PALOS

2023 SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

PALOS EQUITY INCOME FUND

FOR THE PERIOD ENDED JUNE 30, 2023

Portfolio Manager
Palos Management Inc. ("Palos")

Charles Marleau, CIM
Chief Investment Officer

Amelia Li
Senior Analyst

This semi-annual management report of fund performance ("MFRP") contains financial highlights but does not contain either the interim or annual financial statements of the Palos Equity Income Fund (the "Fund"). You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-514-397-0188 or toll free 1-855-PALOS-88 (1-855-725-6788), by writing to us at Palos Equity Income Fund, Investor Relations, 1 Place Ville-Marie, Suite 1670, Montréal, Québec H3B 2B6 or by visiting our website at www.palos.ca or SEDAR at www.sedar.com. Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

This management discussion of Fund performance represents the management 's view of the significant factors and developments during the past six months that have affected the Fund's performance and outlook since December 31, 2022, the Fund's most recent fiscal year-end. The Fund is a mutual fund managed and advised by Palos Management Inc. (the "Manager"). For information on the Fund's longer-term performance, please refer to the Past Performance section of the report. This report should be read in conjunction with the Annual Management Report of Fund Performance for the year ended December 31, 2022.

Results of Operations

As at June 30, 2023, the Palos Equity Income Fund Series A posted a return of 3.5% (Series F 3.9%). The Fund's performance is net of fees and expenses. Please refer to the "Past Performance" section for the details of returns by class. Performance differences between classes of units are mainly due to management fees charged to each class.

The Fund's benchmark index, the S&P/TSX Composite Total Return Index, which includes reinvested dividends, saw an increase of 5.8% for the first six months of 2023. The value increases in the index, without accounting for reinvested dividends was 4.0%. The S&P/TSX Composite Total Return Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange which is the Toronto Stock Exchange (TSX).

The strongest performing sectors in Canada were the information technology sector (+47.5%) and the consumer discretionary sector (+11.3%). All other sectors had positive year-to-date returns, with the exception of the energy sector, which was the weakest performing sector with a -2.0% return. The second weakest sector was the materials sector with a return of +0.6%. Financials continue to be the highest weighted sector of both the fund and the benchmark. Bank of Montreal (4.2% weight), TD Bank (4.0%), Royal Bank of Canada (3.9%), and Bank of Nova Scotia (3.5%) are the top four core holdings on a percentage basis. For the first half of 2023, returns for the S&P/TSX Banks sub-index was +0.9% including dividends, trailing the S&P/TSX Composite Total Return Index (+5.8%).

An elevated interest rate environment, coupled with well-documented financial stress for many U.S. banks, brought greater volatility and impacted the performance of Canadian banks. Funding costs moved higher, and some depositors rotated from interest paying bank accounts to higher yielding alternatives like GICs and money market funds. Our view is that Canadian banks remain much more stable and attractive than banks in other countries given that Canada's banking system is viewed as amongst the most conservative and safest in the developed world. The quality of our banks is reflected in their reliable history of continually growing dividends.

The Energy sector was the second highest weighted sector in the fund as well as in the fund's benchmark. The energy sector saw challenging headwinds following a 10-year high in U.S. crude prices established in March of 2022 following the invasion of Ukraine. After trading in the low-$80's this April, crude oil, as measured by U.S. benchmark West Texas Intermediate (WTI), tested support levels in the mid-$60's in March and May. WTI has been "range bound" with barrels closing out the first half around US$70 per barrel. Natural gas prices have fared even worse as the U.S. Henry Hub contract fell roughly 60% between late December and early June 2023. While prices recovered somewhat by the end of June, sentiment in the energy patch remains poor.

On the bright side, the Canadian energy sector has strong fundamentals following the industry's drive to rein in capital spending, pay down debt and return capital to shareholders through dividends and share buybacks. There are potential catalysts. An economic recovery in China, anticipated oil purchases required to refill the Strategic Petroleum Reserve (SPR), plummeting rig count (i.e., less production), and OPEC's recent decision to curtail production should put a floor on prices. The top five energy sector holdings in the fund, with returns shown in parentheses, are Canadian Natural Resources Ltd. (+1.6%), Tourmaline Oil Corp. (-2.5%), Secure Energy Services (-6.8%), Topaz Energy Corp. (+0.6%), and Keyera Corp. (+6.6%).

The information technology sector saw very impressive gains as the sector benefitted from a surge in valuations related to the Artificial Intelligence (AI) phenomenon. The fund's overall performance benefited from our investment in Shopify Inc., which was up by 82.1% year-to-date. Other strong performers in the Canadian tech sector were Open Text Corp. (+37.3%), Constellation Software Inc. (+32.5%), Payfare Inc. (+30.5%), Kinaxis Inc. (+24.6%), CGI Group (+19.7%), Lightspeed Commerce (+15.8%) and Nuvei Corp. (+13.7%). Outperformance from the tech sector was a familiar theme globally and came on the heels of "the poorest year in decades" in 2022. In a strange twist, investors seemed to alter their perceptions of tech stocks which would normally face headwinds in a rising rate scenario. Rising rates are normally a poor environment for growth companies. The overriding sentiment saw tech stocks suddenly seen as "defensives" given the huge growth potential that AI holds for the future.

Diversification

The fund remains well diversified across all eleven sectors with financials (23.8%), energy (16.9%) and industrials (12.0%) carrying the largest weightings. On June 30, the fund held equity positions in eighty different companies. Fixed income exposure was 9.8% and this was comprised of a 3.3% weighting in the BMO Short Corporate Bond Index ETF (ZCS: TSX) and a 3.2% weighting in the BMO Short Federal Bond Index ETF (ZFS: TSX). ZCS and ZFS are Canadian exchange traded funds that are managed by Bank of Montreal. These securities are structured to replicate, to the extent possible, the performance of the FTSE TMX Canada Short Term Federal Bond Index and the Canada Short Term Corporate Bond Index. The fund also had a 3.3% weighting in convertible debentures.

Recent Developments

The first half of the year has been volatile for all investment classes (cash, fixed income, and equities). Much of this volatility is a result of an ongoing debate on whether inflation has peaked. The inflation "conundrum", which has been the driving force behind central banks aggressiveness in raising interest rates, has implications for future central bank policies. Investors appear to be convinced that we are at or near a peak in both interest rates and inflation. This renewed confidence drove equity markets higher in the U.S., Japan, and Europe. The broad-based S&P 500 Index saw an increase of 15.9% while the technology-laden NASDAQ Composite rose an impressive 31.7%. Mega cap stocks, particularly those with exposure to artificial intelligence (AI), attracted buyers. The fervor for anything related to AI has inspired speculation to seek exposure and the AI leadership group has recently been coined the "Magnificent Seven" due to their dominance in AI related technologies. Specifically, this group of seven includes Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. While the long-term prospects for AI companies are sound, the recent bout of enthusiasm has stretched valuations to extreme levels and a short-term pullback may be in the cards.

Canadian stocks, as measured by the S&P/TSX Composite Index, have trailed performance south of the border. For the first half of 2023, the index returned 4.0% with the comparative underperformance attributable to several factors. First, despite closely tied economies, Canada's economic make up is quite different than the United States. Our stock markets are dominated by the financials, energy and materials sectors. Canadian banks enjoyed a strong start to the year before skittish investors interpreted the failures of U.S. based Silicon Valley Bank, Signature Bank and First Republic as a banking crisis. Pessimism and fear took its toll on bank stocks globally and this included Canada's Big Six getting caught in the storm. Our banks are widely considered to be the safest in the world and we're confident that share prices will recover.

On the macro front the Canadian economy remains robust. The Bank of Canada (BoC) hiked interest rates by 0.25% on June 7 marking the first increase after taking pauses in March and April. The BoC has signaled that one or two hikes may be needed and this could slow economic activity down the road. Interest rates have risen from 0.25% to 4.75% since "hawkish" BoC policies were instituted 18 months ago. Higher interest payments should negatively impact home affordability. Consumer debt is stretched and a swath of mortgages will need to refinanced beginning in 2024. Strong employment numbers remain a positive force. Canada's immigration rate leads the G7 and our population recently surpassed the 40 million mark. A growing population supports demand for housing which in turn stabilizes the housing market. Consumption (consumer spending) should continue to rise, and this should positively impact the retail sector (Canadian Tire, Dollarama, grocers). There's good news on inflation data. Falling prices in food and energy, slowing wage growth, and a cooling labour market suggest that central bank policies are working. Keeping in mind that rising interest rates normally take 12 to 15 months to slow down economic activity, we are likely close to a tipping point where activity will slow, and this is precisely what the BoC is trying to achieve.

Taking this a step further, whether the eventual outcome is the desired engineered slowdown, or a full-blown recession, markets will adjust. Let's also remind ourselves that stocks are normally priced in accordance with what's expected to happen nine to fifteen months down the road. Recently released data suggests that consumer spending remains strong, particularly in the "experience" segment which includes entertainment, travel, and dining. Most flights are fully booked and restauranteurs are enjoying full capacity and pricing power. The "Covid revenge" phenomenon continues.

Confidence that both the Federal Reserve and the Bank of Canada will nail a "perfect landing" is growing. The metrics most followed by central bankers in the battle against inflation are the Personal Consumption Expenditures Index (PCE), the Consumer Price Index (CPI) and an array of labour statistics. Numerous economists are expressing confidence that the Fed's aggressive interest rate policies are working. In turn, this has bolstered investor confidence as sentiment indicators continue to improve and stock prices trend higher. Either way, investors seem confident that the worst is behind us, and this is apparent from the first half's performance. Enthusiasm for equities has improved as borne out by sentiment indicators. Historically, a strong start to a new year extends to second-half gains more often than not. Naturally, we will only know for sure six months from now, but the argument for continued upward momentum has its merits.

Related Party Transactions

Palos Management Inc., which acts as the investment fund manager and portfolio advisor to the Fund, is deemed to be a related party to the Fund. Palos Management Inc. and the Fund were not party to any other related party transactions during the last year.

The Fund's independent Review Committee (the "IRC") has considered whether Palos Management Inc.'s roles as investment fund manager and portfolio advisor constitutes a conflict of interest requiring standing instructions and has concluded that it does not. Nevertheless, the IRC will review the arrangement from time to time to ensure that Palos Management Inc., in its dual capacity as investment fund manager and as portfolio manager, is performing adequately in both roles. In its analysis, the IRC will consider the following criteria, among others: the performance of the Fund relative to other funds in the same category, and the quantum of the fees paid to the Manager in relation to the performance of the Fund and the amount of assets under management in the Fund. Palos Management Inc. has relied on the approval of the IRC in proceeding in this manner

Manager, Trustee and Portfolio Advisor: Palos Management Inc. is the manager, and portfolio advisor of the Fund. Computershare Trust Company of Canada is the trustee of the Fund.
Custodian: NBIN Inc., a subsidiary of National Bank, is custodian of the Fund.
Registrar: SGGG Fund Services Inc. is the registrar of the Fund and keeps records of who owns the units of the Fund.

MANAGEMENT FEES

Management fees paid by the Fund are calculated monthly, based on 1/12th of the annualized management fee per series applied to the NAV per series as at the last business day of the preceding month.

Series	Trailer commissions (%)	Other (%)
A	0.75	0.75
F	0.00	0.75

Other – includes day-to-day administration of the Fund, portfolio advisory services and Manager's compensation.

FINANCIAL HIGHLIGHTS
Series A

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six years.

The Fund's Net Assets per Unit (1)	**June 30, 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net Assets, beginning of period	**$6.51**	**$7.24**	**$6.38**	**$5.72**	**$5.35**	**$6.68**
Increase (decrease) from operations:						
Total revenue	0.11	0.19	0.17	0.16	0.18	0.16
Total expenses	(0.09)	(0.19)	(0.20)	(0.15)	(0.17)	(0.16)
Realized gains (losses) for the period	0.39	0.10	0.82	0.20	0.01	0.27
Unrealized gains (losses) for the period	(0.19)	(0.73)	0.61	0.52	0.74	(1.20)
Total increase (decrease) from operations (2)	**0.22**	**(0.63)**	**1.40**	**0.73**	**0.76**	**(0.93)**
Distributions:						
From income (excluding dividends)	0.00	0.00	0.00	0.00	0.02	0.00
From dividends	0.00	0.00	0.00	0.01	0.00	0.00
From capital gains	0.05	0.04	0.54	0.01	0.00	0.23
Return of capital	0.00	0.06	0.00	0.08	0.38	0.17
Total Annual Distributions (3)	**0.05**	**0.10**	**0.54**	**0.10**	**0.40**	**0.40**
Net Assets, end of period	**$6.69**	**$6.51**	**$7.24**	**$6.38**	**$5.72**	**$5.35**

(1) The information is derived from the Fund's unaudited financial statements as at June 30, 2023 and audited annual financial statements as at December 31 of each year.

(2) Net assets and distributions are based on the actual number of unit outstanding at the relevant time. The increase/decrease in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing nets assets per units.

(3) Certain distributions were paid in cash to unitholders who ask for cash payment. For the other unitholders, the distributions were reinvested in additional units of the Fund.

Ratios/Supplemental Data	**June 30, 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Total Net Asset Value ($000's) (1)	20,766	20,332	22,005	17,924	17,011	15,862
Number of units outstanding (000's)	3,106	3,134	3,038	2,808	2,976	2,966
Management expense ratio (2)	2.62%	2.64%	2.62%	2.66%	2.71%	2.52%
Management expense ratio before waivers or absorptions	2.62%	2.64%	2.62%	2.66%	2.71%	2.52%
Trading expense ratio (3)	0.09%	0.16%	0.18%	0.33%	0.18%	0.31%
Portfolio turnover rate (4)	75.95%	67.39%	68.29%	97.73%	63.56%	91.30%
Net Asset Value per unit	$6.69	$6.51	$7.24	$6.38	$5.72	$5.35

(1) This information is provided as at the end of the year shown.

(2) Management expense ratio represents the total expenses (excluding commissions and other portfolio transactions costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of net asset value during the period.

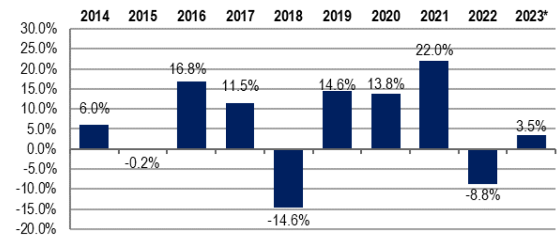
(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessary a relationship between a high turnover rate and the performance of a fund.

PAST PERFORMANCE

The following information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The following charts show the investment fund's performance for each of the years shown, and illustrate how the investment fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



* For the 6 months period ended June 30, 2023

FINANCIAL HIGHLIGHTS
Series F

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six years.

The Fund's Net Assets per Unit (1)	**June 30, 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net Assets, beginning of period	**$7.05**	**$7.77**	**$6.96**	**$6.17**	**$5.69**	**$7.03**
Increase (decrease) from operations:						
Total revenue	0.12	0.21	0.19	0.18	0.19	0.17
Total expenses	(0.07)	(0.14)	(0.16)	(0.12)	(0.13)	(0.11)
Realized gains (losses) for the period	0.43	0.12	0.91	0.15	0.01	0.28
Unrealized gains (losses) for the period	(0.18)	(0.85)	0.68	0.20	0.79	(1.28)
Total increase (decrease) from operations (2)	**0.30**	**(0.66)**	**1.62**	**0.42**	**0.86**	**(0.94)**
Distributions:						
From income (excluding dividends)	0.00	0.00	0.00	0.00	0.06	0.00
From dividends	0.00	0.00	0.00	0.02	0.00	0.00
From capital gains	0.05	0.05	0.78	0.01	0.00	0.23
Return of capital	0.00	0.05	0.00	0.07	0.34	0.17
Total Annual Distributions (3)	**0.05**	**0.10**	**0.78**	**0.10**	**0.40**	**0.40**
Net Assets, end of period	**$7.28**	**$7.05**	**$7.77**	**$6.96**	**$6.17**	**$5.69**

(1) The information is derived from the Fund's unaudited financial statements as at June 30, 2023 and audited annual financial statements as at December 31 of each year.
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(3) Certain distributions were paid in cash to unitholders who ask for cash payment. For the other unitholders, the distributions were reinvested in additional units of the Fund.

Ratios/Supplemental Data	**June 30, 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Total Net Asset Value ($000's) (1)	6,103	6,436	7,723	7,252	8,509	9,040
Number of units outstanding (000's)	839	913	994	1,042	1,380	1,587
Management expense ratio (2)	1.76%	1.78%	1.77%	1.81%	1.86%	1.67%
Management expense ratio before waivers or absorptions	1.76%	1.78%	1.77%	1.81%	1.86%	1.67%
Trading expense ratio (3)	0.22%	0.15%	0.19%	0.17%	0.19%	0.31%
Portfolio turnover rate (4)	75.95%	67.39%	68.29%	97.73%	63.56%	91.30%
Net Asset Value per unit	$7.28	$7.05	$7.77	$6.96	$6.17	$5.69

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PAST PERFORMANCE

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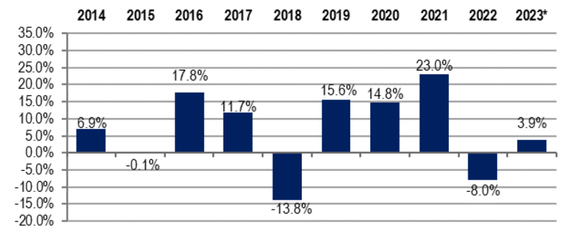
The following charts show the investment fund's performance for each of the years shown, and illustrate how the investment fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



* For the 6 months period ended June 30, 2023

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2023

Portfolio by Category

The major portfolio categories and top 25 holdings of the Fund at the end of the period are indicated in the following tables. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available.

Regional Weightings (%)	
Canada	99.3%
United States	0.7%
Total	100.0%

Sector Weightings (%)	
Communication Services	2.5%
Consumer Discretionary	4.0%
Consumer Staples	1.4%
Energy	18.8%
Financials	26.5%
Health Care	1.7%
Industrials	13.3%
Information Technology	6.2%
Materials	9.6%
Real Estate	8.4%
Utilities	6.7%
Cash	0.9%
Total	100%

Portfolio Long/Short Breakdown (%)	
Long positions	99.1%
Short positions	0.0%
Cash	0.9%
Total	100%

Asset Class Weightings (%)	
Common Stocks	89.3%
Fixed Income	9.8%
Cash	0.9%
Total	100%

Top 25 holdings (%)	
Bank of Montreal	4.12%
The Toronto-Dominion Bank	4.02%
Royal Bank of Canada	3.93%
The Bank of Nova Scotia	3.49%
BMO Short Corporate Bond Index ETF	3.26%
BMO Short Federal Bond Index ETF	3.20%
National Bank of Canada	2.36%
Canadian Natural Resources Ltd	2.33%
TELUS Corp.	2.27%
Northland Power Inc.	2.18%
Tourmaline Oil Corp.	1.91%
Canadian Pacific Kansas City Ltd	1.51%
Canadian National Railway Co.	1.45%
Secure Energy Services Inc.	1.43%
Topaz Energy Corp.	1.40%
Brookfield Corp.	1.31%
North American Construction Group Ltd 5.50% 30JUN2028 CONV. $24.75	1.31%
Shopify Inc.	1.29%
InterRent Real Estate Investment Trust	1.24%
Keyera Corp.	1.22%
ADENTRA Inc.	1.20%
Dream Industrial Real Estate Investment Trust	1.14%
Tamarack Valley Energy Ltd	1.13%
Innergex Renewable Energy Inc.	1.12%
Teck Resources Ltd	1.11%
	50.93%

The total Net Asset Value of the Fund as at June 30, 2023 was $26,868,311.

The prospectus and other information about the Fund are available on the internet at www.sedar.com.

For more information, contact your investment advisor or:

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