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XS Cargo Income Fund Reports 2006 Fourth Quarter and Year End Results and Announces a 9% Reduction in Cash Distributions

EDMONTON, ALBERTA--(March 19, 2007) - XS Cargo Income Fund (the "Fund") (TSX:XSC.UN) today announced its results for the 2006 fourth quarter and year end. The Fund's audited consolidated year end financial statements and Management's Discussion and Analysis ("MD&A") can be found on XS Cargo's website at www.xscargo.com and on SEDAR at www.sedar.com.

For year, the Fund reported sales of \$116.8 million; earnings before non-controlling interest of \$10.2 million or \$0.848 per unit outstanding and net earnings of \$5.2 million or \$0.848 per unit. Distributable cash (1) was \$12.0 million or \$1.00 per unit compared to distributions declared of \$14.6 million or \$1.22 per unit, resulting in a payout ratio of 122%.

Michael McKenna, President and Chief Executive Officer of the Fund stated, "Difficulties encountered with our inventory management system in the fourth quarter affected our ability to effectively allocate inventory between our stores. This resulted in lower sales due to higher than normal stock-outs as well as higher freight costs and labour inefficiencies associated with our efforts to reallocate inventory between stores.

In March 2007, we entered into agreements with JDA[®] Software Group, Inc. for the purchase of a new point-of-sale and inventory management system and with Retail Process Engineering for consulting and implementation services. The new system implementation is commencing April 1, 2007, with targeted completion by the end of the third quarter. We are confident that the new system will not only allow us to effectively address our inventory allocation problems, but will contribute to improved labour efficiencies in our stores, distribution centre and head office."

JDA[®] Software Group, Inc. (NASDAQ:JDAS) is the enduring demand and supply chain partner to the world's leading retailers, manufacturers and suppliers, helping more than 5,500 customers in more than 60 countries realize real demand chain results.

McKenna continued, "The fundamentals of our business remain strong and our store

expansion strategy continues to drive solid revenue growth. Given the required capital investment to continue that expansion as well as implement the new point-of-sale and inventory management system, we feel a cautious approach to setting cash distribution levels is appropriate."

The Fund announced a reduction in its annual distributions on Trust Units back to \$1.125 per Trust Unit, the rate established at the time of its initial public offering. Monthly distributions will be reduced to \$0.09375 per Trust Unit beginning with the March 2007 distribution, which is payable on April 15, 2007 to unitholders of record at the close of business on March 31, 2007. The Fund's indirect subsidiary, XS Cargo LP, announced a suspension of distributions to holders of Subordinated LP Units.

Highlights for the year (2):

- Sales of \$116.8 million, up 20.0% from 2005.
- Gross margin of \$42.5 million, up 17.9% from 2005.
- Gross margin percentage of 36.4% compared to 37.0% in 2005.
- Earnings from operations (1) of \$14.0 million, down by 9.2% from 2005.
- Same store sales decrease of 3.6%, excluding three of our stores that experienced expected cannibalization from new stores opening in overlapping trading areas, from 2005, due primarily to difficulties with our computer system that resulted in sub-optimal inventory allocation.
- Product replacement extended warranty plans ("PRPs") sales continue to be strong with \$3.2 million of PRPs sold since implementation 15 months ago, of which \$1.1 million was recognized as revenue during the year.
- Eight new stores were opened during the year.
- Launched new website on November 16, 2006 with the ability to process sales online.
- Distributable cash (1) of \$1.00 per unit compared to distributions declared of \$1.22 per unit.

Highlights for the fourth quarter

- Fourth quarter sales of \$42.3 million, up 16.2% from the fourth quarter of 2005.
- Fourth quarter gross margin of \$14.6 million, up 5.7% from the fourth quarter of 2005.
- Gross margin percentage of 34.4% compared to 37.8% for the fourth quarter of 2005.
- Earnings from operations of \$4.6 million, down 31.2% from the fourth quarter of 2005.

- Same store sales decrease of 9.2% for the fourth quarter, excluding three of our stores that experienced expected cannibalization from new stores opening in overlapping trading areas.
- Three new stores opened on October 26 in Halifax, Nova Scotia; St. John's, Newfoundland; and Vancouver, British Columbia.
- Distributable cash (1) of \$0.32 per unit compared to distributions declared of \$0.31 per unit. Due to the seasonal nature of our business, over 40% of our annual distributable cash (1) is generated in the fourth quarter. Since the Fund declares equal monthly distributions throughout the year, it is expected that distributable cash (1) will be below distributions declared in the first three quarters.

The Fund also announced amendments to its available credit facilities. The limit on the Term Loan was increased from \$17.5 million to \$25.0 million, with the additional \$7.5 million available to be drawn at the Fund's option prior to August 31, 2007. The limit on the Demand Revolving Operating Loan was increased from \$10.0 million to \$12.5 million until July 31, increasing further to \$20.0 million during the peak purchasing season between August 1 and December 31. The additional credit facilities will be used to finance the new point-of-sale and inventory management system as well as working capital requirements and capital assets related to store expansion and enable the Fund to make monthly distribution based on its estimate of distributable cash for the year, approximately 40% of which is expected to be generated in the fourth quarter.

Business of the Fund

The Fund commenced business operations on May 17, 2005, when it completed an initial public offering (the "IPO") of 6,106,000 trust 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 36 closeout retail stores in Alberta, British Columbia, Manitoba, Saskatchewan, Ontario, Newfoundland, Nova Scotia and New Brunswick.

(1) Non-GAAP Measures

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

management believes that distributable cash of the Fund is a useful supplemental measure that may assist prospective investors in assessing an investment in the Fund.

Earnings from operations have been calculated as described below. In the case of the Fund, earnings from operations have been derived by adding interest expense, amortization of property and equipment and intangible assets, unit-based compensation and non-controlling interest to net earnings for the period. In the case of the Vendor, earnings from operations have been derived by adding amortization expense, employee profit sharing plan contributions, interest expense, and income tax expense to net earnings (loss) for the period.

Payout ratio refers to the ratio of cash distributions declared to unitholders to distributable cash generated by the Fund.

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

(2) Non-GAAP Measures

The Fund commenced business operation on May 17, 2005 after acquiring the business from the Vendor. For the purposes of the highlights for the year, the results of operations of the Fund from May 17, 2005 to December 31, 2005 have been combined with unaudited results of operations of the Vendor from January 1, 2005 to May 16, 2005.

FORWARD LOOKING STATEMENTS

This press release contains forward-looking statements. All statements other than statements of historical fact contained in this press release are forward-looking statements. You can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in the press release. There can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under "Risk Factors" in the Fund's MD&A.

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

XS Cargo Income Fund		
Consolidated Balance Sheets		
As at December 31		
	2006	2005
	\$	\$
Assets		
Current		
Cash and cash equivalents	1,017,824	7,442,496
Rebate and other receivables	439,384	501,486
Inventory	22,288,806	15,752,388
Deposits on inventory	6,604,788	4,079,482
Prepaid expenses and deposits	828,775	612,151
	31,179,577	28,388,003
Deferred charges (Note 7)	331,799	124,414
Property and equipment (Note 4)	4,332,028	2,730,783
Intangible assets (Note 5)	6,718,000	7,910,000
Goodwill (Note 3)	101,788,426	101,788,426
	144,349,830	140,941,626
Liabilities		
Current		
Accounts payable and accrued liabilities	10,597,933	7,094,948
Deferred revenue (Note 7)	1,528,327	417,152
Distributions payable to unitholders (Note 9)	629,681	572,438
Distributions payable to non-controlling interest (Note 10)	1,103,235	1,000,943
Term loan (Note 6)	2,500,000	-
	16,359,176	9,085,481
Term Loan (Note 6)	15,000,000	15,000,000
Deferred revenue (Note 7)	607,513	352,753

Unamortized lease inducements (Note 8)	317,975	142,116
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	32,284,664	24,580,350
Non-controlling interest (Note 10)	57,493,942	59,527,529

	89,778,606	84,107,879
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Commitments (Note 11)

Unitholders' Equity		
Fund Units (Note 9)	56,131,876	56,131,876
(Deficit) retained earnings	(1,560,652)	701,871

	54,571,224	56,833,747
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	144,349,830	140,941,626
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XS Cargo Income Fund
Consolidated Statements of Earnings
For the year ended December 31, 2006 and for the period
from April 6, 2005, including operations from May 17, 2005
(date of commencement of business operations) to December 31, 2005

	Year ended December 31, 2006	Eight-month period ended December 31, 2005
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	\$	\$
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Sales	116,793,895	68,967,157
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Cost of goods sold	74,328,664	42,967,715

Gross Margin	42,465,231	25,999,442

Expenses		
Administrative and operating	28,676,052	14,594,401
Amortization of property and equipment	898,878	337,148
Amortization of intangible assets	1,192,000	745,000

	30,766,930	15,676,549

Earnings before the undernoted	11,698,301	10,322,893

Other expenses		
Interest on bank indebtedness	291,060	21,689
Interest on term loan	1,042,066	483,233
Foreign exchange loss	194,091	37,091

	1,527,217	542,013

Earnings before non-controlling interest	10,171,084	9,780,880
Non-controlling interest (Note 10)	4,991,919	4,797,481

Net earnings for the period	5,179,165	4,983,399

Basic and diluted earnings per unit (Note 16)	0.848	0.816

XS Cargo Income Fund
Consolidated Statements of (Deficit) Retained Earnings
For the year ended December 31, 2006 and for the period
from April 6, 2005, including operations from May 17, 2005

(date of commencement of business operations) to December 31, 2005

	Year ended December 31, 2006	Eight-month period ended December 31, 2005
	\$	\$
Retained earnings, beginning of the period	701,871	-
Net earnings for the period	5,179,165	4,983,399
Distributions declared in the period	(7,441,688)	(4,281,528)
(Deficit) retained earnings, end of the period	(1,560,652)	701,871

XS Cargo Income Fund
Consolidated Statements of Cash Flows
For the year ended December 31, 2006 and for the period
from April 6, 2005, including operations from May 17, 2005
(date of commencement of business operations) to December 31, 2005

	Year ended December 31, 2006	Eight-month period ended December 31, 2005
	\$	\$
Cash provided by (used for) the following activities		
Operating Activities		
Net earnings for the period	5,179,165	4,983,399
Items not affecting cash:		
Non-controlling interest	4,991,919	4,797,481

Amortization of property and equipment	898,878	337,148
Amortization of intangible assets	1,192,000	745,000
Unit based compensation (Note 13)	147,000	187,330
Deferred charges, net of costs recognized	(207,385)	(124,414)
Deferred revenue, net of revenue recognized	1,365,935	769,905
Lease inducements received, net of amortization of lease inducements	175,859	142,116
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	13,743,371	11,837,965
Net change in non-cash working capital	(5,713,262)	3,841,158
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	8,030,109	15,679,123
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Financing Activities		
Repayment of amounts due to Vendor	-	(901,394)
Net proceeds from the issuance of Units	-	56,131,876
Proceeds from term loan	2,500,000	15,000,000
Distributions paid on Fund Units	(7,384,445)	(3,709,089)
Distributions paid to non-controlling interest	(7,070,213)	(3,120,839)
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	(11,954,658)	63,400,554
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Investing Activities		
Purchases of property and equipment	(2,500,123)	(569,400)
Business acquisition -- net of cash acquired (Note 3)	-	(71,067,781)
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	(2,500,123)	(71,637,181)
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(Decrease) Increase in cash and cash equivalents	(6,424,672)	7,442,496
Cash and cash equivalents, beginning of period	7,442,496	-
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Cash and cash equivalents, end of period	1,017,824	7,442,496

Supplementary cash flow information

Interest paid	1,333,126	504,922
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CONTACT INFORMATION

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