XS CARGO INCOME FUND

Management's Discussion of Financial Condition and Results of Operations

For the quarter ended March 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes (the "Financial Statements") of XS Cargo Income Fund (the "Fund") for the three months ended March 31, 2010 and the annual consolidated financial statements and accompanying notes of the Fund for the year ended December 31, 2009. These financial statements, management's discussion and analysis and other documents filed with regulatory authorities can be found on SEDAR at www.sedar.com. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts have been rounded to the nearest thousand dollars, while other amounts have been rounded to the nearest hundred thousand dollars. References to notes are to the notes to the Financial Statements of the Fund unless otherwise stated.

This MD&A is dated May 19, 2010.

Readers are referred to the advisories regarding forward-looking information and non-GAAP measures in the "Forward Looking Statements" and "Non-GAAP Measures" sections of this MD&A.

OVERVIEW OF THE FUND

Issuance of Fund Units and Acquisition

XS Cargo Income Fund is an unincorporated open-ended trust established under the laws of the Province of Alberta. The Fund invests in the broadline closeout retail business, through an indirect controlling interest in XS Cargo Limited Partnership ("XS Cargo LP") and its general partner ("GP") (collectively "XS Cargo"), and such other investments as the Trustees may determine.

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 and XS Cargo LP acquired the net assets (the "Acquired Business") of Famous Brands (Edmonton) Inc. (the "Vendor").

The Fund Units trade on the TSX Venture Exchange under the symbol XSC.UN.

The Business of the Fund

XS Cargo LP operates 41 closeout retail stores in Alberta, British Columbia, Manitoba, Saskatchewan, Ontario, Nova Scotia, Newfoundland and New Brunswick.

Operating Highlights

The first quarter featured continued improvement in operating results. The Fund extended the sales gains experienced in the fourth quarter of 2009. First quarter sales increased $2.4 million or12.5% compared to the first quarter of 2009. Same store sales increased 9.6%.

Earnings from operations improved by $2.18 million from a loss of $2.2 million in the first quarter of 2009 to a loss of $20 thousand in the first quarter of 2010.

Efforts to better our customers' shopping experience drove improvements across several key operating metrics. Both sales conversion (the percentage of store traffic resulting in a transaction) and the average sales volume per transaction increased, reflecting improvements in store merchandising and an expanded product mix. Store labour productivity increased 17% as store wage expense fell 5% against a sales increase of 12.5%. The combination of a stronger Canadian dollar, higher product margins and improved economic conditions contributed to a 24% increase in gross margin from 29.6% to 36.6% of sales.

Refinements in flyer distribution methods reduced advertising expense by 12.4% over the same period in 2009.

SELECTED FINANCIAL INFORMATION AND RESULTS FROM OPERATIONS

First Quarter Operating Results

The following tables show the unaudited results of the Fund for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given period.

First Quarter Operating Results (unaudited)	**Three Months Ended March 31, 2010**	**Three Months Ended March 31, 2009**	**Change Q1 2010 from Q1 2009**
Sales	21,869,071	19,431,523	2,437,548
Cost of Goods Sold	13,871,390	13,677,957	193,433
Gross Margin	7,997,681	5,753,566	2,244,115
	36.6%	29.6%	7.0%
Administrative and Operating Expenses*	8,016,573	7,945,721	70,852
(Loss) from Operations, as defined*	(18,892)	(2,192,155)	2,173,263
Net (Loss)	(771,085)	(1,913,223)	1,142,138

* Earnings from operations have been calculated as described under "Non-GAAP Measures". For purposes of this table, administrative and operating expenses exclude the expenses outlined in the calculation of Earnings from Operations as described under "Non-GAAP Measures".

Sales

First Quarter

The following table compares sales for the three months ended March 31, 2010 to the three months ended March 31, 2009:

	Sales			
	2010	2009	Change	% change
Same Store Sales	20,945,198	19,104,294	1,840,904	9.6%
New or Closed Store Sales	923,873	327,229	596,644	182.3%
Total Sales	21,869,071	19,431,523	2,437,548	12.5%

First quarter sales increased by $2.5 million, from $19.4 million to $21.9 million, an increase of 12.5% compared to the same period in 2009. New or closed stores, defined as stores that have not been open for a full 12 months in the current and prior period, experienced a first quarter increase of $ 0.6 million. Same stores produced a first quarter sales increase of $1.8 million or 9.6% compared to the same period in 2009. The increase in total sales was primarily the result of, improvements in store merchandising, an expanded product mix and improved economic conditions.

The following table outlines the number of stores and percentage of store sales by geographical region:

	2010		**2009**	
	Number of stores, end of quarter	Percentage of sales during the quarter	Number of stores, end of quarter	Percentage of sales during the quarter
Region				
Ontario	20	48.3%	18	44.7%
Alberta[1]	7	18.5%	8	20.3%
British Columbia	8	18.2%	8	20.2%
Saskatchewan and Manitoba	3	9.4%	3	9.5%
Atlantic Canada	3	5.6%	3	5.3%
Total	41	100.0%	40	100.0%

[1] The Red Deer store was closed permanently on March 23, 2009.

Cost of Goods Sold and Gross Margin

First Quarter

Cost of goods sold as a percentage of sales for the quarter decreased by 7.0%, from 70.4% to 63.4% compared to the same period in 2009. The decrease is primarily due to combination of a stronger Canadian dollar and higher product margins.

Gross margin percentage for the quarter increased by 24% from 29.6% to 36.6% of sales compared to the same period in 2009. This increase is due to cost of goods sold variances discussed above.

Combined Administrative and Operating Expenses

First Quarter

For the quarter, administrative and operating expenses increased by approximately $0.1 million from $7.9 million to $8.0 million compared to the same period in 2009. This increase is primarily the result of increases in rent (0.2 million) due to two additional stores in Ontario, one time consulting fees (0.3 million) offset by decreases in wages at the stores (0.2 million) and reduced advertising spending (0.2 million).

Earnings from Operations

First Quarter

For the quarter, loss from operations decreased by $2.2 million, from a loss of $2.2 million to a loss of $19.0 thousand, an increase of 99.1% compared to the same period in 2009, as a result of the factors discussed above.

Fund Net Earnings

For the quarter, the Fund had net loss of $0.8 million or $0.13 per unit on a basic and diluted basis. This compares with the prior quarter's net loss of $1.9 million or $0.32 per unit on a basic and diluted basis.

Financial Position

The following are the significant assets, liabilities and equity of the Fund as at the specified dates:

	March 31, 2010	December 31, 2009
Cash and cash equivalents	134,880	832,854
Inventory	19,706,568	16,391,551
Total current assets	22,318,045	20,474,113
Total assets	27,703,914	26,201,456
Total current liabilities excluding term loan and subordinated loan	11,358,919	8,592,190
Term loan	6,750,000	6,750,000
Subordinated loan	15,198,025	14,829,366
Non-controlling interest	(52,116)	699,564
Unitholders' equity	(6,697,600)	(5,927,765)

Distributable Cash and Cash Distributions

On December 17, 2007, the Fund announced that it was suspending monthly cash distributions on Fund Units and Exchangeable LP Units beginning with the December 2007 distribution. There have been no distributions since this time.

As of March 31, 2010 the following number of units was outstanding:

Fund Units (Note 4)	6,054,000
XS Cargo LP Exchangeable LP Units (Note 5)	3,492,802
XS Cargo LP Subordinated LP Units (Note 5)	2,408,847
	11,955,649

Distributable Cash per Unit (Fund Units, XS Cargo LP Exchangeable LP Units, XS Cargo LP Subordinated LP Units)

	Three months ended March 31, 2010 (unaudited)	Three months ended March 31, 2009 (unaudited)
Cash used for operating activities	(7,182,141)	(2,742,055)
Less: Net change in non-cash working capital	6,413,532	(147,526)
Less: Deferred charges, net of costs recognized	3,595	(24,128)
Less: Deferred revenue, net of revenue recognized	144,543	219,423
Less: Lease inducements received, net of amortization of lease inducements	38,404	33,942
Less: Maintenance capital expenditures[1]	(14,376)	(8,310)
Distributable cash[2]	(596,443)	(2,668,654)
Average Units outstanding during the period[3]	12,007,649	12,007,649
Distributable cash per Unit	(0.05)	(0.22)
Distributions declared	-	-
Distributions declared per Unit	-	-
Ratio of distributions declared to distributable cash (payout ratio)	n/a	n/a

Deferred revenue and deferred charges relating to Product Replace Plans ("PRPs"), net of revenue or costs recognized, are adjusted as the revenue and direct costs related to the PRPs are deferred and recognized over the term of the PRPs. The amounts will be included in net earnings once they are recognized.

Lease inducements received, net of amortization of lease inducements is also adjusted as the inducements received from landlords are deferred and recognized over the course of the leases. The amounts will be included in net earnings once they are amortized.

[1] Maintenance capital expenditures refer to acquisitions of property and equipment to replace or upgrade equipment and information systems at existing stores and distribution centres. See discussion under "Capital Expenditures" below.

[2] See discussion under "Non-GAAP Measures" below.

[3] The average units outstanding during the period (12,007,649) differ from the number of units outstanding in the financial statements at March 31, 2010 (11,955,649) by 52,000 units. The 52,000 units represent units bought by the Fund to cover employment contract obligations.

EBITDA

Management believes that EBITDA[4] is a useful measure in evaluating the performance of the Fund.

	Three months ended	
	March 31, 2010 (unaudited)	**March 31, 2009** (unaudited)
Net (loss) for the period	(771,085)	(1,913,223)
Add: non-controlling interest	(751,680)	(1,866,001)
Add: Interest expense and foreign exchange	931,834	1,027,761
Add: Amortization of property and equipment	378,433	360,178
Add: Amortization of intangible assets	192,356	189,755
EBITDA	(20,142)	(2,201,530)

Fund Units and Non-controlling Interest

The following table outlines the Fund Units and non-controlling interest outstanding as of March 31, 2010.

	Units #	**Issue Costs** $	**Fund Units** $	**Non-controlling Interest** $
Fund Units	6,054,000	4,928,124	56,110,694	-
Special Voting Units	5,901,649	-	-	-
Non-controlling Interest	5,901,649	-	-	(52,116)

There have been no changes in the number of Special Voting Units from December 31, 2009 to March 31, 2010.

[4] EBITDA refers to earnings before interest and foreign exchange, taxes, depreciation and amortization. See discussion under "Non-GAAP Measures" below.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facilities

The Fund has available under its amended credit facilities agreement a $12,500,000 demand revolving loan. Under the terms of the credit facility agreement, the operating loan is collateralized by a first charge on all present and after required personal property and an assignment of inventory. Interest on the operating loan is charged at the lender's Canadian prime rate plus 4.50%. If funds are withdrawn in U.S. dollars, interest will be charged at the lender's U.S. base rate plus 4.50%. The Fund is also required to pay a standby charge of 1.00% based on the amount equal to the operating facility commitment amount less the aggregate principal amount under the operating facility.

The maximum available on the term loan facility is $6,750,000. The term loan is collateralized along with the operating loan as described above. Under the agreement interest on the term loan facility is charged at the lender's Canadian prime rate plus 4.50% or the bankers' acceptance rate plus 5.75%. The term loan agreement expired on April 30, 2009, however repayment has not been demanded.

The subordinated loan consists of a $12,000,000 loan funded 50% by an independent third party and 50% by a company owned by the President and CEO of the Fund. The subordinated loan is collateralized by a second charge on all of the present and future undertakings and property including an acknowledged assignment of leases and material contracts. Interest on the subordinated loan is charged at a fixed rate of 18%, with the Fund's option to capitalize up to 10% per annum as part of the outstanding principal balance. The subordinated loan agreement expired on June 30, 2009, however repayment has not been demanded.

Financial Covenants

The bank indebtedness, term loan and subordinated loan require the Fund to maintain certain financial covenants, including a maximum senior debt to adjusted EBITDA ratio of 2.5:1.0; a minimum current ratio of 1.4:1.0, and a minimum adjusted trailing twelve months EBITDA value of $8,000,000. Additionally, the covenants limit the Fund's ability to undertake mergers, acquisitions, new indebtedness, declare distributions and other changes in the business without approval of the lenders.

The subordinated loan agreement also requires the Fund to maintain a total funded debt to adjusted EBITDA ratio of less than 3.5:1.0.

As at March 31, 2010, the Fund is in compliance with all financial covenants mentioned above. For the period from December 31, 2008 to February 28, 2010, the Fund was in breach of certain financial covenants mentioned above and these breaches have not been waived by the lender.

The Fund continues to manage its liquidity risk by monitoring actual and projected cash flows taking into consideration the seasonality of its business.

The term loan and the subordinated loan agreements have expired and have not been repaid leading significant doubt as to the ability of the Fund to continue as a going concern.

Capital Expenditures

First Quarter

During the first quarter, the Fund acquired $14,376 of property and equipment related to "maintenance capital expenditures". Of this, $11,820 is related to stores and warehouses and the remaining $2,556 is related to head office expenditures.

Interest Rate Risk and Sensitivity

The Fund's term and operating loans bear interest with floating rates based on the bank's prime rate, thus exposing the Fund to interest rate fluctuations. A 1.0% change in interest rates would have an impact of $132,522 annually on distributable cash and interest expense based on $13,252,210 of debt outstanding at March 31, 2010.

XS Cargo LP Subordinated LP Units

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 if, for that fiscal year the Fund has earned EBITDA (earnings before interest, taxes, depreciation and amortization) of at least $14.432 million and the Fund has paid distributions of at least $1.125 per Fund Unit for such fiscal year. For the year ended December 31, 2009, the criteria were not met for the automatic exchange to occur.

Contractual Obligations

The table below sets forth the contractual obligations of the Fund as of March 31, 2010, due in the years indicated which relate to various premises operating leases, the term loan that matured on April 30, 2009, and the subordinated loan that matured on June 30, 2009.

	Total	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and thereafter**
Operating Leases	22,683,173	3,693,953	4,648,296	3,963,612	3,411,244	2,987,964	3,978,104
Term Loan	6,750,000	6,750,000	-	-	-	-	-
Subordinated Loan	15,198,025	15,198,025	-	-	-	-	-
Total	44,631,198	25,641,978	4,648,296	3,963,612	3,411,244	2,987,964	3,978,104

Summary of Quarterly Results (unaudited)

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	21,869,071	41,964,691	23,034,046	21,605,018	19,431,523	38,713,064	24,525,830	25,080,819
Net earnings (loss) before impairment of goodwill	(771,085)	2,106,827	84,015	(472,939)	(1,913,223)	(208,063)	(20,378)	248,174
Net (loss) earnings	(771,085)	2,106,827	84,015	(472,939)	(1,913,223)	(18,203,917)	(20,378)	248,174
Basic and diluted (loss) earnings per unit	(0.13)	0.35	0.01	(0.08)	(0.32)	(2.98)	0.00	0.04

Due to seasonal shopping trends, the fourth quarter is typically the strongest quarter for XS Cargo and the first quarter is weakest. The fourth quarter of 2008 was impacted by a goodwill impairment of $18.4 million.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

Inventory Valuation

Inventory is valued at the lower of cost and estimated net realizable value. Inventory cost includes freight charges, which are allocated to inventory based on a percentage of freight paid during a period compared to the total purchases made during the period. Management believes that the estimates, assumptions and allocation methods are reasonable in the circumstances. It is possible that materially different results would be reported using different assumptions or allocation methods.

Intangible Asset Valuation

Intangible assets acquired at the time of the IPO represent management's estimate of the fair value of the XS Cargo brand name and trademark, database of sales and purchasing history, and the value attributed to property leases at less than market rates. The intangible asset related to the brand name and trademark has an indefinite life and is not amortized. The intangible assets related to property leases are amortized over the remaining terms of the leases. The intangible asset related to the database of the sales and purchasing history is amortized over its five year expected life. The Fund will assess the carrying value of intangible assets that are not subject to amortization annually or more frequently if events or changes in circumstances indicate a potential impairment. Intangible assets that are amortized are assessed for impairment when events or changes in circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount is no longer recoverable and exceeds its fair value. Software is recorded at cost and amortized on a straight-line basis at a rate of 20%.

Future accounting changes

The CICA has issued the following new accounting standards applicable to the Fund in future years:

International Financial Reporting Standards (IFRS)

The use of IFRS for financial reporting in Canada will become applicable for the year beginning January 1, 2011. The Fund will issue consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") for the first quarter ended March 31, 2011, with comparative information.

The Fund commenced its IFRS conversion project in 2008 by completing an analysis of the pertinent accounting and reporting differences between IFRS and Canadian GAAP. Management determined that the most significant impacts of IFRS conversion relate to the assessment of alternatives available under IFRS 1, *First Time Adoption of International Financial Reporting Standards*, property and equipment, intangible assets, the presentation of non-controlling interest, and asset impairment.

Management has assessed the alternatives available under IFRS 1 and made the following key elections:

- Business combinations – the Fund has decided to use the IFRS 1 election to not restate past business combinations prior to the date of transition. This is expected to minimize any opening balance sheet differences.

- Property and equipment and intangible assets – the Fund is electing to use recent fair value as deemed cost. Taking this election allows the Fund to use previous GAAP revaluations of property and equipment and intangible assets as deemed costs for assets acquired in a business combination. This is also expected to minimize any opening balance sheet differences.

- Borrowing costs – the Fund is electing to apply IAS 23 after January 1, 2010 for borrowing costs on qualifying assets. This is also expected to minimize any opening balance sheet differences.

One significant difference between IFRS and Canadian GAAP identified to date that could to lead to an opening transition adjustment is the presentation of Fund units, non-controlling interest, warrants, and options. The Fund is still assessing the terms of the Fund units, as well as the Exchangeable and Subordinated LP shares that comprise the non-controlling interest, but there is the potential that this assessment could result in these balances being classified as liabilities under IFRS. The presentation of warrants and options related to such instruments would also follow the related presentation of the instrument.

The IASB has several projects slated for completion in 2010 and 2011 that may significantly impact the transition to IFRS and the consolidated financial statements of the Fund. In particular, the Leases project will likely result in all assets and liabilities arising under lease contracts to be recognized on the balance sheet. This is in contrast to Canadian GAAP where operating leases are not recognized on the balance sheet.

The Fund continues to monitor the IASB's progress on these projects and their impact on the Fund's transition to IFRS. As a result of these various projects, not all transition date financial statement adjustments are determinable at this time and the quantification of the impact of adoption of IFRS on the consolidated financial statements and operating performance measures cannot be finalized until closer to the changeover date.

The Fund also continues to assess the impact of conversion on internal controls, accounting systems and other business solutions and processes, as well as develop training to assist appropriate employees in the transition to and ongoing compliance with IFRS. Activities in connection with management's IFRS implementation plan will continue throughout 2010, and the Fund will continue provide the required disclosures regarding the status of this plan.

Transactions with Related Parties

Under its credit facilities, the Fund has an outstanding subordinated loan agreement for $12,000,000, funded 50% by an independent third party and 50% by a company owned by Michael McKenna, the President, CEO and a director of XS Cargo GP Inc., the administrator of the Fund. Interest expense totaling $323,962 was recorded on the portion of the loan outstanding to the related party during the three months ended March 31, 2010. The loan and related interest have been recorded at the exchange amount, which represents fair value.

Mr. William Gray, a director of the XS Cargo GP Inc, is a partner of Fleming LLP, a law firm which provides legal services to the Fund. Legal fees totaling approximately $31,000 were charged to the fund by Fleming LLP during the three months ended March 31, 2010.

Outlook

All operating metrics were positive in the first quarter. Sales and gross margin increased while wage and advertising expenses declined. Freight expense also decreased as a percentage of sales. Although year over year gains in gross margin percentage are expected to moderate, management expects the strong growth in sales to continue.

Three new stores are planned in 2010.

Additional Information

Additional information relating to the Fund, including the Fund's AIF, is available on SEDAR (www.sedar.com) and on the Fund's website at www.xscargo.com.

Non-GAAP Measures

References to "EBITDA" are to earnings before interest and foreign exchange, income taxes, depreciation and amortization and references to "distributable cash" are to cash available for distribution to Unitholders in accordance with the distribution policies of the Fund. Management believes that, in addition to income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution before debt service, changes in working capital, capital expenditures and income taxes. Distributable cash of the Fund is a measure generally used by open-ended trusts as an indicator of financial performance. As one of the factors that may be considered relevant by prospective investors is the cash distributed by the Fund relative to the price of the Units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist prospective investors in assessing an investment in the Fund.

Net earnings (loss) before impairment of goodwill and intangible assets disclosure under "Summary of Quarterly Results" has been calculated by adding back the goodwill and intangible assets impairment to net earnings (loss).

Loss from operations disclosure under "First Quarter Operating Results" has been calculated as described below. Loss from operations have been derived by adding interest expense, foreign exchange, amortization of property and equipment and intangible assets, unit-based compensation, future income taxes and non-controlling interest to net earnings for the period. The following table details the reconciliation from net earnings:

	Three Months Ended	
	March 31, 2010	**March 31, 2009**
Net Loss	(771,085)	(1,913,223)
Add:		
Non-controlling interest	(751,680)	(1,866,001)
Foreign exchange loss (gain)	50,540	(6,465)
Interest on term and subordinated loans	775,997	944,759
Interest on operating loan	105,297	89,467
Amortization of intangible assets	192,356	360,178
Amortization of property and equipment	378,433	189,755
Unit based compensation expense	1,250	9,375
(Loss) from Operations, as defined	(18,892)	(2,192,155)

EBITDA, distributable cash, earnings from operations and gross margin before non-recurring expenses are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that EBITDA, distributable cash, earnings from operations and gross margin before non-recurring expenses should not replace net income or loss (as determined in accordance with GAAP) as an indicator of the Fund's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund's methods of calculating EBITDA, distributable cash, earnings from operations and gross margin before non-recurring expenses may differ from the methods used by other issuers and may not be comparable to similar measures presented by other issuers.

CONTROLS AND PROCEDURES

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited annual financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and that (ii) the audited annual financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Fund, as of the date of and for the periods presented by the audited financial statements.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Fund utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing the Venture Issuer Basic Certificate are not making any representations relating to the establishment and maintenance of:

i. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and,

ii. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The Chief Executive Officer and the Chief Financial Officer of the GP (the "Certifying Officers"), the administrator of the Fund and the general partner of XS Cargo LP, are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of the Fund to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

RISK FACTORS

The Fund's results of operations, business prospects, financial condition, cash distributions to unitholders and the trading price of the Fund's units are subject to a number of risks. These risk factors include: the ability to maintain profitability and manage growth; the ability to expand through new store openings; the ability to source products in adequate quantities and on acceptable terms; changes in trends and consumer tastes; economic conditions and consumer spending; the success of the Fund's marketing efforts and increased marketing expenditures; competition; reliance on centralized distribution centres; freight costs; ability to maintain comparable store sales; seasonality and fluctuations in quarterly results; reliance on management information systems; increase in the cost of, or disruption in the flow of, imported products; successful management of exposure to merchandise returns; foreign exchange fluctuations; costs and availability of insurance coverage; protection of intellectual property; reliance on key personnel; labour matters, including increased labour costs and labour shortages; absence of history as a public company; dependence on external funding sources; environmental regulation; uncertainties arising from world events; property taxes; the Fund's dependence on its operating subsidiaries; the unpredictability and volatility of the market price of the Fund Units; the nature of the Fund Units; the lack of certainty regarding cash distribution levels; cash on cash yield; the structural subordination of the Fund Units; leverage and restrictive covenants; restrictions on potential growth; changes in income tax legislation and other tax related risks; future sales of Fund Units from treasury; future sales of Fund Units by insiders; the rights of the Vendor in relation to XS Cargo LP; conflicts of interest; unitholder limited liability; the distribution of securities on redemption or termination of the Fund; and the restrictions on certain unitholders and the liquidity of Fund Units. For a discussion of significant risks associated with an investment in Fund Units, see "Risk Factors" detailed in the Fund's Annual Information Form available at www.sedar.com.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, proposed store openings, budgets, litigation, projected costs and plans and objectives of or involving the Fund or XS Cargo LP. You can identify many of these statements by looking for words such as “believe”, “expects”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues” or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in the MD&A. There can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under “Risk Factors”.

The information contained in this MD&A, including the information set forth under “Risk Factors”, identifies additional factors that could affect the operating results and performance of the Fund and XS Cargo LP.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and, except as required by law, the Fund assumes no obligation to update or revise them to reflect new events or circumstances.