subordinated LP Unit (\$697,288) were declared by the Fund during the three months ended March 31, 2006. Distributions declared on Exchangeable LP Units for the month of March in the amount of \$0.103125 per unit (\$358,763) and Distributions on Subordinated LP Units for the three months ended March 31, 2006 in the amount of \$0.290625 per unit (\$697,288) were included in distributions payable to non-controlling interest at the balance sheet date and were paid on April 15, 2006.

**XS Cargo Income Fund**  
**Notes to the Interim Consolidated Financial Statements**

*March 31, 2006*

Unaudited

---

**7. Long-term incentive plan**

The Fund has adopted a long-term incentive plan (the “Plan”) to provide key senior management, officers and directors of the Fund with compensation opportunities that will enhance the ability of the Fund to attract, retain and motivate key personnel and reward these key employees for significant performance and associated per unit cash flow growth. Fund bonuses, in the form of the Units of the Fund, will be provided to eligible employees on an annual basis where the distributable cash of the Fund exceeds certain specified threshold amounts.

If the distributable cash flow per unit exceeds the base distribution, a percentage of the distributable cash (the participation rate) is contributed by the Fund into a long-term incentive pool. The funds in the pool are used to purchase units of the Fund in the open market, to be provided to eligible employees as bonus compensation. Threshold amounts and participation rates are as follows:

<b>Excess percentage</b>	<b>Proportion of excess percentage paid to plan Trustee</b>
5% or less	Nil
Greater than 5% and up to 10%	10% of any excess over 5%
Greater than 10% and up to 20%	10% of any excess over 5%, plus 20% of any excess over 10%
Greater than 20%	10% of any excess over 5%, plus 20% of any excess over 10%, plus 25% of any excess over 20%

On March 17, 2006, the Trustees approved an increase in the monthly distributions. Based on this monthly distribution amount, the Plan pool will be \$44,940 at the end of the year. The portion attributable to service in the first quarter has not been accrued since the amount is not material.

**8. Unit-based compensation**

Under the terms of the Acquisition Agreement between the Vendor and the Fund, the Fund assumed certain obligations under an employment agreement with the Chief Financial Officer. Under the employment agreement the Fund may issue a maximum of 6,944 of XS Cargo Exchangeable LP Units and 4,789 Subordinated LP Units per year based on performance. If awarded, the units are issued on the anniversary date of the IPO, May 17. The Fund accrues a contingent award throughout the year, based on the estimated fair value of the units at the grant date. The estimated value is included in administrative and operating expenses and increases non-controlling interest on the balance sheet. For the three months ended March 31, 2006 the Fund accrued a contingent award of \$30,000, bringing the total cumulative accrual to \$100,000.

**XS Cargo Income Fund**  
**Notes to the Interim Consolidated Financial Statements**

*March 31, 2006*

Unaudited

**9. Variable interest entity**

Pursuant to the business acquisition described in note 3, the Fund assumed a vendor supply and volume rebate agreement with Samra Imports Ltd., (“Samra”). Samra imports products from China which it sells to the Fund and other customers. Samra is the Fund’s largest supplier accounting for approximately 19% of the Fund’s purchases since the commencement of the agreement and the Fund is Samra’s largest customer. The purpose of the agreement is to outline the supply terms and to provide the Fund with a rebate based on its significant volume of purchases from Samra. The Fund has determined that Samra is a variable interest entity and that the supply and rebate agreement represents a variable interest in Samra. The Fund has determined, however, that it is not the primary beneficiary under the supply and rebate agreement since the Fund 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 March 31, 2006, the Fund purchased approximately \$2,500,000 of inventory from Samra, and as at March 31, 2006, the Fund had made deposits of \$936,512, for inventory that had not yet been delivered. Samra issued the Fund a volume rebate for purchases made from the three months ended March 31, 2006 in the amount of \$345,540.

**10. Basic and diluted earnings per unit**

The following table outlines the adjustments to the numerator and denominator to calculate the basic and diluted earning per unit:

	<i>Basic Earnings per Unit</i>	<i>Dilution Adjustments</i>	<i>Diluted Earnings per Unit</i>
<b><u>Three months ended</u></b>			
<b><u>March 31, 2006</u></b>			
Net earnings	723,545	696,549(a)	1,420,094
Average Units outstanding	6,106,000	5,878,183(b)	11,984,183
Earnings per Unit	0.1185		0.1185

(a) Adjustment to add back non-controlling interest if Exchangeable LP Units and Subordinated LP Units are converted to Fund Units

(b) Adjustment to reflect the conversion of Exchangeable LP Units and Subordinated LP Units to Fund Units on a one-for-one basis

**11. Seasonal nature of the business**

The Fund’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 business historically experiences a higher level of sales in the fourth quarter and a lower 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.

**12. 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.

**XS Cargo Income Fund**  
**Notes to the Interim Consolidated Financial Statements**

*March 31, 2006*

Unaudited

---

**13. Subsequent events**

Subsequent to the balance sheet date, XS Cargo entered into lease agreements to open three new stores in Port Coquitlam, British Columbia; Grande Prairie, Alberta; and Burlington, Ontario.