

XS Cargo Income Fund
Interim Consolidated Financial Statements
Unaudited
June 30, 2007

XS Cargo Income Fund
Consolidated Balance Sheets

	June 30, 2007 (unaudited)	December 31, 2006
	\$	\$
Assets		
Current		
Cash and cash equivalents	-	1,017,824
Rebate and other receivables	88,499	439,384
Inventory	22,951,282	22,288,806
Deposits on inventory	5,500,859	6,604,788
Prepaid expenses and deposits	802,335	828,775
	29,342,975	31,179,577
Deferred charges	336,157	331,799
Property and equipment	5,525,974	4,332,028
Intangible assets	6,091,900	6,718,000
Goodwill	101,788,426	101,788,426
	143,085,432	144,349,830
Liabilities		
Current		
Bank indebtedness	7,176,988	-
Accounts payable and accrued liabilities	5,893,669	10,597,933
Deferred revenue	1,635,084	1,528,327
Distributions payable to unitholders (Note 6)	286,219	629,681
Distributions payable to non-controlling interest (Note 7)	163,725	1,103,235
	15,155,685	13,859,176
Term loan (Note 4)	21,250,000	2,500,000
	36,405,685	16,359,176
Term loan (Note 4)	-	15,000,000
Deferred revenue	496,157	607,513
Unamortized lease inducements	403,908	317,975
Future income taxes (Notes 3 and 5)	1,269,160	-
	38,574,910	32,284,664
Non-controlling interest (Note 7)	54,417,628	57,493,942
	92,992,538	89,778,606
Unitholders' Equity		
Fund Units (Note 6)	56,131,876	56,131,876
Deficit	(6,038,982)	(1,560,652)
	50,092,894	54,571,224
	143,085,432	144,349,830

The accompanying notes are an integral part of these financial statements

XS Cargo Income Fund
Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)

	<i>Three Months Ended June 30, 2007</i>	<i>Three Months Ended June 30, 2006</i>	<i>Six Months Ended June 30, 2007</i>	<i>Six Months Ended June 30, 2006</i>
	\$	\$	\$	\$
Sales	29,519,184	27,822,876	53,176,840	48,494,741
Cost of goods sold	19,383,595	17,255,921	35,821,536	30,325,263
Gross margin	10,135,589	10,566,955	17,355,304	18,169,478
Expenses				
Administrative and operating	8,755,270	6,537,933	16,794,615	12,011,072
Amortization of property and equipment	313,302	212,820	608,280	387,677
Amortization of intangible assets	328,100	298,000	626,100	596,000
	9,396,672	7,048,753	18,028,995	12,994,749
Earnings (loss) before the undernoted	738,917	3,518,202	(673,691)	5,174,729
Other expenses				
Interest on bank indebtedness	87,986	84,122	175,415	123,887
Interest on term loan	359,155	243,789	702,097	466,421
Foreign exchange loss	113,481	45,885	130,960	19,921
	560,622	373,796	1,008,472	610,229
Earnings (loss) before non-controlling interest and future income taxes	178,295	3,144,406	(1,682,163)	4,564,500
Future income taxes (Notes 3 and 5)	1,269,160	-	1,269,160	-
(Loss) earnings before non-controlling interest	(1,090,865)	3,144,406	(2,951,323)	4,564,500
Non-controlling interest (Note 7)	(536,195)	1,542,574	(1,449,668)	2,239,123
Net (loss) earnings and comprehensive (loss) income for the period	(554,670)	1,601,832	(1,501,655)	2,325,377
Basic and diluted (loss) earnings per unit (Note 11)	(0.09)	0.26	(0.25)	0.38

The accompanying notes are an integral part of these financial statements

XS Cargo Income Fund
Consolidated Statements of (Deficit) Retained Earnings
(Unaudited)

	<i>Three Months Ended June 30, 2007</i>	<i>Three Months Ended June 30, 2006</i>	<i>Six Months Ended June 30, 2007</i>	<i>Six Months Ended June 30, 2006</i>
	\$	\$	\$	\$
(Deficit) retained earnings, beginning of the period	(4,339,437)	(349,140)	(1,560,652)	701,871
Net (loss) earnings for the period	(554,670)	1,601,832	(1,501,655)	2,325,377
Distributions declared in the period	(1,144,875)	(1,889,044)	(2,976,675)	(3,663,600)
Deficit, end of the period	(6,038,982)	(636,352)	(6,038,982)	(636,352)

The accompanying notes are an integral part of these financial statements

XS Cargo Income Fund
Consolidated Statements of Cash Flows
(Unaudited)

	<i>Three Months Ended June 30, 2007</i>	<i>Three Months Ended June 30, 2006</i>	<i>Six Months Ended June 30, 2007</i>	<i>Six Months Ended June 30, 2006</i>
	\$	\$	\$	\$
Cash provided by (used for) the following activities				
Operating Activities				
Net (loss) earnings for the period	(554,670)	1,601,832	(1,501,655)	2,325,377
Items not affecting cash:				
Non-controlling interest	(536,195)	1,542,574	(1,449,668)	2,239,123
Future income taxes	1,269,160	-	1,269,160	-
Amortization of property and equipment	313,302	212,820	608,280	387,677
Amortization of intangible assets	328,100	298,000	626,100	596,000
Unit based compensation (<i>Note 9</i>)	29,860	30,000	73,360	60,000
Deferred charges, net of costs recognized	(5,322)	(28,298)	(4,358)	(94,565)
Deferred revenue, net of revenue recognized	(25,182)	333,958	(4,598)	704,835
Lease inducements received, net of amortization of lease inducements	37,125	41,121	85,933	26,197
	856,178	4,032,007	(297,446)	6,244,644
Net change in non-cash working capital	191,304	3,544,009	(3,885,487)	(8,053,557)
	1,047,482	7,576,016	(4,182,933)	(1,808,913)
Financing Activities				
Net change in bank indebtedness	2,529,695	(3,177,032)	7,176,988	2,866,316
Proceeds from term loan	-	-	3,750,000	-
Distributions paid on Fund Units	(1,431,094)	(1,889,044)	(3,320,136)	(3,606,356)
Distributions paid to non-controlling interest	(817,323)	(1,773,577)	(2,639,517)	(3,426,816)
	281,278	(6,839,653)	4,967,335	(4,166,856)
Investing Activities				
Purchases of property and equipment	(1,328,760)	(736,363)	(1,802,226)	(1,466,727)
Decrease in cash and cash equivalents	-	-	(1,017,824)	(7,442,496)
Cash and cash equivalents, beginning of period	-	-	1,017,824	7,442,496
Cash and cash equivalents, end of period	-	-	-	-
Supplementary cash flow information				
Interest paid	447,141	327,911	877,512	590,308

The accompanying notes are an integral part of these financial statements

XS Cargo Income Fund

Notes to the Interim Consolidated Financial Statements

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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 and XS Cargo LP acquired the net assets (the "Acquired Business") of Famous Brands (Edmonton) Inc. (the "Vendor"). XS Cargo LP operates 39 (December 31, 2006 – 35) closeout retail stores in Alberta, British Columbia, Manitoba, Saskatchewan, Ontario, Newfoundland, Nova Scotia and New Brunswick.

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 year ended December 31, 2006, except as described in note 3. 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 year ended December 31, 2006.

3. Change in accounting policies

(a) On January 1, 2007, the Fund adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

Section 3855: Financial Instruments – Recognition and Measurement

This Section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The adoption of these new standards has had no material impact on the consolidated financial statements.

Section 1530: Comprehensive Income

This Section describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in the Fund's net assets that result from transactions, events or circumstances from sources other than the Fund's Unitholders.

Section 3865: Hedges

This Section establishes standards for when and how hedge accounting, which is optional, may be applied. As the Fund does not use hedge accounting, the adoption of these new standards has had no impact on the consolidated financial statements.

(b) Section 1506: Accounting Changes

This standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors.

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the Unitholders and, accordingly, no provision for income taxes had been made in respect of the income of the Fund. As described in note

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5, the Fund has recognized future income tax in the quarter ended June 30, 2007 as a result of new tax legislation substantively enacted on June 12, 2007. Current income tax will not be recognized until a new tax on the Fund is effective on January 1, 2011. Future income tax assets and liabilities are recorded on the difference between the accounting and tax basis of assets and liabilities based on substantively enacted tax laws and rates for those differences that are expected to reverse after January 1, 2011.

The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(c) Future Accounting Changes

In December 2006, the CICA issued three accounting standards: Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation. These new standards will be effective for the Fund on January 1, 2008.

Section 1535: Capital Disclosures

This new standard established disclosure requirements concerning capital such as: qualitative information about its objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Fund is presently evaluating the impact of this new standard.

Section 3862: Financial Instruments - Disclosures and Section 3863: Financial Instruments - Presentation

These new standards replace Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. The Fund is presently evaluating the impact of these new standards.

In June 2007, the CICA issued a new accounting standard: Section 3031, Inventories

This new standard provides guidance in determining the cost of inventory and its subsequent recognition as an expense. The standard is effective for fiscal periods beginning on or after January 1, 2008 and requires the retroactive application to prior period financial statements. The Fund is presently evaluating the impact of this new standard.

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 \$21,250,000, of which the full amount was outstanding at June 30, 2007 (December 31, 2006 - \$17,500,000). 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 1.25% or the bankers' acceptance rate plus 1.75% to 2.75%, depending on the Fund's senior debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio.

During the three and six months ended June 30, 2007, interest was charged at a rate of prime plus 0.75% and totaled \$359,155 and \$702,097, respectively (June 30, 2006 - \$243,789 and \$466,421). As at June 30, 2007, the prime rate was 6.0% (December 31, 2006 - 6.0%). The principal balance of the term loan is due on May 16, 2008. The credit agreement requires the principal to be reduced to \$11,250,000 by July 31, 2007. The lender extended the reduction period to August 14, 2007; see Note 14 for further discussion.

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Operating loan

The Fund has available under its credit facilities a \$12,500,000 (\$20,000,000 available from August to December) demand revolving loan. Under the terms of the credit 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 1.00% depending on the Fund's ratio of senior debt to EBITDA. During the three and six months ended June 30, 2007, the Fund paid interest of \$87,986 and \$175,415 respectively (2006 - \$84,122 and \$123,887) on amounts drawn on the operating loan at a rate of prime. As at June 30, 2007, \$7,176,988 (December 31, 2006 - \$Nil) was outstanding under the operating loan.

Financial covenants

Both the Term Loan and Operating Loan ("Loans") require the Fund to maintain certain financial covenants, including a maximum senior debt to EBITDA ratio of 3.5:1.0 until December 31, 2007, at which time the ratio reduces to 2.0:1.0; a minimum current ratio of 1.5:1.0, a minimum fixed charge coverage ratio of 1.0:1.0 and a minimum EBITDA value of \$5,500,000 on a rolling twelve month basis. For the remainder of 2007, the minimum fixed charge coverage ratio has been waived by the lender. Additionally, the covenants limit the Fund's ability to undertake mergers, acquisitions, new indebtedness, declare distributions in excess of distributable cash and other changes in the business without approval of the lender. At June 30, 2007, the Fund was in compliance with the covenants. The limitation on declaring distributions in excess of distributable cash has been waived by the lender until December 31, 2007.

5. Future income taxes

Prior to June 12, 2007, the Fund was effectively exempt from income taxes and, accordingly, its consolidated financial statements did not include a provision for Canadian income taxes related to the Fund's income. On October 31, 2006, the Minister of Finance (Canada) announced proposed tax legislation ("trust legislation") that will change the income tax rules applicable to publicly traded trusts rendering income trusts taxable in 2011.

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund must give accounting recognition to these new tax rules. While the Fund will not be liable for current taxes until January 1, 2011, it must give recognition in the quarter ended June 30, 2007 to future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011, at the 31-1/2% tax rate applicable to the Fund.

The components of future income taxes are as follows:

	June 30, 2007	December 31, 2006
	\$	\$
<i>Future income tax liabilities</i>		
Goodwill	708,038	-
Intangible assets	743,743	-
	1,451,781	-
<i>Future income tax assets</i>		
Property and equipment	(160,664)	-
Unamortized lease inducements	(21,957)	-
	(182,621)	-
Net future income tax liability	1,269,160	-

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6. Unitholders' Equity

Fund Units

The following units are issued and outstanding:

	Number of Units #	Issue Costs \$	Net Capital Contributions \$
<u>Fund Units Issued, June 30, 2007 and December 31, 2006</u>	6,106,000	4,928,124	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 and privileges. There were no changes in the number or amount of Fund Units issued during the period.

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 \$0.1875 and \$0.4875 per Fund Unit (\$1,144,876 and \$2,976,676) were declared by the Fund during the three and six months period ended June 30, 2007, respectively. The distribution declared for the month of June 2007 in the amount of \$0.046875 per Fund Unit (\$286,219) was included in distributions payable to unitholders at June 30, 2007 and was paid on July 15, 2007.

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7. Non-controlling interest

	<i>XS Cargo LP Exchangeable LP Units #</i>	<i>XS Cargo LP Subordinated LP Units #</i>	<i>Total #</i>
Balance – December 31, 2006	3,485,858	2,404,058	5,889,916
Unit based compensation award issued during the three month period ended June 30, 2007 (Note 9)	6,944	4,789	11,733
Balance – June 30, 2007	3,492,802	2,408,847	5,901,649
	\$	\$	\$
Exchangeable and Subordinated Units	33,967,936	23,426,336	57,394,272
Net accrued contingent unit based compensation award (Note 9)			99,670
Balance – December 31, 2006	33,967,936	23,426,336	57,493,942
Unit based compensation award issued during the three month period ended June 30, 2007 (Note 9)	102,405	70,625	173,030
Net accrued contingent unit based compensation award accrued as at December 31, 2006			(99,670)
Non-controlling interest – earnings	(857,964)	(591,704)	(1,449,668)
Distributions declared	(1,700,006)	-	(1,700,006)
Balance – June 30, 2007	31,512,371	22,905,257	54,417,628

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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 6), 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 presented 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 LP Subordinated LP Units (“Subordinated LP Units”)

The Subordinated LP Units have economic and voting rights equivalent to the Fund Units (note 6), 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 6) and Exchangeable LP Units 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 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 (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, 2006, the criteria were not met for the automatic exchange to occur.

Fund Special Voting Units

	Number #	Amount \$
Issued and outstanding – December 31, 2006	5,889,916	-
Unit based compensation award issued during the three month period ended June 30, 2007 (Note 9)	11,733	-
<hr/>		
Issued and outstanding – June 30, 2007	5,901,649	-

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.

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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 \$0.1875 and \$0.4875 per Exchangeable LP Unit (\$654,249 and \$1,700,006) and \$Nil per Subordinated LP Unit were declared by the Fund during the three and six months ended June 30, 2007, respectively. Distributions declared on Exchangeable LP Units for the month of June 2007 in the amount of \$0.046875 per unit (\$163,725) were included in distributions payable to non-controlling interest and were paid on July 15, 2007. Distributions on the Subordinated LP Units have been suspended.

8. 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. The Plan is managed through a separate trust, which is considered a variable interest entity. As the Fund is the primary beneficiary, the Fund consolidates the Plan in its financial statements.

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 separate trust. The funds in the trust 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:

Excess percentage	Participation rate
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%

The Fund records annual awards under the Plan as compensation expense over the vesting period. For the year ended December 31, 2006, the distributable cash per unit of the Fund exceeded the threshold amount. As a result, the Fund will transfer \$22,898 to the LTIP trust in the third quarter of 2007. On May 9, 2007, the LTIP award was granted and will vest over three years. Compensation expense of \$13,993 was recorded in the period ended June 30, 2007 (2006 - \$Nil).

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9. 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 until 2009. If awarded, the units are issued on the anniversary date of the IPO, May 17, 2005. 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 and six months ended June 30, 2007, the Fund has recognized compensation cost of \$29,860 and \$73,360, respectively (June 30, 2006 - \$30,000 and \$60,000). The Fund has accrued a contingent award of \$7,500 (December 31, 2006 - \$99,670), which if granted, will be issued in May 2008.

10. Variable interest entity

The Fund has 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. As Samra is a separate legal entity, in which the Fund has no ownership interest, XS Cargo does not have direct access to Samra's assets and Samra's creditors do not have recourse against XS Cargo.

During the three and six months ended June 30, 2007, the Fund purchased approximately \$1,800,000 and \$3,600,000, respectively (June 30, 2006 - \$4,200,000 and \$6,700,000) of inventory from Samra. Included in accounts payable, as at June 30, 2007, is a balance of \$175,249 (December 31, 2006 - \$Nil), owing to Samra related to those purchases. Samra issued the Fund a volume rebate for purchases made for the three and six months ended June 30, 2007 in the amount of \$180,000 and \$260,000, respectively, of which a portion is included in rebate and other receivables.

11. Basic and diluted (loss) earnings per unit

Basic (loss) earnings per unit are based on the weighted average number of units outstanding during the period. Diluted earnings per unit are computed based on the weighted average number of units and dilutive unit equivalents.

12. 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.

13. Segmented information

The Fund identifies operating segments based on business activities, management responsibility and geography. The Fund operates within a single operating segment, being the operation of closeout retail stores in Canada. All of the Fund's assets are located in Canada.

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14. Subsequent events

Subsequent to June 30, 2007, the Fund entered into lease agreements to open new stores in Peterborough, Ontario and Vaughan, Ontario.

On August 9, 2007, the Fund entered into a subordinated loan agreement for \$12,000,000, funded 50% by an independent third party and 50% by a company owned by the President and CEO of the Fund. The principal balance is due on August 9, 2008, but is renewable for an additional six months at the option of the Fund. The subordinated loan is collateralized by the second charge on all of the present and future undertaking and property including an acknowledged assignment of leases and material contracts. Interest on the subordinated loan is charged at 16%, with the Fund's option to capitalize up to 8.0% per annum. The subordinated loan agreement requires the Fund to maintain certain financial covenants, including a total funded debt to EBITDA ratio of less than 5.0:1.0 until December 31, 2007, at which point the ratio reduces to 3.75:1.0. There are additional restrictive covenants that limit the Fund's ability to undertake mergers, acquisitions, new indebtedness and other changes in the business without approval of the lenders.