Mike

Good morning, my name is Mike McKenna. I'm the President and CEO of XS Cargo Income Fund, and with me I have, Jeff Rootman, our Vice-President and CFO.

I would like to welcome you to the 1st Annual Meeting of Unitholders of XS Cargo Income Fund.

I will begin by covering some of the operating highlights of the past year and then I will turn the presentation over to Jeff for a brief summary of our financial performance.

In the Spring of 2005, when we began the process of becoming a public income trust, we had a total of 19 stores and a single distribution centre in Edmonton, Alberta. Since then, we have added 11 stores and doubled our distribution infrastructure.

This month, new locations will be added in Burlington, Ontario, and Grande Prairie, Alberta bringing our total to 32 stores.

We have identified at least 40 additional target markets across Canada for new XS Cargo locations; positioning us to continue expanding at the current rate and achieve our goal of 70 stores in Canada in under 5 years.

In order to support our expansion plan, we have made significant investments in our distribution infrastructure. Our Eastern distribution centre opened in May 2005, which allowed us to supply our Ontario stores more efficiently and cost effectively.

In January 2006 we consolidated 3 separate distribution facilities in Edmonton into one new location and relocated our head office to that building. This relocation has given us the capacity to put the people and processes in place to accelerate our expansion.

In addition to growing the number of stores in our chain, we successfully launched our product replacement extended warranty plan on October 1, 2005. This new revenue stream is expected to make a significant contribution to income and cash flows in 2006 and beyond.

The growth we have achieved in our brief history as a public income trust has already allowed us to increase our distribution to unitholders by 10% - from $1.12 to $1.24 on an annualized basis. To the extent that our expansion generates incremental cashflows we will continue to increase our monthly distributions, with a target of returning 85% of our free cash flow to our unitholders.

As we have focused on our expansion strategy, the strong business fundamentals and operating model that existed at the time our IPO remain intact.

We have a strong competitive advantage built around the number one motivator of consumer behaviour – Price. And we have lower prices than every other retailer in Canada on every item we sell. These prices allow us to generate industry leading sales volumes per square foot. Our sales per square foot dwarfs other closeout retailers and even exceeds mass merchandisers like Walmart.

Our ability to offer the lowest prices has been fuelled by an inexhaustible supply of deeply discounted merchandise. Our ability to pay cash makes us the preferred choice of vendors everywhere and we continue to add new names to our list of over 200 active repeat vendors. Our extensive supply network allows us to source quality, brand-name products from wide variety of distressed situations, including close-outs, excess inventory, refurbished returns and business terminations.

With our unique business model and great growth opportunities, we are very excited about the future. The founding management team continues to hold a 49% interest in the business ensuring our interests are strongly aligned with those of the public unitholders.

This is a good place to turn the presentation to Jeff for a summary of our financial performance.

<u>Jeff</u>

Thank you, Mike

I would like to start by providing some of the 2005 financial highlights and show you a quick comparison of our performance compared to our historical growth.

Sales for the year were $97.4 million compared to $79.7 million in 2004, an increase of 22% over the LTM numbers included in our prospectus.

This growth rate is consistent with our cumulative average growth rate since inception of 23%.

Not only have sales increased, but gross margin percentages have grown from 23 percent in 1998 to 37 percent in 2005.

In general the increase in gross margin percentage has been the result of our expansion of product categories and increased product selection.

The combination of our increase in sales, margin growth along with our efficient operating model has translated into tremendous growth in earnings. Normalized EBITDA has grown more than tenfold since 1998 at a compound annual rate of 42 percent.

During the period from May 17th to December 31st, 2005, the Fund generated distributable cash of $10.9 million dollars or 91 cents per Unit. This compares to cash distributions declared during the period of 70 cents per unit resulting in a payout ratio of 77%.

2005 was not without its challenges. A major trucking strike at the Vancouver port during the third quarter disrupted our supply from China and had a negative impact on sales in the 3rd and 4th quarter. The good news is that we continue to grow our business by adding new stores and revenue streams thereby greatly reducing the risk that a disruption such as the Port strike would impact our ability to continuously grow our cash flows and make our monthly distributions to unitholders.

Our financial results were impressive despite these challenges, but did not reflect the full potential of our store growth. We therefore have very high expectations for the rest of 2006 and beyond.

Our growth since the IPO has produced very positive results for unitholders. Those investors that have been with us since the beginning have experienced a total return from May 17 to Dec 31 of 47% compared to the income trust index at 26% and the TSX index at 22%. We are very pleased to be the top of the class among non-oil & gas related business income trusts that went public in 2005.

The success we have achieved to date, and undoubtedly will continue to achieve in the future is the result of the efforts of many people. I want to especially thank our employees for their hard work and dedication, our Trustees for their advice and guidance, and all of our advisors, vendors and business partners that contributed to our success.

I’m now going to turn the presentation back to Mike to wrap up the presentation.

<u>Mike</u>

In closing, I would like to thank everyone for attending today and reiterate that we are excited about our potential and absolutely committed to continuing our success as one of the most profitable retailers in Canada.

Thank you for your support.