

Palos Equity Income Fund

Interim Financial Statements (unaudited)

June 30, 2021 and 2020

(expressed in Canadian dollars)

Palos Equity Income Fund

Notice

The Following Palos Equity Income Fund semi-annual Financial Statements have not been subject to a review by the Fund external auditors.

Palos Equity Income Fund

Statements of Financial Position (unaudited)

As at June 30, 2021 and December 31, 2020

	2021	2020
ASSETS		
Current assets		
Investments at fair value through profit or loss (FVTPL)	\$ 28,365,196	\$ 23,899,701
Cash	333,208	1,314,626
Receivable from investments sold	68,899	11,776
Accrued income receivable	55,792	60,835
Prepaid expenses	2,840	2,201
Subscription receivable	-	4,449
	<u>28,825,935</u>	<u>25,293,588</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	44,386	42,393
Payable for investments purchased	22,944	56,000
Distributions payable	18,408	18,605
Management fees payable	-	1,081
	<u>85,738</u>	<u>118,079</u>
Net assets attributable to holders of redeemable units	<u>\$ 28,740,197</u>	<u>\$ 25,175,509</u>
Net assets attributable to holders of redeemable units per series		
Series A	\$ 20,799,744	\$ 17,923,956
Series F	<u>7,940,453</u>	<u>7,251,553</u>
	<u>\$ 28,740,197</u>	<u>\$ 25,175,509</u>
Net assets attributable to holders of redeemable units per series per unit		
Series A	\$ 7.49	\$ 6.38
Series F	8.20	6.96

Approved by the Manager, Palos Management Inc.

(s) Philippe Marleau

Director

Palos Equity Income Fund

Statements of Comprehensive Income or (loss) (unaudited) For the periods ended June 30, 2021 and 2020

	2021	2020
Income		
Dividend income	\$ 259,005	\$ 292,934
Interest income for distribution purposes	71,393	64,592
Net realized gain (loss) on sale of investments	2,199,883	(905,432)
Net change in unrealized appreciation (depreciation) of investments	2,327,864	(1,929,084)
	<u>4,858,145</u>	<u>(2,476,990)</u>
Expenses		
Management fees (Note 7)	197,900	157,276
Administration and other professional fees	51,113	50,029
Transaction cost	31,882	31,537
Audit fees	24,365	22,061
Legal fees	21,026	31,737
Trustee fees	6,860	6,898
Independent review committee fees	5,951	5,984
Bank charges and interest	2,375	1,891
Withholding tax expense	851	1,377
	<u>342,323</u>	<u>308,790</u>
Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>\$ 4,515,822</u>	<u>\$ (2,785,780)</u>
Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units per series		
Series A	\$ 3,223,945	\$ (1,695,225)
Series F	1,291,877	(1,090,555)
	<u>\$ 4,515,822</u>	<u>\$ (2,785,780)</u>
Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit (Note 9)		
Series A	\$ 1.15	\$ (0.57)
Series F	1.30	(0.87)

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 (unaudited)

For the periods ended June 30, 2021 and 2020

	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 attributable to holders of redeemable units	Net Assets attributable to holders of redeemable units, end of year
June 30, 2021							
Series A	\$ 17,923,956	\$ 575,634	\$ (899,040)	\$ (139,311)	\$ 114,560	\$ 3,223,945	\$ 20,799,744
Series F	7,251,553	359,517	(951,560)	(48,477)	37,543	1,291,877	7,940,453
	<u>\$ 25,175,509</u>	<u>\$ 935,151</u>	<u>\$ (1,850,600)</u>	<u>\$ (187,788)</u>	<u>\$ 152,103</u>	<u>\$ 4,515,822</u>	<u>\$ 28,740,197</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 attributable to holders of redeemable units	Net Assets attributable to holders of redeemable units, end of year
June 30, 2020							
Series A	\$ 17,011,039	\$ 280,483	\$ (545,662)	\$ (146,963)	\$ 120,485	\$ (1,695,225)	\$ 15,024,157
Series F	8,509,345	44,584	(1,443,940)	(61,477)	48,494	(1,090,555)	6,006,451
	<u>\$ 25,520,384</u>	<u>\$ 325,067</u>	<u>\$ (1,989,602)</u>	<u>\$ (208,440)</u>	<u>\$ 168,979</u>	<u>\$ (2,785,780)</u>	<u>\$ 21,030,608</u>

June 30, 2021

*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	\$ -	\$ (139,311)	\$ -	(139,311)
Series F	(5,689)	(42,788)	-	(48,477)
	<u>\$ (5,689)</u>	<u>\$ (182,100)</u>	<u>\$ -</u>	<u>\$ (187,788)</u>

June 30, 2020

*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	\$ -	\$ -	\$ (146,963)	(146,963)
Series F	-	-	(61,477)	(61,477)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (208,440)</u>	<u>\$ (208,440)</u>

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

Palos Equity Income Fund

Statements of Cash Flows

For the periods ended June 30, 2021 and 2020

	2021	2020
Cash provided by (used in):		
Operating Activities		
Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units	\$ 4,515,822	\$ (2,785,780)
Adjustments for non-cash items		
Net realized (gain) loss on sale of investments	(2,199,883)	905,432
Net change in unrealized (appreciation) depreciation of investments	(2,327,864)	1,929,084
Foreign exchange on cash	(10,947)	7,358
Change in non-cash balances		
Decrease in accrued income receivable	5,043	9,525
Increase in prepaid expenses	(639)	-
Increase in accrued liabilities	1,993	4,915
(Decrease) increase in management fees payable	(1,081)	23
Proceeds from sale of investments	11,905,361	15,224,348
Purchase of investments	<u>(11,933,288)</u>	<u>(14,674,092)</u>
Cash provided by operating activities	<u>(45,483)</u>	<u>620,813</u>
Financing Activities		
Proceeds from issuance of redeemable units	939,600	325,067
Amount paid on redemption of redeemable units	(1,850,600)	(1,988,292)
Distributions paid to holders or redeemable units, net of reinvested distributions	<u>(35,882)</u>	<u>(104,631)</u>
Cash used in financing activities	<u>(946,882)</u>	<u>(1,767,856)</u>
Decrease in cash during the period	(992,365)	(1,147,043)
Foreign exchange gain (loss) on cash	10,947	(7,358)
Cash, beginning of period	<u>1,314,626</u>	<u>1,288,990</u>
Cash, end of period	\$ <u>333,208</u>	\$ <u>134,589</u>
Supplemental information *		
Interest paid	\$ 922	\$ 96
Interest received	68,219	29,923
Dividends received, net of withholding taxes	256,285	282,847

*Included as a part of cash flows from operating activities

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 30, 2021 (unaudited)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost \$	Fair value \$
Investments owned (98.70%)				
Equities (95.30%)				
Basic Materials (6.79%)				
Agnico Eagle Mines Ltd	CAD	2,200	171,707	164,912
Capstone Mining Corp.	CAD	38,000	194,161	204,440
Dundee Precious Metals Inc.	CAD	33,270	255,260	249,858
First Quantum Minerals Ltd	CAD	9,900	181,212	282,843
K92 Mining Inc.	CAD	30,000	210,980	268,800
Lundin Mining Corp.	CAD	23,140	161,149	258,705
Nutrien Ltd	CAD	3,612	241,919	271,297
Teck Resources Ltd	CAD	8,750	178,371	249,813
Total Basic Materials			1,594,759	1,950,668
Communications (4.51%)				
Quebecor Inc.	CAD	12,340	379,996	407,960
Shopify Inc.	CAD	290	143,900	525,732
TELUS Corp.	CAD	12,990	309,260	361,122
Total Communications			833,156	1,294,814
Consumer, Cyclical (8.27%)				
Air Canada	CAD	9,200	216,807	234,600
Canadian Tire Corp Ltd	CAD	1,280	130,436	251,085
Chorus Aviation Inc.	CAD	33,100	161,230	157,225
Cineplex Inc.	CAD	11,500	154,401	171,350
Fire & Flower Holdings Corp.	CAD	150,000	130,500	163,500
Flow Water Inc. SUB REC RSTD July 8, 2021	CAD	52,200	86,130	86,130
Goodfood Market Corp.	CAD	21,000	241,794	161,070
Hardwoods Distribution Inc.	CAD	6,600	242,477	243,672
Pollard Banknote Ltd	CAD	4,270	97,813	241,340
Restaurant Brands International Inc.	CAD	2,560	209,557	204,467
Sleep Country Canada Holdings Inc.	CAD	7,100	150,121	210,657
Wal-Mart Stores Inc.	USD	1,440	173,096	251,897
Total Consumer, Cyclical			1,994,362	2,376,993
Consumer, Non-cyclical (6.65%)				
Boyd Group Services Inc.	CAD	1,160	222,557	261,673
Curaleaf Holdings Inc.	CAD	13,910	142,963	243,008
Green Thumb Industries Inc.	CAD	6,170	161,017	252,476
K-Bro Linen Inc.	CAD	6,380	217,869	276,509

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

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 31, 2021 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost \$	Fair value \$
Consumer, Non-cyclical (continued)				
Park Lawn Corp.	CAD	6,350	168,577	211,709
Payfare Inc.	CAD	11,900	67,896	119,000
Premium Brands Holdings Corp.	CAD	2,320	199,006	292,158
Savaria Corp.	CAD	12,740	178,542	255,310
Total Consumer, Non-cyclical			1,358,427	1,911,843
Energy (9.83%)				
Canadian Natural Resources Ltd	CAD	10,500	238,846	472,500
Enbridge Inc.	CAD	5,917	273,748	293,661
Keyera Corp.	CAD	11,020	311,990	367,076
Precision Drilling Corp.	CAD	3,200	140,845	165,312
Spartan Delta Corp.	CAD	34,000	142,944	205,020
Suncor Energy Inc.	CAD	5,000	115,288	148,450
Tamarack Valley Energy Ltd	CAD	122,200	225,867	314,054
Topaz Energy Corp.	CAD	18,500	264,623	320,050
Tourmaline Oil Corp.	CAD	10,720	144,261	379,810
Trican Well Service Ltd	CAD	60,000	152,240	160,200
Total Energy			2,010,652	2,826,133
Financial (30.36%)				
Alaris Equity Partners Income	CAD	16,000	245,119	271,200
Bank of Montreal	CAD	8,707	772,134	1,106,311
Black Diamond Group Ltd	CAD	22,000	89,109	88,000
Boardwalk Real Estate Investment Trust	CAD	7,217	261,231	295,031
Brookfield Asset Management Inc.	CAD	4,900	181,130	309,876
Brookfield Asset Management Reinsurance Partners Ltd	CAD	33	2,233	2,162
BSR Real Estate Investment Trust	USD	12,000	164,870	196,636
Canadian Apartment Properties REIT	CAD	2,800	124,610	162,736
Crombie Real Estate Investment Trust	CAD	15,660	236,521	277,808
Dream Industrial Real Estate Investment Trust	CAD	18,405	246,015	281,228
ECN Capital Corp.	CAD	25,300	128,020	235,290
Equitable Group Inc.	CAD	2,100	172,953	279,363
Flagship Communities REIT	USD	10,000	199,827	219,560
InterRent Real Estate Investment Trust	CAD	16,300	223,969	274,818
National Bank of Canada	CAD	7,060	445,403	654,956
Royal Bank of Canada	CAD	9,270	752,157	1,164,219
StorageVault Canada Inc.	CAD	53,420	129,762	256,950
The Bank of Nova Scotia	CAD	13,280	927,916	1,070,634
The Toronto-Dominion Bank	CAD	12,284	564,051	1,067,111
Tricon Residential Inc.	CAD	18,810	200,144	268,231
WPT Industrial Real Estate Investment Trust	USD	10,800	181,108	242,885
Total Financial			6,248,282	8,725,005

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

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 31, 2021 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost \$	Fair value \$
Funds (6.45%)				
iShares 1-5 Year Laddered Corporate Bond Index ETF	CAD	49,200	940,429	923,484
iShares 1-5 Year Laddered Government Bond Index ETF	CAD	51,970	947,122	930,783
Total Funds			1,887,551	1,854,267
Industrial (11.64%)				
Aecon Group Inc.	CAD	13,720	212,740	246,960
CAE Inc.	CAD	6,800	247,147	259,624
Canadian National Railway Co.	CAD	2,880	325,288	376,675
Canadian Pacific Railway Ltd	CAD	4,875	226,967	464,685
Cargojet Inc.	CAD	1,710	257,326	314,691
CCL Industries Inc.	CAD	3,560	166,893	243,041
GFL Environmental Inc.	CAD	8,500	247,350	336,770
IBI Group Inc.	CAD	11,200	114,405	114,464
Mullen Group Ltd	CAD	22,800	232,565	304,608
NanoXplore Inc.	CAD	28,000	111,002	125,160
TFI International Inc.	CAD	2,555	107,764	289,149
WSP Global Inc.	CAD	1,870	160,820	270,589
Total Industrial			2,410,267	3,346,416
Technology (5.35%)				
CGI Inc.	CAD	2,570	238,609	288,842
Farmers Edge Inc.	CAD	2,400	38,802	28,752
Kinaxis Inc.	CAD	1,700	193,821	277,219
Lightspeed POS Inc.	CAD	3,010	149,400	312,288
MDF Commerce Inc.	CAD	11,000	159,500	121,550
Nuvei Corp.	CAD	2,470	207,990	250,606
Open Text Corp.	CAD	4,120	210,403	259,354
Total Technology			1,198,525	1,538,611
Utilities (5.45%)				
Algonquin Power & Utilities Corp.	CAD	13,800	267,128	254,886
Brookfield Infrastructure Corp.	CAD	2,250	140,063	210,218
Brookfield Renewable Partners LP	USD	4,550	161,565	217,691
Capital Power Corp.	CAD	7,520	242,177	307,944
Innergex Renewable Energy Inc.	CAD	13,100	263,163	282,305
Northland Power Inc.	CAD	6,918	239,578	292,562
Total Utilities			1,313,674	1,565,606
Total Equities			20,849,655	27,390,356

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

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Schedule of Investment Portfolio as at June 31, 2021 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares/ Nominal value	Average cost \$	Fair value \$
Fixed Income (3.35%)				
Basic Materials (1.99%)				
Chemtrade Logistics Income Fund, - 6.5% / Oct 31, 2026	CAD	250,000	250,000	247,915
North American Construction Group Ltd, 5% / Mar 31, 2026	CAD	300,000	350,000	324,000
Total Basic Materials			600,000	571,915
Financial (1.36%)				
Fiera Capital Corp., - 5.00% / Jun. 30, 2023	CAD	375,000	374,692	391,875
Total Financial			374,692	391,875
Total Fixed Income			974,692	963,790
Warrants (0.04%)				
Star Royalties Ltd \$1 / Feb. 19, 2024	CAD	85,000	7,565	11,050
Total Warrants			7,565	11,050
Total investments owned			21,831,912	28,365,196
Commissions and other portfolio transaction costs			(27,560)	–
Net investments owned (98.70%)			21,804,352	28,365,196
Other assets, net (1.30%)				375,001
Net Assets Attributable to Holders of Redeemable Units (100%)				28,740,197

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

Palos Equity Income Fund

Notes to financial statements

As at June 30, 2021

(expressed in Canadian dollars)

1 General information

Palos Equity Income Fund (the "Fund") was formed in 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 Marleau (the settlor). The address of the Fund's registered office is 1 Place Ville-Marie, Suite 1670, Montréal, Québec, H3B 2B6, Canada. 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 August 26, 2021.

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 Boards (IASB).

Palos Equity Income Fund

Notes to financial statements

As at June 30, 2021

(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 managed 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 managed 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 considered 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 fair value through profit or loss (FVTPL), including certain investments in debt securities which have been designated at 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 or 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.

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Notes to financial statements

As at June 30, 2021

(expressed in Canadian dollars)

Income recognition

The interest income for distribution purposes shown on the statements of 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.

Realized gain on sale of investments and unrealized appreciation 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 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 an appropriate share of the underlying funds' net assets. The Fund does not invest in underlying funds for the purpose of exercising management 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

Palos Equity Income Fund

Notes to financial statements

As at June 30, 2021

(expressed in Canadian dollars)

funds are included within “Net change in unrealized appreciation (depreciation) of investments” in the statements of comprehensive income.

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 of investments” in the statements of 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 period.

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Notes to financial statements

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(expressed in Canadian dollars)

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 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 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.

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Notes to financial statements

As at June 30, 2021

(expressed in Canadian dollars)

b) Classification and measurement of investment 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.

5 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 June 30, 2021 and December 31, 2020.

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Credit rating	Total fixed income %	Total fixed income %
BB	-	-
Non-rated	100.0	100.0
	<u>100.0</u>	<u>100.0</u>

Source: Standard & Poor's

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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. 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 payable for investments purchased, redemptions payable, distributions payable, accrued liabilities and management fees payable. 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.

	June 30, 2021		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Accrued liabilities	–	44,386	44,386
Payable for investments purchased	–	22,944	22,944
Distributions payable	–	18,408	18,408
Redeemable units	28,740,197	–	28,740,197

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Financial liabilities	December 31, 2020		
	On demand \$	< 3 months \$	Total \$
Payable for investments purchased	–	56,000	56,000
Accrued liabilities	–	42,393	42,393
Distributions payable	–	18,605	18,605
Management fees payable	–	1,081	1,081
Redeemable units	25,175,509	–	25,175,509

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 Covid-19 has caused volatility in the global financial markets. The Fund's Manager had to take closer look at the market volatility and industry sector that were most affected by the Pandemic and adjusted investment strategy consequently.

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 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 June 30, 2021 and December 31, 2020, 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

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presents the impact on cash and the non-monetary exposure presents the impact on investments. Non-monetary items are investments in equity securities and are classified based on the currency in which they were purchased.

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
June 31, 2021						
U.S. Dollar	\$ (18,248)	1,128,669	1,110,421	(912)	56,433	55,521
% of Net Assets Attributable to Holders of Redeemable Units	(0.1)	3.9	3.8	0.0	0.2	0.2

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, 2020						
U.S. Dollar	\$ (247,201)	\$ 1,172,657	\$ 925,456	\$ (12,360)	\$ 58,633	\$ 46,273
% of Net Assets Attributable to Holders of Redeemable Units	(1.0)	4.7	3.7	0.0	0.2	0.2

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 cash that is 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

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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 variable held constant.

Terms to maturity	Total exposure	
	June 30, 2021 \$	December 31, 2020 \$
1-5 years	391,875	386,775
5-10 years	571,915	519,028
Total	963,790	905,803
Impact on net assets attributable to holders of redeemable units	28,516	32,904
Impact on net assets attributable to holders of redeemable units %	0.1%	0.1%

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 June 30, 2021, 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 \$1,248,069 and would represent 4.3% of the net assets attributable to holders of redeemable units of the Fund (December 31, 2020 – \$1,111,336 representing 4.4% of the net assets attributable to holders of redeemable units of the Fund).

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. Over the last year, as a result of Covid-19 Pandemic, the Fund's Manager adjusted concentration of the portfolio to reflect changes in the market due to the pandemic. The following is a summary of the Fund's concentration risk by market segment over the total investments market value:

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Market segment	Percentage (%) of portfolio	
	June 31, 2021	December 31, 2020
Basic Materials	6.9	7.1
Communications	4.6	5.5
Consumer, Cyclical	8.4	9.3
Consumer, Non-cyclical	6.7	8.2
Energy	10.0	7.0
Financial	30.8	29.2
Funds	6.5	6.2
Industrial	11.8	11.4
Technology	5.4	5.4
Utilities	5.5	6.7
Bonds	3.4	3.8
Warrants	–	0.2
	100.0	100.0

Asset class weighting	Percentage (%) of Net Assets	
	June 31, 2021	December 31, 2020
Bonds	3.4	3.6
Common stock	95.3	91.2
Warrants	–	0.2
Other net assets	1.3	5.0

Fair value measurement

The carrying amounts of receivable from investments sold, accrued income receivable, subscription receivable, prepaid expenses, payable for investments purchased, distributions payable, accrued liabilities and management fees payable 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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(expressed in Canadian dollars)

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Equity	\$ 27,390,356	\$ –	\$ –	27,390,356
Fixed Income	963,790	–	–	963,790
Warrants	11,050	–	–	11,050
	\$ 28,365,196	\$ –	\$ –	28,365,196

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Equity	\$ 22,950,190	\$ –	\$ –	22,950,190
Fixed Income	905,803	–	–	905,803
Warrants	38,533	5,175	–	43,708
	\$ 23,894,526	\$ 5,175	\$ –	23,899,701

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.

There was no change in levels during the periods ended June 30, 2021 and 2020.

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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6 Redeemable units

During the periods ended June 30, 2021 and 2020 the number of units issued, redeemed and outstanding were as follows:

	Redeemable Units, beginning of period	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of period
June 30, 2021					
Series A	2,808,470	83,910	(130,168)	15,908	2,778,120
Series F	1,042,356	46,424	(125,306)	4,771	968,245
June 30, 2020					
Series A	2,976,153	52,485	(104,681)	25,870	2,949,827
Series F	1,379,500	7,626	(309,631)	9,721	1,087,216

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.

7 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.

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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 period ended June 30, 2021 amounted to \$197,900 and \$0 respectively (June 30, 2020 – \$157,276 and nil respectively), with \$0 in outstanding fees due to the Manager as at June 30, 2021 (December 31, 2020 – \$1,081).

The Manager may waive or absorb the operation 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 period, the Manager did not waive any fees (2020 – did not waive any fees).

b) Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee during the period ended June 30, 2021 amounted to \$5,951 (June 30, 2020 – \$5,984) and consisted only of fixed fees.

8 Brokerage commissions and soft dollars

The total commissions paid by the Fund to brokers in connection with portfolio transactions for the periods ended June 30, 2021 and 2020, together with other transaction charges, are disclosed in the statements of 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 periods ended June 30, 2021 and 2020 is disclosed below.

	2021	2020
Soft dollars	\$2,986	\$1,738
Percentage of total transaction costs (%)	9%	6%

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

The increase in net assets attributable to holders of redeemable units per series per unit for the periods ended June 30, 2021 and 2020 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 Period	Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit
June 30, 2021			
Series A	\$ 3,223,945	2,792,846	\$ 1.15
Series F	1,291,877	992,791	1.30
June 30, 2020			
Series A	\$ (1,695,225)	2,959,031	\$ (0.57)
Series F	(1,090,555)	1,255,552	(0.87)

10 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 carryforwards, 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, 2020 are nil (December 31, 2019 – nil).