

XS CARGO INCOME FUND
ANNUAL MEETING

Friday, June 16, 2006
10:00 a.m. (MST) at Delta Edmonton South Hotel
4404 Gateway Boulevard
Edmonton, Alberta

**Notice of Annual Meeting of Unitholders and
Management Proxy Circular**

**XS CARGO INCOME FUND
NOTICE OF ANNUAL MEETING OF UNITHOLDERS**

NOTICE IS HEREBY GIVEN that the annual meeting (the “**Meeting**”) of holders (“**Unitholders**”) of trust units (the “**Trust Units**”) of XS Cargo Income Fund (the “**Fund**”) will be held at the Delta Edmonton South Hotel, 4404 Gateway Boulevard, Edmonton, Alberta on Friday, June 16th, 2006 at the hour of 10:00AM (Edmonton time) for the following purposes:

1. to present the audited consolidated financial statements for the Fund for the fiscal year ended December 31, 2005, together with the report of the auditors thereon (collectively, the “**Audited Financial Statements**”);
2. to appoint the trustees of the Fund;
3. to appoint auditors of the Fund; and
4. to transact such further or other business as may properly come before the Meeting or any adjournment or postponement thereof.

The details of the matters proposed to be put before the Meeting are set forth in the information circular (the “**Circular**”) and form of proxy for holders of Units accompanying this Notice.

The trustees have set May 5, 2006 as the record date (the “**Record Date**”) to determine which registered holders of Trust Units are entitled to notice of, and to vote at, the Meeting or any adjournment or postponement thereof, all as further described in the attached Circular. A person who becomes a Unitholder after the Record Date shall not be entitled to vote at the Meeting.

Unitholders who are unable to attend the meeting in person are requested to complete, date, sign and mail or deposit the enclosed form of proxy to Computershare Trust Company of Canada, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1. In order to be valid and acted upon at the Meeting, forms of proxy must be delivered or returned to the aforesaid address not later than 48 hours before the time set for the Meeting or any adjournment or postponement thereof.

DATED this 11th day of May, 2006.

BY ORDER OF THE TRUSTEES

(signed) “*Jonathan Legg*”
Chair, Trustees of
XS Cargo Income Fund

**XS CARGO INCOME FUND
INFORMATION CIRCULAR**

(Containing information as at May 11, 2006 unless indicated otherwise)

PROXY SOLICITATION AND VOTING MATTERS

Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation of proxies by the trustees (the “**Trustees**”) of XS Cargo Income Fund (the “**Fund**”) for use at the annual meeting (the “**Meeting**”) of holders (“**Unitholders**”) of trust units (“**Units**”) and special voting units (“**Special Voting Units**”, and together with the Units, the “**Voting Units**”) of the Fund to be held in at Delta Edmonton South Hotel, 4404 Gateway Boulevard, Edmonton, Alberta, at 10:00 a.m. (Edmonton time), on Friday, June 16, 2006, or at any adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting.

It is expected that the solicitation of proxies for the Meeting will be primarily by mail, but proxies may be solicited personally, by telephone or by other means of communication by the Trustees of the Fund and by the directors, officers and regular employees of XS Cargo GP Inc. (“**XS Cargo GP**”), as administrator of the Fund, who will not be specifically remunerated therefor. All costs of solicitation of proxies by or on behalf of the Trustees will be borne by XS Cargo GP, as administrator of the Fund.

Appointment of Proxies

The persons named in the accompanying Form of Proxy are directors and officers of XS Cargo GP, the administrator of the Fund. A Unitholder desiring to appoint some other person, who need not be a Unitholder, to represent that Unitholder at the Meeting has the right to do so, either by inserting the desired person's name in the blank space provided in the Form of Proxy or by completing another proper Form of Proxy.

A Form of Proxy must be in writing and signed by the Unitholder or by the Unitholder's attorney duly authorized in writing or, if the Unitholder is a body corporate or association, under its seal or by an officer or attorney thereof duly authorized indicating the capacity under which such officer or attorney is signing. If the Form of Proxy is executed by an attorney, evidence of the attorney's authority must accompany the Form of Proxy. A proxy will not be valid unless the completed Form of Proxy is received by Computershare Trust Company of Canada, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 not less than 48 hours before the commencement of the Meeting, or any adjournment thereof.

Revocation of Proxies

A Unitholder who has given a Form of Proxy may revoke it by an instrument in writing that is signed and delivered to Computershare Trust Company of Canada in the manner as described above so as to arrive at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the Form of Proxy is to be used, or to the chair of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner provided by law. A revocation of a Form of Proxy does not affect any matter on which a vote has been taken prior to the revocation.

Voting of Proxies

The Trustee representatives designated in the enclosed Form of Proxy will vote or withhold from voting the Units in respect of which they are appointed proxy on any ballot that may be called for in accordance with the instructions of the Unitholder as indicated on the Form of Proxy and, if the Unitholder specifies a choice with respect to any matter to be acted upon, the Units will be voted accordingly. Where no choice is specified in the Form of Proxy, such Units will be voted “for” the matters described therein and in this Information Circular, other than for the appointment of an auditor and the election of Trustees.

The enclosed Form of Proxy confers discretionary authority upon the person appointed proxy thereunder to vote with respect to amendments or variations of matters identified in the Notice of Meeting and with respect to other matters that may properly come before the Meeting, other than for the appointment of an auditor and the election of Trustees. In the event that amendments or variations to matters identified in the Notice of Meeting are properly brought before the Meeting or any other business is properly brought before the Meeting, it is the intention of the Trustee representatives designated in the enclosed Form of Proxy to vote in accordance with their best judgment on such matters or business. At the time of the printing of this Information Circular, the Trustees know of no such amendment, variation or other matter that may be presented to the Meeting.

INFORMATION FOR BENEFICIAL UNITHOLDERS

These meeting materials are being sent to both registered and non-registered Unitholders. If you are a non-registered Unitholder and the Fund or its agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the intermediary/broker holding on your behalf.

The information set forth in this section is important to all Unitholders of the Fund. Unitholders who do not hold their Units in their own name are referred to in this Information Circular as “**Beneficial Unitholders**”. Beneficial Unitholders should note that only a Unitholder whose name appears on the records of the Fund as a registered holder of Units or a person they appoint as a proxy can be recognized and vote at the Meeting. Currently, all issued and outstanding Units are in a book-based system administered by The Canadian Depository for Securities (“**CDS**”). Consequently, all Units are currently registered under the name of CDS & Co. (the registration name for CDS). CDS also acts as nominee for brokerage firms through which Beneficial Holders hold their Units. Units held by CDS can only be voted (for or against resolutions) upon the instructions of the Beneficial Unitholder.

Applicable regulatory policy requires intermediaries/brokers to whom meeting materials have been sent to seek voting instructions from Beneficial Unitholders in advance of Unitholders' meetings. Every intermediary has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Unitholders in order to ensure that their Units are voted at the Meeting. Often, the Form of Proxy supplied to a Beneficial Unitholder by its broker is identical to that provided to registered Unitholders. However, its purpose is limited to instructing the registered Unitholder how to vote on behalf of the Beneficial Unitholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications (“**ADP**”). ADP typically prepares a special voting instruction form, mails those forms to the Beneficial Unitholders and asks for appropriate instructions respecting the voting of Units to be represented at the Meeting. Beneficial Unitholders are requested to complete and return the voting instruction form to ADP by mail or facsimile. Alternatively, Beneficial Unitholders can call a toll-free telephone number or access ADP's dedicated voting website (each as noted on the voting instruction form) to deliver their voting instructions and vote the Units held by them. ADP then tabulates the results of all voting instructions received and provides appropriate instructions respecting the voting of Units to be represented at the Meeting. A Beneficial Unitholder receiving a voting instruction form cannot use that voting instruction form to vote Units directly at the Meeting. The voting instruction form must be returned as directed by ADP well in advance of the Meeting in order to have the Units voted. Beneficial Unitholders who receive forms of proxies or voting materials from organizations other than ADP should complete and return such forms of proxies or voting materials in accordance with the instructions on such materials in order to properly vote their Units at the Meeting.

In addition, the Fund has sent meeting materials directly to certain Beneficial Unitholders. By choosing to send these materials to you directly, the Fund (and not the intermediary/broker holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your instructions as specified in the request for voting instructions.

Beneficial Unitholders cannot be recognized at the Meeting for purposes of voting their Units in person or by way of depositing a Form of Proxy. If you are a Beneficial Unitholder and wish to vote in person at the Meeting, please see the voting instructions you received or contact your intermediary/broker well in advance of the Meeting to determine how you can do so.

Beneficial Unitholders should carefully follow the voting instructions they receive, including those on how and when voting instructions are to be provided, in order to have their Units voted at the Meeting.

FUND STRUCTURE

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Alberta on April 6, 2005 by a Declaration of Trust. The Fund holds all of the notes and units in XS Cargo Operating Trust (“XSCOT”), and holds, indirectly through XSCOT, a 51% interest in the XS Cargo Limited Partnership (“XS Cargo LP”), which carries on a broadline closeout retail business in Canada with 29 stores currently open in Ontario and Western Canada. XS Cargo LP has issued ordinary (“Ordinary LP Units”), exchangeable (“Exchangeable LP Units”) and subordinated (“Subordinated LP Units”) limited partnership units (collectively, “LP Units”). The Ordinary LP Units are held by XSCOT, all of the trust units of which are owned by the Fund. The Exchangeable LP Units and the Subordinated LP Units are held by Famous Brands (Edmonton) Inc. (the “Vendor”). XS Cargo LP acquired a portion of its Business from the Vendor on completion of the Fund’s initial public offering on May 17, 2005.

The general partner of XS Cargo LP is XS Cargo GP, which company also acts as the administrator of the Fund and XSCOT pursuant to the terms of an Administration Agreement.

The principal and head office of each of the Fund, XSCOT, XS Cargo LP and XS Cargo GP is located at 15423 - 131 Avenue, Edmonton, Alberta, T5V 0A4. The affairs of the Fund are supervised by three Trustees. The affairs of XS Cargo GP are supervised by its five member board of directors.

VOTING UNITS AND PRINCIPAL HOLDERS THEREOF

There are 6,106,000 Units and 5,878,183 Special Voting Units (collectively, the “Voting Units”) of the Fund issued and outstanding, each of which entitles its holder to one vote on a ballot at the Meeting. The Special Voting Units have been issued in relation to the Exchangeable LP Units and Subordinated LP Units held by the Vendor, which are exchangeable on a one-for-one basis into 5,878,183 Units. The Special Voting Units are automatically cancelled when such Exchangeable LP Units and Subordinated LP Units are exchanged for Units.

On a show of hands, every person present and entitled to vote at the Meeting will be entitled to one vote. Only registered holders of Voting Units at the close of business on May 5, 2006, the record date (the “Record Date”) for the Meeting established by the Trustees, are entitled to vote at the Meeting.

To the knowledge of the Trustees, no person beneficially owns, directly or indirectly, or controls or directs Voting Units carrying more than 10% of the voting rights attached to any class of voting securities, other than:

<u>Name</u>	<u>Class and Number of Securities</u>	<u>Percentage of Class</u>	<u>Percentage of Voting Units</u>
Famous Brands (Edmonton) Inc. ⁽¹⁾	3,471,970 Exchangeable LP Units and 2,394,480 Subordinated LP Units	99.8%	48.95%

Notes:

- (1) Mr. Michael J. McKenna, the President and Chief Executive Officer of Xs Cargo GP, owns beneficially, directly or indirectly, or exercises control or direction over, approximately 67.5% of the outstanding shares of Famous Brands (Edmonton) Inc.

MATTERS TO BE ACTED UPON AT THE MEETING

Election Of Trustees

The number of Trustees to be elected at the Meeting is determined from time to time by resolution of the Trustees, such number being not more than seven and not less than three. The Trustees have fixed the number of Trustees to be elected at the Meeting at three. The term of office of each of the present Trustees expires at the close of the Meeting. Each Trustee elected at the Meeting will hold office for a term expiring at the close of the next annual meeting of Unitholders or until his successor is appointed, unless his office is vacated earlier in accordance with the Declaration of Trust of the Fund.

In the following table, for each person proposed to be nominated for election as a Trustee, is stated his name, municipality of residence, the period or periods during which he has served as a Trustee, his principal occupation, and the number of Voting Units beneficially owned, directly or indirectly, or controlled or directed by him, as at the date hereof:

Name and Municipality of Residence ⁽¹⁾	Period of Service as a Trustee	Principal Occupation ⁽¹⁾	Number of Voting Units ⁽²⁾
Jonathan Legg ⁽³⁾ Calgary, Alberta	Since April 2005	Vice-President and Operating Committee Member, Canada Pacific Railway	10,000 Units
David B. Margolus, Q.C. ⁽³⁾ Edmonton, Alberta	Since April 2005	Counsel, Witten LLP (law firm)	43,000 Units
Gordon Clanachan, C.A. ⁽³⁾ Edmonton, Alberta	Since April 2005	Consultant (interim management and business advisory services)	4,000 Units

Notes:

- (1) The information as to municipality of residence and principal occupation, not being within the knowledge of the Fund, has been furnished by the respective Trustees individually.
- (2) The information as to the number of Voting Units beneficially owned, directly or indirectly, or controlled or directed, not being within the knowledge of the Fund, has been based upon reports filed with the Alberta Securities Commission.
- (3) Member of the Fund Audit Committee (Gordon Clanachan, Chair), the GP Compensation and Governance Committee (David B Margolus, Chair), and trustee of XSCOT (Jonathan Legg, Chair).

Biographies

The following are brief profiles of the nominees.

Gordon Clanachan, CA, Trustee and Director. Mr. Clanachan has been a consultant providing interim management and business advisory services, since 1999. From 1994 to 1999, Mr. Clanachan was a director and the President and Chief Executive Officer of RaiLink Ltd., a TSX listed company. RaiLink was one of Canada's largest regional railways prior to its acquisition by RailAmerica in 1999. Prior thereto, Mr. Clanachan was a senior manager with Price Waterhouse, a management consultant company, from 1988 to 1994. Mr. Clanachan serves as a director of a number of private and public companies, including Edmonton Regional Airport Authority, Bridgewater Bank, and Alberta Blue Cross. He is active as a volunteer and is a member of the board or advisory board of a number of charitable and other organizations, including the University of Alberta and the Alberta Performing Arts Stabilization Fund. Mr. Clanachan received his Chartered Accountant designation in 1983.

Jonathan Legg, Trustee and Director. Mr. Legg joined Canadian Pacific Railway in 2005 as Vice-President and Operating Committee Member. Prior thereto, Mr. Legg was a senior executive with Royal Bank of Canada ("**RBC**") where he was employed since 1982. From 2003 to 2005 Mr. Legg was a resident of Chicago, Illinois where he was the Chief Executive Officer of RBC Mortgage, the Chief Operating Officer of RBC Centura Bank and a member of RBC Banking U.S. and Canadian Operating Committees. From 1999 to 2003 Mr. Legg was the Senior Vice President RBC, Operations & Service Delivery, North America. Mr. Legg has a Senior Executive Development Program Diploma from the Institute for Management Development, Lausanne, Switzerland and a Diploma from the Banff School of Advanced Management.

David B. Margolus, Q.C., Trustee and Director. Mr. Margolus is counsel to and former managing partner for 13 years of Witten LLP, law firm, with a practice focused primarily in the corporate, commercial and real estate areas. Mr. Margolus has served as a director and officer of a number of private and public companies including The Liquor Depot Corporation, North West Trust Company (corporate secretary) and N.A. Properties Ltd. Mr. Margolus is active as a volunteer and is a member of the board of number of organizations including the Edmonton Regional Airport Authority and Liquor Stores GP Inc., the administrator of the Liquor Stores Income Fund.

Unless such authority is withheld, the Trustee representatives named in the accompanying Form of Proxy intend to vote for the election of the nominees whose names are set forth herein.

Mr. Clanachan was a director of Wavepoint Systems Inc. from December, 2000 to March 15, 2002. On May 29, 2002 Wavepoint Systems Inc. made an assignment pursuant to the Bankruptcy and Insolvency Act and a receiver was appointed. To the knowledge of the Trustees, except as set forth above, no proposed Trustee is, or within the ten years prior to the date hereof, has been, a director or executive officer of any other company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the knowledge of the Trustees, no proposed Trustee has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold assets of the proposed Trustee.

Appointment of Auditors

At the Meeting, Unitholders will be called upon to appoint PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Fund, to hold office until the next annual Meeting of the Fund, at a remuneration to be fixed by the Trustees. PricewaterhouseCoopers LLP has acted as the auditors of the Fund since the inception of the Fund on April 6, 2005.

Unless such authority is withheld, the Trustee representatives named in the accompanying Form of Proxy intend to vote for the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Fund, to hold office until the next annual meeting of the Fund, at a remuneration to be fixed by the Trustees.

The Trustees recommend that the Unitholders vote for the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Fund, at a remuneration to be fixed by the Trustees.

The information required by Form 51-110F1 of Multilateral Instrument 52-110 - *Audit Committees* of the Canadian Securities Administrators including information respecting the fees billed to the Fund by PricewaterhouseCoopers LLP is contained in the Fund's annual information form for the period ended December 31, 2005 under the heading "Audit Committee Information".

ADDITIONAL INFORMATION RESPECTING THE FUND

Under applicable securities legislation, the Fund is required to provide certain information with respect to the Fund, its Trustees and officers. The Fund, however, does not carry on business, does not have officers and is dependent for its results on the performance of the Company. XS Cargo GP is responsible for administering the Fund and its business in accordance with the Administration Agreement. Consequently, in addition to the

information relating to the Fund and the Trustees, this Information Circular includes information relating to XS Cargo GP and its directors and officers.

Administration Agreement

Under the Administration Agreement, XS Cargo GP has agreed to provide or arrange for the provision of services required in the administration of the Fund (and XSCOT) including those necessary to: (a) ensure compliance by the Fund with its continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (b) provide investor relations services; (c) provide or cause to be provided to Voting Unitholders all information to which Voting Unitholders are entitled under the Declaration of Trust of the Fund; (d) convene meetings of Voting Unitholders and distribute required meeting materials; (e) provide for the calculation of distributions to Unitholders; (f) attend to all administrative and other matters arising in connection with any redemptions of Units; (g) use its best efforts to ensure compliance with the Fund's limitations on non-resident ownership; and (h) provide general accounting, bookkeeping and administrative services to the Fund.

The administration of the Fund under the Administration Agreement may be terminated at any time by the Fund upon notice in writing to XS Cargo GP and upon payment to it of all costs and expenses incurred by XS Cargo GP in terminating contracts entered into by XS Cargo GP with the approval of the Fund for the performance by the XS Cargo GP of its duties under the Administration Agreement. No additional fees are payable to XS Cargo GP on termination.

Directors of XS Cargo GP

Pursuant to the provisions of a Securityholders Agreement, the board of directors of XS Cargo GP consists of five directors. For so long as the Vendor and any shareholder, associate or affiliate of the Vendor, including any family member of a shareholder of the Vendor or any company, trust or other entity owned by or maintained for the benefit of any of such persons (collectively, the “**Vendor Group**”), holds, directly or indirectly, LP Units or Units representing, on a fully diluted basis, not less than 30% of the outstanding Units on a diluted basis, the Vendor Group is entitled to nominate two individuals as directors to the board of directors of XS Cargo GP, for so long as the Vendor Group holds, directly or indirectly, LP Units or Units representing, on a fully diluted basis, less than 30% but not less than 15% of the outstanding Units on a diluted basis, the Vendor Group is entitled to nominate one individual as a director to the board of directors of the XS Cargo GP. These board representation rights are not transferable upon a transfer by the Vendor Group of LP Units or Units to a person who is not a member of the Vendor Group.

In the following table, for each person proposed to be nominated for election as a director of XS Cargo GP, is stated his name, municipality of residence, the period or periods during which he has served as a director, his principal occupation, and the number of Voting Units beneficially owned, directly or indirectly, or controlled or directed by him, as at the date hereof:

Name and Municipality of Residence ⁽¹⁾	Period of Service as a Director	Principal Occupation ⁽¹⁾	Number of Voting Units ⁽²⁾
Jonathan Legg ⁽³⁾⁽⁴⁾⁽⁵⁾ Calgary, Alberta	April 6, 2005	Vice-President and Operating Committee Member, Canada Pacific Railway	10,000
David B. Margolus, Q.C. ⁽³⁾⁽⁴⁾⁽⁵⁾ Edmonton, Alberta	April 6, 2005	Counsel, Witten LLP (law firm)	43,000
Gordon Clanachan, CA ⁽³⁾⁽⁴⁾⁽⁵⁾ Edmonton, Alberta	April 6, 2005	Consultant (interim management and business advisory services)	4,000
Michael McKenna ⁽⁶⁾ Edmonton, Alberta	March 8, 2005	President and Chief Executive Officer of XS Cargo GP.	5,866,450
Jeff Rootman, CA ⁽⁶⁾ Edmonton, Alberta	April 6, 2005	Vice-President, Finance and Chief Financial Officer of XS Cargo GP.	12,733

Notes:

- (1) The information as to municipality of residence and principal occupation, not being within the knowledge of the Fund, has been furnished by the respective directors individually.
- (2) The information as to the number of Voting Units beneficially owned, directly or indirectly, or controlled or directed, not being within the knowledge of the Fund, has been based upon reports filed with the Alberta Securities Commission.
- (3) Current Trustee and Nominee for Trustee of the Fund.
- (4) Fund Audit Committee member (Gordon Clanachan, chair)
- (5) XS Cargo GP Compensation and Governance Committee member (David B. Margolus, Chair)
- (6) Nominee of the Vendor Group (the members of which in aggregate beneficially own or exercise control or direction over 5,866,450 Special Voting Units).

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. McKenna was previously a director and officer of Multitech, which operated a chain of retail consumer electronics stores. From 1983 to 1995, Multitech grew to 52 stores in all ten provinces and financed that growth primarily with favourable trade credit terms of up to six months. In 1993, the retail industry underwent a major change that resulted in several of Multitech's most significant manufacturers and distributors ceasing to provide trade credit. Multitech was not adequately capitalized to handle this change. Multitech sought creditor protection under the provisions of the Companies Creditors Arrangement Act (Canada) in January 1995 and its stores were closed in 1996. Mr. McKenna was engaged by the receiver to liquidate the remaining inventory. A proposal under the Bankruptcy and Insolvency Act (Canada) was approved in October 1997 and Multitech was amalgamated with Famous Brands (Edmonton) Inc. to form the Vendor on November 15, 1997.

To the knowledge of the Trustees and directors of XS Cargo GP, except as set forth above, no proposed Trustee or director is, or within the ten years prior to the date hereof, has been, a director or executive officer of any other company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. To the knowledge of the Trustees and directors of XS Cargo GP, no proposed Trustee or director has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold assets of the proposed Trustee.

Biographies

Biographies for Messrs. Legg, Margolus, and Clanachan can be found under the section "Election of Trustees." The following are brief profiles of Messrs. McKenna and Rootman:

Michael McKenna, Director and Chief Executive Officer. Mr. McKenna founded the Vendor in 1997 and served as its President throughout its history. Mr. McKenna was appointed the Chief Executive Officer of XS Cargo GP on March 8, 2005. From 1979 to 1983, Mr. McKenna managed the Alberta operations of an Ontario-based consumer electronics company operating as "Krazy Kelly's". From 1983 to 1995, Mr. McKenna was a director and officer of Multitech Warehouse Direct Inc. ("**Multitech**"), which operated a chain of retail consumer electronic stores. From 1983 to 1995, Multitech grew to 52 stores in all ten provinces. From 1986 to 1990, Mr. McKenna owned a successful Cantel franchise, which he sold back to Cantel in 1990.

Jeff Rootman, CA, Director, Vice-President, Finance and Chief Financial Officer. Mr. Rootman joined the Vendor in February 2005 and was appointed Vice-President Finance and Chief Financial Officer of XS Cargo GP on April 6, 2005. Prior to joining the Vendor, Mr. Rootman was a senior manager and the Regional Assurance Leader for the Edmonton Region of Meyers Norris Penny LLP from November 2000 to January 2005. Mr. Rootman

articled with PricewaterhouseCoopers LLP from 1997 to 2000 where he held several positions of increasing responsibility. Mr. Rootman received his Bachelor of Commerce degree from the University of British Columbia in 1997 and his Chartered Accountant designation in 2000. Mr. Rootman instructs Canadian Institute of Chartered Accountants continuing professional education courses for the Alberta and Saskatchewan Institutes in the areas of accounting, financial reporting and auditing.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides a summary of the compensation earned by the Chief Executive Officer and Chief Financial Officer of the XS Cargo GP, and each of the three most highly compensated executive officers of the GP, other than the Chief Executive Officer and Chief Financial officer, who were serving as executive officers at the end of the most recently completed financial year and whose salary and bonus exceeds \$150,000 (the “**Named Executive Officers**”):

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation		Payouts	All Other Compensation
		Salary	Bonus	Other Annual Compensation	Awards			
					Securities Under Options/SARs Granted	Units Subject to Resale Restrictions		
Michael McKenna ⁽¹⁾	2005	\$131,250 ⁽²⁾	-	-	-	-	-	-
Jeff Rootman ⁽¹⁾	2005	\$93,750 ⁽²⁾	\$68,750 ⁽²⁾	\$117,330 ⁽³⁾	-	-	-	-

Notes:

- (1) The employment of Messrs. McKenna and Rootman commenced on May 17, 2005.
- (2) Reflects amounts earned for the period from May 17, 2005 to December 31, 2005.
- (3) Mr. Rootman was issued 6,944 Exchangeable LP Units and 4,789 Subordinated LP Units upon completion of the Fund’s initial public offering on May 17, 2005.

Compensation of Trustees and Directors

The compensation for Trustees of the Fund and the directors of XS Cargo GP is \$20,000 per Trustee or director per year, without duplication. The compensation for attending meetings of the Fund or XS Cargo GP is \$1,250 per Trustee or director, provided that no compensation is paid to the nominees of the Vendor Group for serving as directors of XS Cargo GP or attending board or committee meetings. The chair of the Trustees receives an additional \$10,000 in respect of the chair duty and the chairs of each committee (without duplication of fees) of the board of directors receive an additional \$5,000 per year in respect of chair duties. The Fund and XS Cargo GP also reimburse Trustees and directors for out-of-pocket expenses for attending meetings. No directors’ compensation is paid to Trustees who are employees or members of management of the Company. No additional compensation is paid to Trustees for also serving as trustees of XSCOT. The aggregate amount earned by the Trustees and directors of the GP as compensation, in their capacity as such, during the financial period ending December 31, 2005 was \$113,750.

LTIP Awards, Options and SARs, and Defined Benefit or Actuarial Plans

The Fund and its subsidiaries do not grant options or share appreciation rights (“**SARs**”), and do not have a defined benefit or actuarial plan.

The Company has established a long-term incentive plan (“**LTIP**”) in which key senior employees of the Company and the directors, officers and senior employees of its affiliates are eligible to participate. The purpose of the LTIP is to provide eligible participants with compensation opportunities that will encourage ownership of Units, enhance the Company’s ability to attract, retain and motivate key personnel, and reward key senior management for significant performance and associated per Unit cash flow growth of the Fund. Pursuant to the LTIP, the Company will set aside a pool of funds based upon the amount by which the Fund’s per Unit distributions exceed certain per

Unit distributable cash threshold amounts. A third party trustee will then purchase Units in the market with such pool of funds and will hold such Units until such time as ownership vests to each participant. The Compensation and Governance Committee of XS Cargo GP administers the LTIP. The board of directors of XS Cargo GP or the Compensation and Governance Committee has the power to, among other things; (i) determine those individuals who will participate in the LTIP, (ii) the level of participation of each participant and (iii) the time or times when ownership of the Units will vest for each participant.

The LTIP currently provides for awards that may be earned based on the amount by which distributable cash exceeds a base distribution threshold of \$1.125 per Unit per annum. The percentage amount of that excess which forms the LTIP incentive pool is determined in accordance with the table below:

Percentage by which Distributable Cash per Unit Exceeds Base Distribution Threshold	Proportion of Excess Distributable Cash Available for LTIP Payments ⁽¹⁾
5% or less	nil
Greater than 5% and up to 10%	10% of any excess of 5%
Greater than 10% and up to 20%	10% of any excess of 5% plus 20% of any excess of 10%
Greater than 20%	10% of any excess over 5%, plus 20% of any excess over 10% to 20%, plus 25% of any excess over 20%

Note:

(1) Annualized for fiscal periods of less than 12 months.

The base distribution threshold is subject to adjustment by the Compensation and Governance Committee from time to time. The board of directors of the GP or the Compensation and Governance Committee may also in the future establish other incentive based compensation plans.

No LTIP awards or accruals were made in respect of the 2005 fiscal period and the distributable cash per Unit did not exceed the base distribution threshold. It is anticipated that LTIP awards may be made during 2006 in respect of the 2006 fiscal year based on a variety of factors including financial targets and personal objectives.

Employment Contracts

Both of the Named Executive Officers are parties to employment agreements with XS Cargo GP, which outline the terms and conditions of their employment. These agreements generally provide for minimum base salaries, which in the case of Mr. McKenna is \$220,000 per annum, and in the case of Mr. Rootman is \$150,000 per annum. The contracts also provide that the named Executive Officers are entitled to participate in any long-term incentive plan (including the LTIP) from time to time and to receive annual discretionary bonuses. Mr. McKenna is entitled to a bonus of up to 80% of his annual salary based on the achievement of certain key objectives to be established annually. Mr. Rootman is entitled to a bonus of up to 50% of his annual salary based on the achievement of certain key objectives to be established annually.

Mr. McKenna's agreement is for an indefinite term but may be terminated by XS Cargo at any time for just cause or with out cause on payment of an amount equal to Mr. McKenna's annual salary and all unvested but previously awarded LTIP grants. Mr. McKenna is also entitled to a payment of an amount equal to Mr. McKenna's annual salary if he resigns or his employment is terminated within six months of a "change of control" (as defined in the agreement) of XS Cargo GP. Mr. Rootman's agreement is for a five year period but may be terminated by XS Cargo at any time for just cause or with out cause on payment of an amount equal to Mr. Rootman's annual salary on a monthly basis up to twelve months, or in the case of Mr. Rootman obtaining employment prior to the end of the twelve month period, one half of Mr. Rootman's salary payable on a monthly basis for the balance of the twelve month period following the termination date and all unvested but previously awarded LTIP grants. Mr. Rootman is also entitled to a payment of an amount equal to Mr. Rootman's annual

salary on a monthly basis up to twelve months, or in the case of Mr. Rootman obtaining employment prior to the end of the twelve month period, one half of Mr. Rootman's salary payable on a monthly basis for the balance of the twelve month period following the termination date and all unvested but previously awarded LTIP grants if he resigns or his employment is terminated within six months of a "change of control" (as defined in the agreement) of XS Cargo GP. Messrs. McKenna or Rootman may terminate their respective agreements at any time on not less than ninety (90) days notice.

Except as described above, there is no compensatory plan, contract or arrangement where a Named Executive Officer is entitled to receive more than \$150,000 from the Fund or its subsidiaries, including periodic payments or instalments, in the event of the resignation, retirement or any other termination of the named Executive Officer's employment, a change of control of the Fund or any of its subsidiaries or a change in the named Executive Officer's responsibilities following a change in control.

Trustees', Directors' and Officers' Liability Insurance

The Fund, XSCOT, XS Cargo GP and the LP maintain policies of insurance for their trustees, directors and officers, as applicable. The aggregate limit of liability applicable to the insured trustees, directors and officers under the policies is \$10 million. Under the policies, each entity has reimbursement coverage to the extent that it has indemnified the trustees, directors and officers in excess of a deductible of \$10,000. The policy includes securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the Fund and its subsidiaries. The total limit of liability is shared among the insured entities and their respective trustees, directors and officers so that the limit of liability is not exclusive to any one of the entities or their respective trustees, directors and officers. The annual premium in the current financial year is \$65,750. The premiums for the policy are not allocated between the insured trustees, directors and officers as separate groups.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Introduction

The Canadian Securities Administrators (the "CSA") have adopted National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201") which provides their guidance on effective corporate governance practices. The CSA has also adopted National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101") which requires Canadian reporting issuers to disclose their corporate governance practices.

Because of the Fund's structure, it is best to describe the corporate governance practices jointly of both the Trustees and the Board of Directors of XS Cargo GP (the "**Board of Directors**" or the "**Board**"). The Fund is a trust created to hold, directly or indirectly, the securities of XS Cargo LP and does not conduct any active business. The active business of XS Cargo LP is managed by XS Cargo GP, as general partner of XS Cargo LP. The business of XS Cargo GP is overseen by the Board and its committees. The committees report and recommend actions to the Board of Directors and, as needed, to the Trustees. The Trustees are also members of the Board of Directors, facilitating reporting and information exchange.

Trustees

Composition

As at May 11, 2006, the Trustees were composed of three members: David Margolus, Jonathan Legg, and Gordon Clanachan. Biographies for these individuals are included under the section "Election of Trustees." These individuals also serve on the Board of Directors, together with Michael McKenna and Jeff Rootman. Biographies for Messrs. McKenna and Rootman are included under the section "Directors of XS Cargo GP."

Independence

Using the definition of "independence" provided for by NI 58-101, an independent director is one who does not have a relationship with the Fund or the XS Cargo GP that could be reasonably expected to interfere with the

exercise of that director's independent judgement. Persons that are employees or officers of the Fund or the XS Cargo GP, or that have spouses or other relatives that are employees, officers, or auditors of the Fund or the XS Cargo GP are amongst those that are considered not to be independent of the Fund or XS Cargo GP.

Currently, all of the Trustees (three of three) are and a majority of the Directors (three of five) are independent. The Board of Directors and Trustees and their respective committees meet without management present on a regular basis. Since inception of the Fund, the independent members of the Board of Directors held six meeting without management or non-independent directors present.

Mr. Legg is the Chair of the Trustees and of the Board. Mr. Legg is an independent Trustee and an independent director. The Chair: (i) meets with the other Trustees at each regularly scheduled Trustee meeting; (ii) holds additional meetings with the Trustees at the request of any such Trustee; and (iii) communicates to the Trustees any comments, questions or suggestions of such Trustees.

Other Boards

The following table sets forth the names of each other reporting issuer, and the exchange upon which the securities of that reporting issuer are listed, for which each of the current Trustees and Directors serve as a trustee or director as at May 11, 2006.

<u>Name</u>	<u>Name of Reporting Issuer</u>	<u>Exchange</u>
Jonathan Legg ⁽¹⁾	-	-
David B. Margolus, Q.C. ⁽²⁾	Liquor Stores Income Fund (Liquor Stores GP Inc.)	Toronto Stock Exchange
Gordon Clanachan, C.A. ⁽³⁾	-	-
Michael McKenna	-	-
Jeff Rootman	-	-

Attendance

The Board of Directors hold regular meetings to review, among other things, the business and affairs of XS Cargo LP and to make decisions relating thereto. The Board of Directors, in conjunction with management, participates in the strategic planning processes, identifies the principal risks of the business and seeks to implement appropriate systems to manage these risks, as well as seeking to ensure the integrity of the disclosure controls and management information systems of XS Cargo LP.

The Trustees meet at least quarterly to review, amount other things, the performance of the Fund and to approve regular cash distributions to unitholders. Other meeting of the Trustees and the Board of Directors are called to deal with special matter as circumstances require.

Since inception of the Fund, the Board and Trustees have held 9 Board and Trustee meetings. The following table summarizes the attendance of each of the Directors/Trustees at such Board/Trustee meetings.

Name	Total Board Meetings Attended
Jonathan Legg	9 of 9
David B. Margolus, Q.C.	9 of 9
Gordon Clanachan, C.A.	9 of 9
Michael McKenna	9 of 9
Jeff Rootman	9 of 9
Name	Total Trustee Meetings Attended
Jonathan Legg	9 of 9
David B. Margolus, Q.C.	9 of 9
Gordon Clanachan, C.A.	9 of 9

Board Mandate

Pursuant to the Fund's Declaration of Trust, the Trustees are responsible for supervising the activities and managing the investments and affairs of the Fund. XS Cargo GP manages the business and affairs of XS Cargo LP, and the Board of Directors of XS Cargo GP is responsible for managing the business and affairs of XS Cargo GP.

The Board of Directors holds regular meetings to review the business and affairs of XS Cargo LP and to make decisions relating thereto. The Board of Directors, in conjunction with management, participates in the strategic planning process, identifies the principal risks of the business and seeks to implement appropriate systems to manage these risks, as well as seeking to ensure the integrity of the internal controls and management information systems of the Company. The Fund's affairs are administered by XS Cargo GP, as administrator of the Fund.

The Board has adopted a written mandate for the Board, which sets out the Board's purpose, organization, duties and responsibilities, including the supervision of the management of the Fund. A copy of the mandate is attached as Schedule "A" hereto. The Compensation and Governance Committee is responsible for monitoring compliance with and updating the mandate.

Position Descriptions

Written position descriptions have been adopted for the Chair of the Trustees and the Chair of the Board and for the chair of each Trustee and Board committee.

Trustee and Board Chairs

The terms of reference of the Chair of the Trustees states that the Chair's primary role is managing the affairs of the Trustees including leading the Trustees in their proper organization, effective functioning and meeting their obligations and responsibilities. The Trustees expect the Chair to provide leadership to enhance Trustees effectiveness and to facilitate their work as a cohesive group. The Chair of the Trustees also acts as a liaison between the Trustees and management of XS Cargo GP, as administrator of the Fund, which involves working with the Chief Executive Officer (the "CEO") of XS Cargo GP.

The terms of reference of the Chair of the Board states that the Chair's primary role is managing the affairs of the directors including leading the directors in their proper organization, effective functioning and meeting their obligations and responsibilities. The directors expect the Chair to provide leadership to enhance Board effectiveness and to facilitate their work as a cohesive group. The Chair of the Board also acts as a liaison between the Board of Directors and management, which involved working with the CEO.

Committee Chairs

The mandates of each committee chair provide that each Chair's primary role is managing the affairs of his respective committee, including leading the committee in its proper organization, effective functioning and meeting its obligations and responsibilities. Like the Chair of the Trustees and the Chair of the Board, each committee chair is expected to provide leadership to enhance committee effectiveness and oversee the committee's discharge of its duties and responsibilities. Committee chairs must report regularly to the Trustees or the Board of Directors, as applicable, on the business of their committee.

CEO

The Board of Directors has adopted terms of reference for the CEO. The CEO's primary responsibilities include: (i) providing overall leadership and vision in developing, in concert with the Board, the strategic direction of XS Cargo LP, (ii) providing overall leadership and vision in developing the tactics and business plans necessary to realize the objectives of XS Cargo LP, and (iii) managing the overall business to ensure strategic and business plans are effectively implemented, the results are monitored and reported to the Board, and financial and operational objectives are attained.

The Board expects the CEO and his management team to be responsible for the management of XS Cargo LP's strategic and operational agenda and for the execution of the decisions of the Board. The directors expect to be advised on a regular basis as to the results being achieved, and to be presented for approval alternative plans and strategies, in keeping with evolving business conditions. In addition to those matters which by law must be approved by the Board or the Trustees, the prior approval of the Board, or of a committee of the Board to which approval authority has been delegated by the Board, is required for all matters of policy and all actions proposed to be taken by XS Cargo GP or XS Cargo LP which are not in the ordinary course of operations. In particular, the Board approves the appointment of all officers of XS Cargo GP and the Board or the Trustees, as applicable, approve all material transactions.

The Compensation and Governance Committee of XS Cargo GP, together with the Chair of the Board and the CEO, develop each year goals and objectives that the CEO is responsible for meeting. The Compensation and Governance Committee and the Chair of the Board evaluate the CEO's performance in light of such goals and objectives and establish the CEO's compensation based on this evaluation. The corporate objectives that the CEO is responsible for meeting, with the rest of management placed under his supervision, are determined by the strategic plans and the budget as they are approved each year by the Board.

Orientation and Continuing Education

The Fund's orientation process for new Trustees includes providing Trustees with a copy of all mandates and policies for the Trustees and their committees, the Fund's Declaration of Trust, and other reference material. Trustees are also provided with the opportunity to meet with senior management and other Trustees and directors. Trustees are provided orientation and education on an ad hoc and informal basis in light of the particular needs of each Trustee. Further, every Trustee has access to management and relevant business information, and management makes regular presentations to the Board on the main areas of the Fund's business. The Fund intends to develop a more formal orientation and education program for new Trustees in the future.

Ethical Business Conduct

The Trustees and Board of Directors have adopted a written Code of Ethics. The Code will be distributed to and signed by each of XS Cargo GP's salaried employees. XS Cargo GP intends to conduct an annual certification

process to monitor compliance with the Code of Ethics. In addition, a Whistle Blowing Policy has been adopted, which provides a procedure for employees to raise concerns or questions regarding questionable audit or accounting matters. The written Code of Ethics is available on-line at www.xscargo.com and on SEDAR at www.sedar.com.

No material change report has been required or filed during 2005 that pertains to any conduct of a director or executive officer that constitutes a departure from the code.

In accordance with applicable law and the Declaration of Trust, when a conflict of interest arises, a Trustee or director, as applicable, is required to disclose his or her interest and abstain from voting on the matter. In addition, the Chair of the Trustees or the Chair of the Board, as applicable, will ask the Trustee or director to leave the meeting during any discussion concerning such matter.

Nomination of Trustees

The Compensation and Governance Committee of the Board reviews the size and composition of the Board of Directors on a periodic basis. The Compensation and Governance Committee believes that the current size and composition of the Board of Directors facilitates effective decision-making and intends to continue to review these characteristics at least on an annual basis.

The Trustees, all of whom are independent, fulfil this responsibility directly in the case of the Fund. The Trustees believe that a board of three (3) Trustees is an appropriate size for a public entity with a capitalization and business of the Fund's size. The Trustees believe that the current Trustees comprise an appropriate mixture of individuals with accounting, financial, legal, management and general business experience.

The Compensation and Governance Committee of the Board, consisting entirely of independent directors, acts as a nominating committee in consultation with the Board of Directors as a whole. At the request of the Trustees, the Compensation and Governance Committee also performs this function in respect of Trustees but subject to the oversight and approval of the Trustees. An assessment of the competency and skills of the Trustees and the members of the Board of Directors will be assessed on an annual basis.

Compensation

The Compensation and Governance Committee of the Board periodically reviews the adequacy and form of compensation of the Trustees and the Directors of XS Cargo GP. The Compensation and Governance Committee considers the time commitment, risks and responsibilities of the Trustees and Directors, and takes into account the types of compensation and the amounts paid to Trustees and Directors of comparable positions in the marketplace. The Compensation and Corporate Governance Committee is comprised entirely of independent Directors. The Compensation and Governance Committee reports its findings to the Trustees who fulfil this responsibility directly for the Fund.

As noted above, the Board has adopted a formal charter for the Compensation and Governance Committee.

The charter of the Compensation and Governance Committee with respect to compensation matters provide that the committee's responsibilities include oversight of director and officer and employee remuneration and compensation, oversight of the evaluation of management of XS Cargo GP, including the CEO and reviewing the effectiveness of XS Cargo GP's human resources and development, succession planning and performance evaluation programs. The committee recommends the appointment of officers, including the terms and conditions of their appointment and termination, and reviews the evaluation of the performance of XS Cargo GP's officers, including recommending their compensation. In collaboration with the Chair of the Board, the committee also reviews the CEO's corporate goals and objectives and evaluates his performance in light of such goals and objectives. The committee also oversees management's implementation of appropriate human resources systems, such as hiring policies, training and development policies and compensation structures with a view to enabling XS Cargo GP to attract, motivate and retain quality executives and personnel. The Compensation and Governance Committee reports its findings to the Trustees who fulfill this responsibility directly for the Fund.

Further information can be found under the section “Report on Executive Compensation.”

Audit Committee

The charter of the Audit Committee describes the role and oversight responsibilities of the Audit Committee. The primary function of the committee is to assist the Trustees in fulfilling their oversight responsibilities relating to: overseeing the integrity of the Fund's financial statements and financial reporting process, including the audit process and the Fund's internal accounting controls and procedures and compliance with related legal and regulatory requirements; overseeing the qualifications and independence of the Fund's external auditors (who report directly to the Audit Committee); overseeing the work of the Fund's financial management and external auditors in these areas; and providing an open avenue of communication between the external auditors, the Trustees, the Board, the trustees of XS Cargo Operating Trust, XS Cargo GP and the officers of XS Cargo GP. The charter of the Audit Committee are attached as a schedule to the Annual Information Form of the Fund dated March 29, 2006, which is available on www.sedar.com and which may be obtained free of charge, on request, from the Secretary of the Fund.

The audit committee consists of Gordon Clanachan (chair), Jonathan Legg, and David Margolis, all of whom are independent and financially literate in accordance with the definitions provided for in Multilateral Instrument 52-110 – Audit Committees.

Assessments

The Compensation and Corporate Governance Committee intends to conduct a review at least annually to determine the effectiveness of the Board of Directors as a whole, the committees thereof as well as the contribution of individual Directors. At the request of the Trustees, the Compensation and Governance Committee will also perform this function in respect of Trustees but subject to the oversight and approval of the Trustees. The Trustees will fulfil this responsibility directly at the Fund level after participating in discussions as members of the Board of Directors.

REPORT ON EXECUTIVE COMPENSATION

Composition of the Compensation and Governance Committee

The Compensation and Governance Committee of XS Cargo GP has the responsibility to review and make recommendations to the board of directors of XS Cargo GP concerning the compensation of the executive officers of XS Cargo GP. The Compensation and Governance Committee is comprised of the independent directors of XS Cargo GP: David Margolus Q.C. (Chair), Jonathan Legg, and Gordon Clanachan. No member of the Compensation and Governance Committee is an officer, employee or former officer or employee of the Fund, the Company or any of its subsidiaries.

Report on Executive Compensation

The Compensation and Governance Committee's executive compensation philosophy is guided by its objective to obtain and retain executives critical to the success of the Company.

The compensation of the named Executive Officers consists of three principal elements: salary, bonus and LTIP awards. The initial compensation levels were determined or approved by the Board of Directors of XS Cargo GP in connection with or following the completion of the Fund's initial public offering on May 17, 2005. Base salaries are paid to the Named Executive Officers in accordance with each of their employment agreements described under “Executive Compensation - Termination of Employment, Change in Responsibilities and Employment Contracts”. The salaries provided for in the employment agreements were determined based on, among other things, individual performance and responsibilities, compensation paid to executives of other organizations of similar size and complexity, and, in certain cases, the salary paid to such persons by the Vendor prior to the indirect acquisition by the Fund of the Business.

In addition, each named Executive Officer is entitled to participate in a bonus plan and receives a bonus of up to a specified percentage of his base salary based on the achievement of certain key objectives to be established annually.

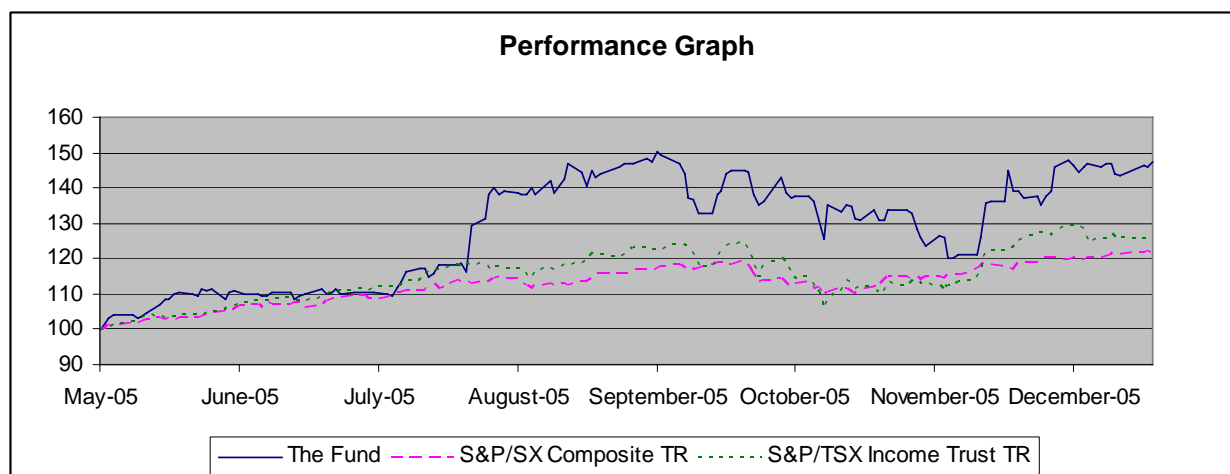
When reviewing the salary of the Chief Executive Officer in future years, the Compensation and Governance Committee of the XS Cargo GP will consider, among other things, the performance of the business, individual performance, as well as compensation practices of comparable organizations.

Report on Executive Compensation submitted by the Compensation and Governance Committee of XS Cargo GP Inc.:

David Margolus, Q.C.
Jonathan Legg
Gordon Clanachan

Performance Graph

The following chart compares the cumulative total unitholder return, including the reinvestment of distributions, from May 17, 2005, the date upon which the Fund completed its initial public offering and the Units were first listed on the TSX, for \$100 invested in the Units of the Fund with the cumulative total return from the S&P/TSX Canadian Income Trust Index (Total Return) and the S&P/TSX Composite Index.



Performance Graph Values	May 17, 2005	December 31, 2005
XS Cargo Income Fund (Total Return)	\$100.00	\$147.45
S&P/TSX Canadian Income Trust Index (Total Return)	\$100.00	\$125.71
S&P/TSX Composite Index	\$100.00	\$121.71
Actual Values	May 17, 2005	December 31, 2005
XS Cargo Income Fund (Total Return)	\$10.00	\$13.95
S&P/TSX Canadian Income Trust Index (Total Return)	183.20	230.30
S&P/TSX Composite Index	21,870.01	26,618.80

SECURITIES AUTHORIZED FOR ISSUANCE UNDER UNIT COMPENSATION PLANS

The Fund does not have a compensation plan under which Units of the Fund are authorized for issuance.

INDEBTEDNESS OF TRUSTEES, DIRECTORS AND EXECUTIVE OFFICERS

Aggregate Indebtedness

There is no indebtedness outstanding on the date hereof owed to (i) the Fund and any of its subsidiaries, or (ii) another entity where that indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Fund or any of its subsidiaries, by any present or former trustees, directors, executive officers and employees, as applicable, of the Fund and its subsidiaries in connection with (i) the purchase of securities, or (ii) all other indebtedness, other than routine indebtedness.

Indebtedness of Trustees, Directors and Executive Officers under Securities Purchase and Other Programs

Since the commencement of the Fund's most recently completed financial year, there has been no indebtedness outstanding owed to (i) the Fund or any of its subsidiaries, or (ii) another entity where such

indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Fund or any of its subsidiaries, other than routine indebtedness, by any individual who is, or at any time during the Fund's most recently completed financial year was, a trustee, director or executive officer, applicable, of the Fund or XS Cargo GP, each proposed nominee for election as a Trustee of the Fund or a director of XS Cargo GP, and each associate of any such trustee, director, executive officer or proposed trustee or director.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as set forth below and elsewhere in this Information Circular, no informed person of the Fund, nor any proposed Trustee, nor any associate or affiliate of any informed person or proposed Trustee, has any material interest, direct or indirect, in any transaction since the commencement of the Fund's last financial year or in any proposed transaction which has materially affected or would materially affect the Fund or any of its subsidiaries.

1. The following agreements were entered into in connection with the completion of the Fund's initial public offering and the acquisition of the Business by the Company on May 17, 2005:
 - (a) *Acquisition Agreement* – The Fund, XSCOT, the LP and the Vendor entered into the Acquisition Agreement pursuant to which XS Cargo LP acquired the Business from the Vendor. Pursuant to the Acquisition Agreement, the Vendor received \$71,131,876 in cash, 3,471,970 Exchangeable LP Units, 2,394,480 Subordinated LP Units and 5,866,450 XS Cargo GP Common Shares. Mr. McKenna is the controlling shareholder of the Vendor, which sold the Business to XS Cargo LP pursuant to the Acquisition Agreement.
 - (b) *Limited Partnership Agreement* – The Vendor became a party to the limited partnership agreement of XS Cargo LP (and became a partner of XS Cargo LP). This agreement governs, among other things, the distributions to be made to the Fund and to the Vendor by XS Cargo LP, and the subordination of the distributions to be made to the Vendor to the distributions to be made to the Fund.
 - (c) *Non-Competition Agreements* – Each of Michael McKenna and Jeff Rootman entered into non-competition agreements with the Fund, XS Cargo GP, and XS Cargo LP.
 - (d) *Exchange Agreement* – The Fund, XSCOT, XS Cargo GP, XS Cargo LP, and the Vendor entered into an Exchange Agreement. The Exchange Agreement, among other things, grants to the Vendor the right to exchange, all or any portion, of its LP Units for Units.
 - (e) *Securityholders Agreement* – The Fund, XSCOT, XS Cargo GP, XS Cargo LP, and the Vendor entered into a Securityholders Agreement governing their security holdings in, and the business and affairs of, XS Cargo GP and XS Cargo LP.

More detailed summaries of these agreements are contained in the annual information form of the Fund which, together with copies of the agreements, may be viewed on the SEDAR website at www.sedar.com.

MANAGEMENT CONTRACTS

There are no management functions of the Fund or any of its subsidiaries that are to any substantial degree performed by a person other than the Trustees, directors or executive officers, as applicable, of the Fund or a subsidiary, other than the services provided by XS Cargo GP to the Fund and XSCOT pursuant to the Administration Agreement.

PARTICULARS OF OTHER MATTERS TO BE ACTED UPON

The Trustees know of no matters to come before the Meeting other than those referred to in the Notice of Meeting accompanying this Information Circular. However, if any other matters properly come before the Meeting,

it is the intention of the Trustee representatives named in the Form of Proxy accompanying this Information Circular to vote the same in accordance with their best judgment of such matters.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on SEDAR at www.sedar.com. Additional financial information is provided in the Fund's audited consolidated financial statements and management's discussion and analysis for the Fund's most recently completed financial year. A copy of the Fund's financial statements and management's discussion and analysis is available upon written request to the Chief Financial Officer of XS Cargo GP at 15423 - 131 Avenue, Edmonton, Alberta, T5V 0A4.

APPROVAL OF CIRCULAR

The contents and the sending of this Information Circular have been approved by the Trustees.

DATED this 11th day of May, 2006.

By Order of the Trustees

(signed) "*Jonathan Legg*"
Chair, Trustees of
XS Cargo Income Fund

SCHEDULE A BOARD OF TRUSTEES MANDATE

The term "**Fund**" refers to XS Cargo Income Fund, the term "**Board**" refers to the board of trustees of the Fund and the term "**Governance Agreements**" refers, collectively, to the **Declaration of Trust** of the Fund, the **Administration Agreement** between the Fund, XS Cargo Operating Trust ("**XSCOT**") and XS Cargo GP Inc. (the "**GP**"), the **Securityholders Agreement** between the Fund, XSCOT and the GP, XS Cargo Limited Partnership (the "**LP**") and others, the **Exchange Agreement** between the Fund, XSCOT, the GP, the LP and others and the **Limited Partnership Agreement** governing the LP.

The Board is elected by the unitholders and is responsible for the stewardship of the affairs of the Fund. The Board seeks to discharge such responsibility by reviewing and discussing the Fund's investments, and in particular the Fund's interest in the LP and the GP, and, as an investor, monitoring the stewardship of the GP by its board of directors, subject to the provisions of the Governance Agreements.

The Board is responsible for establishing and maintaining a culture of integrity in the conduct of the affairs of the Fund. To the extent within its authority to do so, the Board seeks to discharge this responsibility by satisfying itself as to the integrity of the senior management of the GP, as administrator (the "**Administrator**") of the Fund pursuant to the Administration Agreement, and, as an investor, monitoring the integrity of the senior management of the LP and the GP.

Although trustees may be elected by the unitholders to bring special expertise or a point of view to Board deliberations, they are not chosen to represent a particular constituency. The best interests of the Fund must be paramount at all times.

DUTIES OF TRUSTEES

The Board discharges its responsibilities directly and through its committee, the Audit Committee. In addition to this regular committee, the Board may appoint ad hoc committees periodically to address certain issues of a more short-term nature. In addition to the Board's primary role of overseeing the affairs of the Fund, principal duties include, but are not limited to the following categories:

Oversight of Administrator

1. In accordance with the Declaration of Trust and the Administration Agreement, the Board has delegated authority for certain management and administrative matters to the Administrator but has retained authority for the oversight of the overall management of the Fund. This delegation is summarized in the General Authority Guidelines in **Schedule "A"** that require either prior authorization by the Board or periodic review by the Board in respect of specified matters.
2. The Board has the responsibility for approving the appointment of any officers of the Fund (collectively, the "**Fund Officers**"), and approving the compensation of Fund Officers and employees, if any.
3. The Board may from time to time delegate authority to the Administrator, to Fund Officers, if any, or others as permitted by the Declaration of Trust. Matters that are outside the scope of the authority delegated to the Administrator or others and material transactions are reviewed by and subject to the prior approval of the Board.

Monitoring of Investments and Related Matters

4. As an investor, the Board will monitor and review the Fund's investments including its investments in XSCOT and its indirect investments through XSCOT in the LP and the GP and may question the strategies and plans of the LP and the GP.
5. The Board has the responsibility for monitoring the compliance by the LP and the GP with the Governance Agreements to which the Fund is a party.

6. The Board is responsible for considering appropriate measures it may take as an investor in the LP and the GP if the performance of the LP or the GP, as the case may be, falls short of its goals or other special circumstances warrant or if the LP or the GP does not fulfill its obligations under the Governance Agreements to which the Fund is a party.

Financial Performance and Financial and Other Reporting Matters

7. The Board is responsible for approving the audited financial statements of the Fund and the notes and Management's Discussion and Analysis accompanying such financial statements.

8. The Board is responsible for reviewing and approving material transactions involving the Fund and those matters that the Board is required to approve under the Declaration of Trust including the payment of distributions, the issuance of trust units, acquisitions and dispositions of material assets by the Fund and material expenditures by the Fund.

Board Organization

9. The Board retains the responsibility for managing its own affairs including its composition, the selection of the Chair of the Board, candidates nominated for election to the Board, committee and committee chair appointments, committee charters and trustee compensation.

10. The Board may delegate to Board committees matters it is responsible for, including the approval of compensation of the Board and management, if any, the approval of interim financial results of the Fund, the conduct of performance evaluations and oversight of the Fund's internal control systems, but the Board retains its oversight function and ultimate responsibility for these matters and all other delegated responsibilities.

Policies and Procedures

11. The Board is responsible for:

- (a) approving and monitoring compliance with all significant policies and procedures by which the Fund is operated;
- (b) approving policies and procedures designed to ensure that the Fund operates at all times within applicable laws and regulations and to the highest ethical and moral standards; and
- (c) enforcing obligations of the trustees respecting confidential treatment of the Fund's proprietary information and Board deliberations.

12. The Board has approved a Joint Disclosure Policy respecting communications to the public.

Communications and Reporting

13. The Board is responsible for:

- (a) overseeing the accurate reporting of the financial performance of the Fund to unitholders, other security holders and regulators on a timely and regular basis;
- (b) overseeing that the financial results of the Fund are reported fairly and in accordance with generally accepted accounting standards and related legal disclosure requirements;
- (c) ensuring the integrity of the internal control and management information systems of the Fund;

- (d) taking steps to enhance the timely disclosure of any other developments that have a significant and material impact on the Fund;
- (e) reporting to unitholders on its stewardship as may be required under applicable securities laws and the rules of any stock exchange on which the Fund's units are listed for trading;
- (f) overseeing the investor relations and communications strategy of the Fund; and
- (g) overseeing the Fund's implementation of systems that accommodate feedback from unitholders.