

Palos Equity Income Fund

Financial Statements

December 31, 2019 and 2018

(expressed in Canadian dollars)



Independent auditor's report

To the Unitholders and Trustee of
Palos Equity Income Fund (the Fund)

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of profit or (loss) and comprehensive income for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



Other information

Management is responsible for the other information of the Fund. The other information comprises the Management Report of Fund Performance and the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
March 30, 2020

¹ CPA auditor, CA, public accountancy permit No. A125840

Palos Equity Income Fund

Statements of Financial Position As at December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Investments at fair value through profit or loss (FVTPL)	\$ 24,572,008	\$ 24,527,554
Cash	1,288,990	524,906
Receivable for investments sold	—	4,865
Accrued income receivable	60,063	44,086
Prepaid expenses	2,275	—
	<u>25,923,336</u>	<u>25,101,411</u>
LIABILITIES		
Current liabilities		
Securities sold short	272,000	—
Redemptions payable	—	35,383
Distributions payable	84,473	80,142
Accrued liabilities	46,479	54,136
Management fees payable	—	29,135
Performance fees payable	—	68
	<u>402,952</u>	<u>198,864</u>
Net Assets Attributable to Holders of Redeemable Units	<u>\$ 25,520,384</u>	<u>\$ 24,902,547</u>
Net Assets Attributable to Holders of Redeemable Units per Series		
Series A	\$ 17,011,039	\$ 15,862,490
Series F	<u>8,509,345</u>	<u>9,040,057</u>
	<u>\$ 25,520,384</u>	<u>\$ 24,902,547</u>
Net Assets Attributable to Holders of Redeemable Units per Unit		
Series A	\$ 5.72	\$ 5.35
Series F	6.17	5.69

Approved by the Manager, Palos Management Inc.

(s) Charles Marleau

Director

(s) Robert Boisjoli

Director

Palos Equity Income Fund

Statements of Profit or (Loss) and Comprehensive Income For the years ended December 31, 2019 and 2018

	2019	2018
Income		
Dividend income	\$ 676,838	\$ 593,518
Interest income for distribution purposes	146,041	123,149
Other income	—	696
Net realized gain on sale of investments	54,218	1,279,386
Net change in unrealized appreciation (depreciation) of investments	<u>3,441,996</u>	<u>(5,487,323)</u>
	<u>4,319,093</u>	<u>(3,490,574)</u>
Expenses		
Management fees (Note 8)	373,102	405,545
Administration and other professional fees	124,624	110,807
Legal fees	66,800	51,734
Transaction costs	47,830	88,235
Audit fees	44,536	41,530
Trustee fees	14,972	9,806
Independent Review Committee fees	12,001	12,001
Dividend expense on securities sold short	4,000	—
Withholding tax expense	3,577	443
Bank charges and interest	2,851	6,486
Custodian fees	—	1,463
Performance fees (Note 8)	<u>—</u>	<u>68</u>
	<u>694,293</u>	<u>728,118</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>\$ 3,624,800</u>	<u>\$ (4,218,692)</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series		
Series A	\$ 2,270,370	\$ (2,732,042)
Series F	<u>1,354,430</u>	<u>(1,486,650)</u>
	<u>\$ 3,624,800</u>	<u>\$ (4,218,692)</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit (Note 10)		
Series A	\$ 0.76	\$ (0.94)
Series F	0.86	(0.94)

The accompanying notes are an integral part of these financial statements.

Palos Equity Income Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

For the years ended December 31, 2019 and 2018

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units*	Reinvestment of distributions to holders of redeemable units	Increase in net assets from operations attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
December 31, 2019							
Series A	\$ 15,862,490	\$ 440,232	\$ (1,335,021)	\$ (1,184,222)	\$ 957,190	\$ 2,270,370	\$ 17,011,039
Series F	9,040,057	613,782	(2,404,559)	(613,631)	519,266	1,354,430	8,509,345
	<u>\$ 24,902,547</u>	<u>\$ 1,054,014</u>	<u>\$ (3,739,580)</u>	<u>\$ (1,797,853)</u>	<u>\$ 1,476,456</u>	<u>\$ 3,624,800</u>	<u>\$ 25,520,384</u>

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units*	Reinvestment of distributions to holders of redeemable units	Decrease in net assets from operations attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
December 31, 2018							
Series A	\$ 19,092,155	\$ 1,328,105	\$ (1,592,202)	\$ (1,162,537)	\$ 929,011	\$ (2,732,042)	\$ 15,862,490
Series F	11,159,813	1,041,380	(1,588,935)	(623,727)	538,176	(1,486,650)	9,040,057
	<u>\$ 30,251,968</u>	<u>\$ 2,369,485</u>	<u>\$ (3,181,137)</u>	<u>\$ (1,786,264)</u>	<u>\$ 1,467,187</u>	<u>\$ (4,218,692)</u>	<u>\$ 24,902,547</u>

December 31, 2019

*Detailed distributions to unitholders

	From net investment income	From net realized gains on investments and derivatives	From return of capital	Total distributions to unitholders
Series A	\$ —	\$ —	\$ (1,184,222)	(1,184,222)
Series F	(37,222)	—	(576,409)	(613,631)
	<u>\$ (37,222)</u>	<u>\$ —</u>	<u>\$ (1,760,631)</u>	<u>\$ (1,797,853)</u>

December 31, 2018

*Detailed distributions to unitholders

	From net investment income	From net realized gains on investments and derivatives	From return of capital	Total distributions to unitholders
Series A	\$ —	\$ (680,476)	\$ (482,061)	(1,162,537)
Series F	—	(352,019)	(271,708)	(623,727)
	<u>\$ —</u>	<u>\$ (1,032,495)</u>	<u>\$ (753,769)</u>	<u>\$ (1,786,264)</u>

The accompanying notes are an integral part of these financial statements.

Palos Equity Income Fund

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Operating Activities		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	\$ 3,624,800	\$ (4,218,692)
Adjustments for non-cash items		
Net realized gain on sale of investments	(54,218)	(1,279,386)
Net change in unrealized (appreciation) depreciation of investments	(3,441,996)	5,487,323
Foreign exchange (gain) loss	(1,264)	5,313
Change in non-cash balances		
(Increase) decrease in accrued income receivable	(15,977)	53,966
Increase in prepaid expenses	(2,275)	—
(Decrease) increase in accrued liabilities	(7,657)	24,153
(Decrease) increase in management fees payable	(29,135)	28,555
Decrease in performance fees payable	(68)	(66,014)
Proceeds from sale of investments	20,999,228	25,483,952
Purchase of investments	(17,270,603)	(24,904,516)
Cash provided by operating activities	<u>3,800,835</u>	<u>614,654</u>
Financing Activities		
Proceeds from issuance of redeemable units	848,369	2,369,485
Amount paid on redemption of redeemable units	(3,569,318)	(3,145,754)
Distributions to holders of redeemable units, net of reinvested distributions	(317,066)	(315,973)
Cash used in financing activities	<u>(3,038,015)</u>	<u>(1,092,242)</u>
Increase (decrease) in cash during the year	762,820	(477,588)
Foreign exchange gain (loss) on cash	1,264	(5,313)
Cash, beginning of year	<u>524,906</u>	<u>1,007,807</u>
Cash, end of year	<u>\$ 1,288,990</u>	<u>\$ 524,906</u>
Supplemental information*		
Interest paid	\$ 251	\$ 1,367
Interest received	176,421	170,649
Dividends paid	3,000	—
Dividends received, net of withholding taxes	686,352	601,613

*Included as a part of cash flows from operating activities

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2019

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Investments owned (96.28%)				
Equities (87.08%)				
Basic Materials (8.65%)				
Agnico Eagle Mines Ltd.	CAD	5,600	308,576	447,888
Franco-Nevada Corp.	CAD	3,200	255,438	429,088
Lundin Mining Corp.	CAD	49,100	290,701	381,016
Nutrien Ltd.	CAD	5,552	371,854	345,168
Sociedad Quimica y Minera de Chile SA	USD	4,400	231,468	152,226
Stelco Holdings Inc.	CAD	19,200	312,701	209,472
Teck Resources Ltd.	CAD	10,800	284,984	243,216
Total Basic Materials			2,055,722	2,208,074
Communications (1.70%)				
Quebecor Inc.	CAD	13,100	404,164	434,134
Total Communications			404,164	434,134
Consumer, Cyclical (6.89%)				
Alimentation Couche-Tard Inc.	CAD	6,600	195,834	271,986
Dollarama Inc.	CAD	6,200	184,093	276,706
Goodfood Market Corp.	CAD	28,800	100,800	90,144
NFI Group Inc.	CAD	7,500	265,345	199,875
Pollard Banknote Ltd.	CAD	9,990	189,541	199,800
Restaurant Brands International Inc.	CAD	2,500	216,930	206,950
Superior Plus Corp.	CAD	18,800	232,758	236,128
Wal-Mart Stores Inc.	USD	1,800	216,370	277,283
Total Consumer, Cyclical			1,601,671	1,758,872
Consumer, Non-cyclical (12.34%)				
Boyd Group Income Fund	CAD	1,200	111,377	242,400
CannaRoyalty Corp.	CAD	8,600	107,181	51,170
Cresco Labs Inc.	CAD	16,300	145,396	145,559
Curaleaf Holdings Inc.	CAD	10,600	91,912	86,708
Green Thumb Industries Inc.	CAD	7,800	127,192	99,762
Jamieson Wellness Inc.	CAD	10,000	168,035	257,500
K-Bro Linen Inc.	CAD	6,900	273,132	290,145
Loblaw Cos Ltd.	CAD	3,300	184,617	221,100
Maple Leaf Foods Inc.	CAD	10,400	276,022	269,152
Park Lawn Corp.	CAD	5,480	134,606	160,509
People Corp.	CAD	27,100	154,738	271,813
Premium Brands Holdings Corp.	CAD	2,800	211,456	254,688

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2019 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Saputo Inc.	CAD	8,400	331,580	337,680
Savaria Corp.	CAD	12,500	160,733	174,375
Sienna Senior Living Inc.	CAD	15,700	282,301	286,682
Total Consumer, Non-cyclical			2,760,278	3,149,243
Energy (15.21%)				
Enbridge Inc.	CAD	8,457	393,856	436,635
Kelt Exploration Ltd.	CAD	70,200	317,960	341,874
Keyera Corp.	CAD	14,000	463,028	476,280
Parex Resources Inc.	CAD	9,700	205,318	234,255
Parkland Fuel Corp.	CAD	6,850	196,904	326,814
Pason Systems Inc.	CAD	11,400	148,467	149,454
Pembina Pipeline Corp.	CAD	7,049	305,010	339,268
Suncor Energy Inc.	CAD	11,500	524,712	489,440
Tidewater Midstream and Infrastructure Ltd.	CAD	251,000	344,650	293,670
TORC Oil & Gas Ltd.	CAD	83,600	452,006	375,364
Whitecap Resources Inc.	CAD	75,300	320,289	417,915
Total Energy			3,672,200	3,880,969
Financial (24.47%)				
Bank of Montreal	CAD	9,100	854,860	915,824
Boardwalk Real Estate Investment Trust	CAD	10,100	449,702	463,893
ECN Capital Corp.	CAD	52,600	198,289	251,954
Manulife Financial Corp.	CAD	17,800	418,249	469,208
National Bank of Canada	CAD	6,180	387,821	445,454
RioCan Real Estate Investment Trust	CAD	4,800	123,600	128,448
Royal Bank of Canada	CAD	9,400	748,536	965,850
StorageVault Canada Inc.	CAD	65,600	148,352	243,376
The Bank of Nova Scotia	CAD	14,000	980,472	1,026,900
The Toronto-Dominion Bank	CAD	13,614	608,781	991,508
Tricon Capital Group Inc.	CAD	32,300	343,681	343,349
Total Financial			5,262,343	6,245,764
Funds (0.93%)				
iShares 1-5 Year Laddered Corporate Bond Index ETF	CAD	12,800	237,945	237,696
Total Funds			237,945	237,696
Industrial (8.52%)				
Badger Daylighting Ltd.	CAD	6,950	240,975	244,223
Canadian National Railway Co.	CAD	2,400	271,360	281,928
Canadian Pacific Railway Ltd.	CAD	1,400	315,998	463,442
CCL Industries Inc.	CAD	5,800	270,991	320,856
Martinrea International Inc.	CAD	17,420	213,879	249,280

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2019 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
NanoXplore Inc.	CAD	87,900	145,035	119,544
Neo Performance Materials Inc.	CAD	19,200	295,042	237,120
TFI International Inc.	CAD	5,900	248,057	258,243
Total Industrial			2,001,337	2,174,636
Technology (3.07%)				
Kinaxis Inc.	CAD	2,400	179,637	240,048
Lightspeed POS Inc.	CAD	5,700	178,604	205,599
Open Text Corp.	CAD	5,900	298,533	337,598
Total Technology			656,774	783,245
Utilities (5.30%)				
Capital Power Corp.	CAD	11,200	341,405	385,168
Innergex Renewable Energy Inc.	CAD	15,300	218,344	257,958
Northland Power Inc.	CAD	26,000	627,072	709,020
Total Utilities			1,186,821	1,352,146
Total Equities			19,839,255	22,224,779
Fixed Income (9.14%)				
Basic Materials (1.41%)				
North American Construction Group Ltd. 5% 31MAR26	CAD	350,000	350,000	359,625
Total Basic Materials			350,000	359,625
Energy (0.80%)				
Parkland Fuel Corp., - 5.50% / May 28, 2021	CAD	200,000	200,000	203,250
Total Energy			200,000	203,250
Financial (2.46%)				
Chemtrade Logistics Income Fund 6.50% 31OCT26	CAD	250,000	250,000	235,345
Fiera Capital Corp., - 5.00% / Jun. 30, 2023	CAD	375,000	374,692	393,638
Total Financial			624,692	628,983
Utilities (4.47%)				
Innergex Renewable Energy Inc., - 4.75% / June 30, 2025	CAD	600,000	579,000	632,082
Northland Power Inc., - 4.75% / Jun. 30, 2020	CAD	400,000	426,004	508,164
Total Utilities			1,005,004	1,140,246
Total Fixed Income			2,179,696	2,332,104

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2019 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Warrants (0.06%)				
Warrants (0.06%)				
Cresco Labs Inc., - \$12.50 / Sept. 24, 2022	CAD	8,500	18,360	10,030
Critical Elements Corp., - \$1.25 / May. 01, 2020	CAD	35,000	—	—
Drone Delivery Canada Corp., - \$1.50 / Mar. 25, 2021	CAD	35,000	5,390	4,375
HashChain Technology Inc., - \$1.225 / Jan. 10, 2020	CAD	73,000	—	—
NanoXplore Inc., - \$2.30 / Mar. 27, 2020	CAD	45,800	—	—
Sherritt International Corp., - \$1.95 / Jan. 25, 2021	CAD	48,000	—	720
Total Warrants			23,750	15,125
Total investments owned			22,042,701	24,572,008
Investments sold short (-1.07%)				
Equities (-1.07%)				
Utilities (-1.07%)				
Northland Power Inc.	CAD	(10,000)	(251,551)	(272,000)
Total Utilities			(251,551)	(272,000)
Total Equities			(251,551)	(272,000)
Total investments sold short			(251,551)	(272,000)
Commissions and other portfolio transaction costs			(28,188)	—
Net investments owned (95.21%)			21,762,962	24,300,008
Other assets, net (4.79%)				1,220,376
Net Assets Attributable to Holders of Redeemable Units (100%)				25,520,384

Palos Equity Income Fund

Notes to financial statements

As at December 31, 2019 and 2018

(expressed in Canadian dollars)

1 General information

Palos Equity Income Fund (the “Fund”) was formed on January 3, 2008 under the laws of the Province of Quebec pursuant to a trust agreement (the agreement), as amended for the last time on August 26, 2013, between Computershare Trust Company of Canada (the trustee) and Charles Marceau (the settlor). The address of the Fund’s registered office is 1 Place Ville-Marie, Suite 1670, Montréal, Quebec, Canada H3B 2B6. The Fund is an open-ended mutual fund, is qualified as a unit trust and is a registered investment fund under Section 204.4 of the Income Tax Act (Canada).

Series A opened on January 3, 2008 and Series F opened on February 24, 2012.

The Fund acts as an investment holding unit trust for the benefit of unitholders by acquiring, investing in, holding, transferring, disposing of, or otherwise dealing with such investments as the trustee and the investment fund manager determine, at their discretion, in accordance with the investment objectives of the Fund, which are to preserve capital, to provide an attractive and steady stream of income and to deliver trading-enhanced returns.

The investment fund manager and portfolio advisor is Palos Management Inc. (the Manager).

These financial statements have been authorized for issue by the Board of Directors of the Manager on March 30, 2020.

2 Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

Palos Equity Income Fund

Notes to financial statements

As at December 31, 2019 and 2018

(expressed in Canadian dollars)

3 Summary of significant accounting policies

Financial instruments

Classification

IFRS 9, Financial Instruments, sets out a classification and measurement model for financial assets to determine whether a financial asset should be classified at amortized cost, at fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held. The Fund manages its investments in financial assets with the objective of realizing cash flows through both the sale of the assets and income generated from those assets. The Manager makes decisions based on the assets' fair values and manages the assets to realize those fair values.

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost or FVOCI. Financial assets held by the Fund which are measured at FVTPL will not be subject to the recent impairment requirements.

With respect to receivables, the Fund considers both historical analysis and forward looking information in determining any expected credit loss. As at the statements of financial position date, all receivables are due to be settled within the short term. The Fund considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Fund to credit risk from financial assets recorded at amortized cost, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

Recognition

Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's investment assets and liabilities are measured at FVTPL, including certain investments in debt securities which have been classified as FVTPL. The Fund's derivative and non-derivative investments are classified as FVTPL upon initial recognition. The Fund's obligation for net assets attributable to holders of redeemable units is classified as a financial liability at the redemption amount, which approximates fair value. The redemption amount is determined as the net difference between total assets and all other liabilities for which accounting policies are described herein. All other financial assets and financial liabilities are classified as subsequently measured at amortized cost and other financial liabilities respectively and are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value ("NAV") for transactions with unitholders.

Income recognition

The interest income for distribution purposes shown on the statements of profit or (loss) and comprehensive income represents the contractual interest accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds and loans which would be amortized on a straight-line basis. Dividend income is recorded on the ex-dividend date.

Palos Equity Income Fund

Notes to financial statements

As at December 31, 2019 and 2018

(expressed in Canadian dollars)

Realized gain on sale of investments and unrealized appreciation (depreciation) of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The fair value of financial assets and financial liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Investment entities

The Fund meets the definition in IFRS 10, Consolidated Financial Statements, for investment entities and accounts for its investments in underlying entities at FVTPL.

Structured entities

The Fund may invest in other investment funds ("underlying funds") by holding redeemable shares of the underlying funds which entitle the holder to a proportionate share of the underlying funds' net assets. The Fund does not invest in underlying funds for the purpose of exercising management or control. Such investments expose the Fund to the risk that underlying funds may not perform as expected and indirectly to all of the risks applicable to investments in underlying funds.

The carrying value of investments in underlying funds is included in "Investments" in the statements of financial position and also represents the maximum exposure to losses. Changes in fair value of investments in underlying funds are included within "Net change in unrealized appreciation (depreciation) of investments" in the statements of profit or (loss) and comprehensive income.

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Classification of redeemable units

The Fund's outstanding redeemable units are in different series which do not have identical features. Consequently, the Fund's outstanding redeemable units are classified as financial liabilities and recorded as net assets attributable to holders of redeemable units, in accordance with the requirements of International Accounting Standard (IAS) 32, Financial Instruments: Presentation.

Foreign currency translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash and to other financial assets and financial liabilities are presented as "Net realized gain on sale of investments" and "Net change in unrealized appreciation (depreciation) of investments" in the statements of profit or (loss) and comprehensive income.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset in the Fund's statements of financial position when and only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Fund has a legally enforceable right to offset a financial asset and financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Over-the-counter derivatives, securities lending, repurchase agreements and receivable for investments sold and payable for investments purchased are subject to master netting or similar agreements that do not meet the criteria for offsetting in the statements of financial position as they give a right to set-off that is enforceable only in the event of default, insolvency or bankruptcy.

Cash

Cash comprises deposits with financial institutions and bank overdraft.

Increase (decrease) in net assets attributable to holders of redeemable units per unit per series

The increase (decrease) in net assets attributable to holders of redeemable units per unit of each series is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units of each series by the weighted average number of units outstanding during the year.

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Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statements of profit or (loss) and comprehensive income.

New standards, interpretations and amendments not yet adopted

There are no new standards, interpretations or amendments that have not yet been adopted, that would affect the Fund's financial statements.

4 Changes in accounting policies

The Fund has applied IFRS 9 retrospectively from January 1, 2017, which has resulted in changes in accounting policies. The following accounting policies relating to classification of financial assets and financial liabilities have been changed to comply with IFRS 9, which replaced the provisions of IAS 39.

Reclassifications of financial instruments on application of IFRS 9.

On the date of initial application of IFRS 9, January 1, 2018, the financial instruments of the Fund were as follows, with any reclassifications from December 31, 2017 noted:

	Classification category		Measurement category		Carrying amount at Jan. 1, 2018		
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)	Difference \$
Financial instruments							
<u>Assets</u>							
Investments	FVTPL - Designated at inception	FVTPL	FVTPL	FVTPL	29,429,789	29,429,789	-
Cash	Amortized cost	Amortized cost	Amortized cost	Amortized cost	1,007,807	1,007,807	-
Receivable for investments sold	Loans and receivables	Amortized cost	Amortized cost	Amortized cost	38,653	38,653	-
Accrued income receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost	98,052	98,052	-
<u>Liabilities</u>							
Distributions payable	Financial liabilities	Financial liabilities	Amortized cost	Amortized cost	77,038	77,038	-
Accrued liabilities	Financial liabilities	Financial liabilities	Amortized cost	Amortized cost	29,983	29,983	-
Payable for investments purchased	Financial liabilities	Financial liabilities	Amortized cost	Amortized cost	148,650	148,650	-
Management fees payable	Financial liabilities	Financial liabilities	Amortized cost	Amortized cost	580	580	-
Performance fees payable	Financial liabilities	Financial liabilities	Amortized cost	Amortized cost	66,082	66,082	-

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5 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Manager has made in preparing the financial statements:

a) Fair value measurement of derivatives and securities not quoted in an active market

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Manager may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Manager considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

b) Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to manage its portfolio of investments and evaluate performance on a fair value basis and that the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The most significant judgments made include assessing and determining the appropriate business model that enables the decision that the Fund's investments are classified as FVTPL.

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6 Risks associated with financial instruments

Risk factors

The Fund's activities expose it to a variety of risks associated with financial instruments, as follows: credit risk, liquidity risk, market risk (including currency risk, interest rate risk and price risk) and concentration risk. The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital. These risks are moderated through careful selection of securities and other financial instruments within the Fund's investment guidelines. The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably possible changes in the relevant risk variables.

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities. In selecting fixed income securities for the Fund, the Manager considers factors such as the debt security's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread and duration. The analysis below summarizes the credit quality of the Fund's debt portfolio as at December 31, 2019 and 2018.

	2019	2018
	Total fixed income	Total fixed income
	%	%
BBB +	-	10.4
BBB	-	17.7
BBB -	-	24.1
BB	8.7	8.4
Non-rated	91.3	39.4
	100.0	100.0

Source: S&P Global Rating

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All portfolio transactions in securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities are received by the broker. The trade will not settle if either party fails to meet its obligation. In addition, the Fund lodges its cash with quality institutions which have credit ratings of A or above as at December 31, 2019 and 2018. Credit risk with respect to accrued income receivable is limited as the receivables are derived from a portfolio of diversified investments.

The Fund's maximum exposure to credit risk is equal to the carrying value of the assets presented on the statements of financial position. The Fund does not anticipate any significant losses from the non-performance of counterparties.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to daily cash redemptions. Financial liabilities that potentially subject the Fund to liquidity risk consist of distributions payable, accrued liabilities and securities sold short. The Fund's investment approach focuses on investing in highly liquid securities and moderately liquid securities, which are therefore readily saleable to meet liquidity needs.

The Fund may invest in debt securities and unlisted equity investments that are not traded in an active market. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Fund's policy, the Manager monitors the Fund's liquidity position on a daily basis. The tables below analyze the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows.

	December 31, 2019		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Securities sold short	—	272,000	272,000
Distributions payable	—	84,473	84,473
Accrued liabilities	—	46,479	46,479
Redeemable units	25,520,384	—	25,520,384

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December 31, 2018

Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Redemptions payable	—	35,383	35,383
Distributions payable	—	80,142	80,142
Accrued liabilities	—	54,136	54,136
Management fees payable	—	29,135	29,135
Performance fees payable	—	68	68
Redeemable units	24,902,547	—	24,902,547

Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

Market risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. To monitor the risk, the Fund's Manager uses stress testing to examine the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing is designed to identify key risks and ensure that the losses from abnormal events are not above the Fund's risk tolerance.

The following include sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the difference could be material.

a) Currency risk

The Fund invests in monetary assets denominated in currencies other than the Canadian dollar. These investments result in currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The table below indicates the foreign currencies to which the Fund had significant exposure as at December 31, 2019 and 2018 in Canadian dollars. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant. The monetary exposure presents the impact on cash and bonds, and the non-monetary exposure presents the impact on equity investments. Non-monetary items are investments in equity securities and are classified based on the currency in which they were purchased.

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(expressed in Canadian dollars)

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
December 31, 2019						
U.S. Dollar	\$ 38,606	\$ 429,509	\$ 468,115	\$ 1,930	\$ 21,475	\$ 23,405
% of Net Assets						
Attributable to Holders of Redeemable Units	0.2	1.7	1.9	0.0	0.1	0.1

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
December 31, 2018						
U.S. Dollar	\$ 502	\$ 203,350	\$ 203,852	\$ 25	\$ 10,168	\$ 10,193
% of Net Assets						
Attributable to Holders of Redeemable Units	0.0	0.8	0.8	0.0	0.0	0.0

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds securities with fixed interest rates that expose the Fund to fair value interest rate risk. The Fund also holds a limited amount of cash subject to variable interest rates, which exposes the Fund to cash flow interest rate risk.

The Fund mitigates interest rate risk by monitoring interest rates and the maturities of its portfolio of interest-bearing financial instruments. The following table summarizes the Fund's exposure to interest rate risk. It includes the Fund's interest-bearing financial assets at fair value, categorized by the earlier of contractual interest rate reset dates or maturity dates. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 1%, assuming a parallel shift in the yield curve with all other variables held constant.

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(expressed in Canadian dollars)

	Total exposure	
	December 31, 2019	December 31, 2018
	\$	\$
Terms to maturity		
Less than one year	508,164	-
1-5 years	1,228,970	1,819,064
5-10 years	594,970	578,850
Total	2,332,104	2,397,914
Impact on net assets attributable to holders of redeemable units	60,783	59,070
Impact on net assets attributable to holders of redeemable units (%)	0.2%	0.2%

c) Price risk

Price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or by factors affecting all securities traded in the market. The Fund is exposed to price risk through its equity investment portfolio, which includes a variety of common shares in a wide range of industries. Other assets and liabilities are monetary items that are short-term in nature, and as such are not subject to price risk.

As at December 31, 2019, the expected increase or decrease in net assets attributable to holders of redeemable units of the Fund if the S&P/TSX composite index had increased or decreased by 5%, with all other variables held constant, would amount to \$1,129,950 and would represent 4.4% of the net assets attributable to holders of redeemable units of the Fund (2018 – \$1,152,795 representing 4.6%).

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Concentration risk

Concentration risk arises as a result of the concentration of exposure within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk by market segment over the total investment market value:

Market segment	Percentage (%) of portfolio	
	December 31, 2019	December 31, 2018
Basic Materials	9.1	10.8
Communications	1.8	0.3
Consumer, Cyclical	7.2	10.1
Consumer, Non-cyclical	13.0	10.4
Energy	16.0	15.0
Financial	25.6	21.6
Funds	1.0	0.8
Industrial	8.9	14.0
Technology	3.2	1.8
Utilities	4.5	5.4
Bonds	9.6	9.8
Warrants	0.1	—
	100.0	100.0

Asset class weighting	Percentage (%) of Net Assets	
	December 31, 2019	December 31, 2018
Bonds	9.1	9.6
Common stock	86.0	88.9
Warrants	0.1	0.0
Other net assets	4.8	1.5

Fair value measurement

The carrying amounts of accrued income receivable, prepaid expenses, distributions payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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December 31, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 22,224,779	\$ –	\$ –	\$ 22,224,779
Fixed Income	2,128,854	203,250	–	2,332,104
Warrants	15,125	–	–	15,125
	\$ 24,368,758	\$ 203,250	\$ –	\$ 24,572,008
Liabilities				
Equities	\$ 272,000	\$ –	\$ –	\$ 272,000
	\$ 272,000	\$ –	\$ –	\$ 272,000

December 31, 2018

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 22,126,760	\$ –	\$ –	\$ 22,126,760
Fixed Income	2,195,414	202,500	–	2,397,914
Warrants	2,880	–	–	2,880
	\$ 24,325,054	\$ 202,500	\$ –	\$ 24,527,554

All fair value measurements above are recurring. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, the instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

a) Equities and convertible bonds

The Fund's equity and convertible bond positions are classified as Level 1 when the security is actively traded and a reliable price is observable. All equities and convertible bonds are classified as Level 1 investments.

b) Bonds and short-term investments

Corporate bonds are valued using models with inputs including interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable, and therefore the Fund's bonds and short-term investments have been classified as Level 2.

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7 Redeemable units

During the years ended December 31, 2019 and 2018, the number of units issued, redeemed and outstanding were as follows:

	Redeemable Units, beginning of year	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of year
December 31, 2019					
Series A	2,966,368	77,059	(236,175)	168,901	2,976,153
Series F	1,587,495	99,757	(393,130)	85,378	1,379,500
December 31, 2018					
Series A	2,857,244	209,372	(252,943)	152,695	2,966,368
Series F	1,587,643	153,246	(236,814)	83,420	1,587,495

Capital structure

Units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements.

The Fund is authorized to issue an unlimited number of redeemable unit series, as well as an unlimited number of redeemable units within each series. Each series unit enables its bearer to participate equally in the allocations the Fund completes for the given series. Unit fractions may also be issued.

The Fund is composed of more than one redeemable unit series; each redeemable unit series may feature different structures regarding management fees, performance fees and brokerage. As a result, each redeemable unit entitles its holder to one vote and to participate equally in the allocations the Fund completes and, in the case of Fund liquidation, in the allocation of the redeemable unit series' net assets attributable to holders of redeemable units after all current liabilities have been paid.

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8 Related party transactions

a) Management fees and performance fees

The Manager provides management and advisory services to the Fund in accordance with the agreement. In return for these services, the Manager is paid a management fee and a performance fee. The Series A units of the Fund are subject to a monthly management fee equal to 1/12 of 1.5% of the net asset value of the Series A units. The Manager will pay a trailer fee of 0.75% out of the management fees collected from the Fund with respect to Series A units.

Series F is similar to Series A, but no trailer fee is included in the management fee. Series F charges a monthly management fee of 1/12 of 0.75% of the NAV of Series F.

Based on the agreement amended and restated on August 26, 2013, the performance fee is 20% of the amount by which the Fund outperforms its benchmark, the S&P/TSX Composite Index. Performance fees are paid annually.

The total management fees and performance fees for the year ended December 31, 2019 amounted to \$373,102 and \$nil, respectively (2018 – \$405,545 and \$68, respectively), with \$nil in outstanding fees due to the Manager as at December 31, 2019 (2018 – \$29,203).

The Manager may waive or absorb the payment of management fees of the Fund. The decision to do so is reviewed regularly and is determined at the sole discretion of the Manager. During the year, the Manager did not waive any fees (2018 – did not waive any fees).

b) Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2019 amounted to \$12,001 (2018 – \$12,001) and consisted only of fixed fees.

9 Brokerage commissions and soft dollars

The total commissions paid by the Fund to brokers in connection with portfolio transactions for the years ended December 31, 2019 and 2018, together with other transaction charges, are disclosed in the statements of profit or (loss) and comprehensive income of the Fund. Brokerage business is allocated to brokers based on the best net result for the Fund. Subject to this criteria, preference may be given to brokerage firms which provide (or pay for) certain services (arrangements referred to as soft dollar), which may include investment research, analysis and reports, and databases or software in support of these services. The ascertainable soft dollar value received as a percentage of total brokerage commissions paid during the years ended December 31, 2019 and 2018 is disclosed below.

	2019	2018
Soft dollars	\$6,090	\$2,106
Percentage of total transaction costs	12.73%	2.61%

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10 Increase (decrease) in net assets attributable to holders of redeemable units per series per unit

The increase (decrease) in net assets attributable to holders of redeemable units per series per unit for the years ended December 31, 2019 and 2018 is calculated as follows:

	Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series	Weighted Average of Redeemable Units Outstanding During the Year	Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit
December 31, 2019			
Series A	\$ 2,270,370	2,979,246	\$ 0.76
Series F	1,354,430	1,569,858	0.86
December 31, 2018			
Series A	\$ (2,732,042)	2,914,671	\$ (0.94)
Series F	(1,486,650)	1,575,540	(0.94)

11 Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada).

All or substantially all of the net income for tax purposes and net taxable capital gains realized in any period, after use of loss carry forwards, are distributed to unitholders such that no income taxes are payable by the Fund.

Capital and non-capital losses determined for tax purposes as at December 31, 2019 are nil.

12 Subsequent event

Palos management Inc., the manager of the Fund, is monitoring the recent outbreak of the novel coronavirus ("COVID-19") and its potential impact on the Fund. The outbreak of COVID-19 has increased volatility in financial markets. While the extent and duration of the impact of COVID-19 on global and local economies, financial markets, and sectors and issuers in which the Fund may invest is uncertain at this point, the outbreak has the potential to adversely affect the value of the Fund's Portfolio.