

Palos Equity Income Fund

Interim Financial Statements (unaudited)

June 30, 2024 and 2023

(expressed in Canadian dollars)

Palos Equity Income Fund

Notice

The following Palos Equity Income Fund interim financial statements have not been reviewed by the Fund's external auditors.

Palos Equity Income Fund

Statements of Financial Position (unaudited) As at June 30, 2024 and December 31, 2023

	June 30, 2024	December 31, 2023
ASSETS		
Current assets		
Investments at fair value through profit or loss (FVTPL)	\$ 27,782,339	\$ 26,886,369
Cash	438,721	412,620
Accrued income receivable	118,171	121,536
Subscription receivable	127,575	5,225
Receivable from investments sold	40,396	–
Prepaid expenses	2,885	4,161
Other assets	3,951	–
	<u>28,514,038</u>	<u>27,429,911</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	62,010	51,423
Distributions payable	13,257	113,638
Management fees payable	–	1,472
Redemptions payable	5,366	–
Payable for investments purchased	14,520	–
	<u>95,153</u>	<u>166,533</u>
Net assets attributable to holders of redeemable units	<u>\$ 28,418,885</u>	<u>\$ 27,263,378</u>
Net assets attributable to holders of redeemable units per series		
Series A	\$ 22,056,781	\$ 21,010,350
Series F	<u>6,362,104</u>	<u>6,253,028</u>
	<u>\$ 28,418,885</u>	<u>\$ 27,263,378</u>
Net assets attributable to holders of redeemable units per series per unit		
Series A	\$ 7.05	\$ 6.74
Series F	7.72	7.34

Approved by the Manager, Palos Management Inc.

Alain Lizotte Director
Alain Lizotte, CFO, COO

Philippe Marleau Director
Philippe Marleau, CEO

Palos Equity Income Fund

Statements of Comprehensive Income (unaudited)

For the periods ended June 30, 2024 and 2023

	2024	2023
Income		
Dividend income	\$ 388,446	\$ 378,873
Interest income for distribution purposes	66,155	74,744
Net realized gain on sale of investments	900,411	1,602,811
Net change in unrealized appreciation (depreciation) of investments	478,990	(741,154)
Other income	71	—
	<u>1,834,073</u>	<u>1,315,274</u>
Expenses		
Management fees (Note 8)	211,153	208,473
Administration and other professional fees	56,615	47,569
Audit fees (Note 5)	27,102	24,051
Legal fees	19,891	17,356
Transaction costs (Note 9)	13,743	25,973
Bank charges and interest	11,548	22,438
Trustee fees	7,892	6,860
Independent review committee fees	5,968	5,951
Withholding tax expense	67	—
	<u>353,979</u>	<u>358,671</u>
Increase in net assets attributable to holders of redeemable units	<u>\$ 1,480,094</u>	<u>\$ 956,603</u>
Increase in net assets attributable to holders of redeemable units per series (Note 10)		
Series A	\$ 1,120,082	\$ 694,231
Series F	<u>360,012</u>	<u>262,372</u>
	<u>\$ 1,480,094</u>	<u>\$ 956,603</u>
Increase in net assets attributable to holders of redeemable units per unit (Note 10)		
Series A	\$ 0.36	\$ 0.22
Series F	0.43	0.30

Palos Equity Income Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (unaudited)

For the periods ended June 30, 2024 and 2023

	Net assets attributable to holders of redeemable units, beginning of period	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 period
June 30, 2024							
Series A	\$ 21,010,350	\$ 981,882	\$ (1,035,904)	\$ (154,859)	\$ 135,230	\$ 1,120,082	\$ 22,056,781
Series F	6,253,028	178,994	(422,835)	(41,895)	34,800	360,012	6,362,104
	<u>\$ 27,263,378</u>	<u>\$ 1,160,876</u>	<u>\$ (1,458,739)</u>	<u>\$ (196,754)</u>	<u>\$ 170,030</u>	<u>\$ 1,480,094</u>	<u>\$ 28,418,885</u>

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units*	Reinvestment of distribution 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 period
June 30, 2023							
Class A	\$ 20,332,452	\$ 742,598	\$ (981,746)	\$ (156,357)	\$ 134,487	\$ 694,231	\$ 20,765,665
Class F	6,435,647	82,300	(668,912)	(42,744)	33,983	262,372	6,102,646
	<u>\$ 26,768,099</u>	<u>\$ 824,898</u>	<u>\$ (1,650,658)</u>	<u>\$ (199,101)</u>	<u>\$ 168,470</u>	<u>\$ 956,603</u>	<u>\$ 26,868,311</u>

Palos Equity Income Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (unaudited) (continued) For the periods ended June 30, 2024 and 2023

*Detailed distributions to holders of redeemable units

	From net investment income	From net realized gains on investments and derivatives	From return of capital	Total distributions to unitholder
June 30, 2024				
Class A	\$ —	\$ (154,859)	\$ —	\$ (154,859)
Class F	—	(41,895)	—	(41,895)
	<u>\$ —</u>	<u>\$ (196,754)</u>	<u>\$ —</u>	<u>\$ (196,754)</u>
June 30, 2023				
Class A	\$ —	\$ (156,357)	\$ —	\$ (156,357)
Class F	—	(42,744)	—	(42,744)
	<u>\$ —</u>	<u>\$ (199,101)</u>	<u>\$ —</u>	<u>\$ (199,101)</u>

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

Palos Equity Income Fund

Statements of Cash Flows (unaudited) For the periods ended June 30, 2024 and 2023

	2024	2023
Cash provided by (used in):		
Operating Activities		
Increase in net assets attributable to holders of redeemable units	\$ 1,480,094	\$ 956,603
Adjustments for non-cash items		
Net realized gain on sale of investments	(900,411)	(1,602,811)
Net change in unrealized (appreciation) depreciation of investments	(478,990)	741,154
Foreign exchange loss on cash	1,014	(1,743)
Change in non-cash balances		
Decrease in accrued income receivable	3,365	8,949
Decrease (increase) in prepaid expenses	1,276	(7,610)
Increase (decrease) in accrued liabilities	10,587	(24,939)
Decrease in management fees payable	(1,472)	-
Increase in other assets	(3,951)	-
Proceeds from sale of investments	5,926,336	11,425,032
Purchase of investments	(5,468,781)	(10,622,125)
Cash provided by operating activities	<u>569,067</u>	<u>872,510</u>
Financing Activities		
Proceeds from issuance of redeemable units	867,462	824,898
Amount paid on redemption of redeemable units	(1,282,309)	(1,650,658)
Distributions to holders of redeemable units, net of reinvested distributions	(127,105)	(33,587)
Cash used in financing activities	<u>(541,952)</u>	<u>(859,347)</u>
Increase in cash during the period	27,115	13,163
Foreign exchange (loss) gain on cash	(1,014)	1,743
Cash, beginning of period	412,620	107,456
Cash, end of period	<u>\$ 438,721</u>	<u>\$ 122,362</u>
Supplemental information*		
Interest paid	\$ 540	\$ 1,562
Interest received	66,241	76,036
Dividends received, net of withholding taxes	417,695	379,442

*Included as a part of cash flows from operating activities

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 30, 2024 (unaudited)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Investments owned (97.76%)				
Equities (94.54%)				
Basic Materials (7.74%)				
Agnico Eagle Mines Ltd.	CAD	2,861	\$ 180,855	\$ 256,002
Endeavour Mining PLC	CAD	7,000	178,337	202,300
Franco-Nevada Corp.	CAD	2,400	387,066	389,280
i-80 Gold Corp.	CAD	103,500	146,756	149,040
K92 Mining Inc.	CAD	31,527	202,657	247,487
North American Construction Group Ltd.	CAD	5,500	161,501	145,090
Osisko Mining Inc.	CAD	28,000	80,194	80,080
Russel Metals Inc.	CAD	2,900	120,547	108,083
Teck Resources Ltd.	CAD	5,780	265,980	378,937
Wheaton Precious Metals Corp.	CAD	3,400	169,196	243,882
Total Basic Materials			1,893,089	2,200,181
Communications (4.69%)				
BCE Inc.	CAD	7,700	402,382	341,187
Cogeco Communications Inc.	CAD	2,500	132,631	128,975
Shopify Inc.	CAD	3,500	235,948	316,435
TELUS Corp.	CAD	26,440	673,587	547,572
Total Communications			1,444,548	1,334,169
Consumer, Cyclical (2.98%)				
ADENTRA Inc.	CAD	9,700	303,766	361,519
Canadian Tire Corp Ltd.	CAD	1,750	224,486	237,545
Pollard Banknote Ltd.	CAD	8,870	228,453	248,360
Total Consumer, Cyclical			756,705	847,424
Consumer, Non-cyclical (2.64%)				
dentalcorp Holdings Ltd.	CAD	22,700	182,596	187,048
Green Thumb Industries Inc.	CAD	9,700	145,621	160,050
Information Services Corp.	CAD	8,200	186,856	211,724
KITS Eyecare Ltd.	CAD	10,000	64,437	85,700
Payfare Inc.	CAD	17,300	105,498	104,319
Total Consumer, Non-cyclical			685,008	748,841

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 30, 2024 (continued) (unaudited)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Energy (19.28%)				
AltaGas Ltd.	CAD	7,500	\$ 171,385	\$ 231,825
ARC Resources Ltd.	CAD	12,000	210,266	292,920
Canadian Natural Resources Ltd.	CAD	9,600	251,831	467,808
Cardinal Energy Ltd.	CAD	4,000	27,800	26,800
CES Energy Solutions Corp.	CAD	30,300	71,348	233,310
Enbridge Inc.	CAD	6,600	294,628	321,222
Enerflex Ltd.	CAD	23,800	182,667	175,644
Freehold Royalties Ltd.	CAD	19,200	212,028	261,504
Headwater Exploration Inc.	CAD	29,800	166,547	216,050
Keyera Corp.	CAD	9,920	282,240	375,869
Matr Corp.	CAD	7,700	129,524	128,744
Parkland Corp.	CAD	6,800	207,658	260,780
Precision Drilling Corp.	CAD	2,600	186,656	250,120
Secure Energy Services Inc.	CAD	27,300	173,228	330,603
Surge Energy Inc.	CAD	28,600	235,710	201,058
Tamarack Valley Energy Ltd.	CAD	80,200	302,971	299,146
TC Energy Corp.	CAD	6,100	300,568	316,346
Topaz Energy Corp.	CAD	16,700	305,193	400,800
Tourmaline Oil Corp.	CAD	7,120	327,496	441,796
Trican Well Service Ltd.	CAD	51,300	164,450	247,266
Total Energy			4,204,194	5,479,611
Financial (28.82%)				
Alaris Equity Partners Income	CAD	14,400	204,961	227,664
Bank of Montreal	CAD	8,585	924,618	985,816
Boardwalk Real Estate Investment Trust	CAD	3,967	161,942	279,594
Brookfield Asset Management Ltd.	CAD	4,600	190,045	239,568
Brookfield Business Corp.	CAD	5,000	146,683	140,550
Brookfield Corp.	CAD	6,100	245,360	347,090
BSR Real Estate Investment Trust	USD	15,300	236,925	251,104
Canadian Imperial Bank of Commerce	CAD	15,763	817,920	1,025,383
Crombie Real Estate Investment Trust	CAD	20,460	315,744	260,865
Dream Industrial Real Estate Investment Trust	CAD	23,705	297,415	300,342
EQB Inc.	CAD	3,150	169,751	293,706
Flagship Communities REIT	USD	12,600	231,118	240,422
InterRent Real Estate Investment Trust	CAD	28,500	352,141	339,435
National Bank of Canada	CAD	5,810	378,213	630,443
Royal Bank of Canada	CAD	8,200	705,072	1,194,330
StorageVault Canada Inc.	CAD	51,120	174,295	238,219
The Toronto-Dominion Bank	CAD	12,929	698,589	972,261
Trisura Group Ltd.	CAD	5,400	175,921	223,452
Total Financial			6,426,713	8,190,244

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 30, 2024 (continued) (unaudited)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Funds (7.38%)				
BMO Short Corporate Bond Index ETF	CAD	60,927	\$ 782,608	\$ 821,296
BMO Short Federal Bond Index ETF	CAD	64,930	850,852	877,204
Purpose High Interest Savings ETF	CAD	7,990	399,608	399,820
Total Funds			2,033,068	2,098,320
Industrial (12.09%)				
Ag Growth International Inc.	CAD	4,500	234,293	236,340
Air Canada	CAD	8,000	145,805	143,200
ATS Corp.	CAD	5,100	233,244	225,777
Brookfield Infrastructure Corp.	CAD	4,875	213,589	224,494
Canadian National Railway Co.	CAD	2,220	262,075	358,885
Canadian Pacific Kansas City Ltd.	CAD	3,695	192,459	398,099
Cargojet Inc.	CAD	2,115	251,834	296,100
CCL Industries Inc.	CAD	3,710	186,707	266,897
Chemtrade Logistics Income Fund	CAD	13,000	104,914	120,120
GFL Environmental Inc.	CAD	5,700	200,476	303,696
Mullen Group Ltd.	CAD	23,100	283,833	303,534
TFI International Inc.	CAD	1,395	154,482	277,103
WSP Global Inc.	CAD	1,320	154,693	281,200
Total Industrial			2,618,404	3,435,445
Technology (3.54%)				
CGI Inc.	CAD	1,820	175,985	248,521
Constellation Software Inc.	CAD	75	144,161	295,641
Kinaxis Inc.	CAD	1,690	240,163	266,614
Open Text Corp.	CAD	4,741	222,536	194,760
Total Technology			782,845	1,005,536
Utilities (5.37%)				
Boralex Inc.	CAD	9,400	281,544	314,994
Capital Power Corp.	CAD	10,720	389,543	417,973
Innergex Renewable Energy Inc.	CAD	27,100	353,772	277,233
Northland Power Inc.	CAD	21,918	638,548	515,511
Total Utilities			1,663,407	1,525,711
Total Equities			22,507,981	26,865,482

Palos Equity Income Fund

Schedule of Investment Portfolio as at June 30, 2024 (continued) (unaudited)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Fixed Income (3.17%)				
Basic Materials (2.14%)				
Chemtrade Logistics Income Fund 6.50% 31OCT26	CAD	250,000 \$	250,000 \$	259,540
North American Construction Group Ltd. 5.50% 30JUN28	CAD	300,000	300,000	351,071
Total Basic Materials			550,000	610,611
Consumer, Cyclical (1.03%)				
Exchange Income Corp. 5.25% 15JAN29	CAD	300,000	300,000	291,405
Total Consumer, Cyclical			300,000	291,405
Total Fixed Income			850,000	902,016
Warrants (0.05%)				
Basic Materials (0.04%)				
i-80 Gold Corp. \$2.15 01MAY28	CAD	32,500	12,350	10,725
Total Basic Materials			12,350	10,725
Consumer, Cyclical (0.01%)				
The Lion Electric Co. \$2.80 16DEC27	CAD	20,204	–	4,041
Total Consumer, Cyclical			–	4,041
Energy (0.00%)				
Tidewater Midstream and Infrastructure Ltd. \$1.44 16AUG24	CAD	15,000	1,500	75
Total Energy			1,500	75
Technology (0.00%)				
Constellation Software Inc. \$0 31MAR40	CAD	90	–	–
Total Technology			–	–
Total Warrants			13,850	14,841
Total investments owned			23,371,831	27,782,339
Commissions and other portfolio transaction costs			(28,245)	–
Net investments owned (97.76%)			23,343,586	27,782,339
Other assets, net (2.24%)				636,546
Net Assets Attributable to Holders of Redeemable Units (100%)				28,418,885

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(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, 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, Quebec, H3B 2B6 Canada. The Fund is an open-ended mutual fund, is qualified as a mutual fund 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 27, 2024.

2 Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards and International Accounting Standard 34 as issued by the International Accounting Standards Board (IFRS Accounting Standards).

3 Summary of material accounting policy information

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.

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(expressed in Canadian dollars)

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets that are measured at amortized cost or FVOCI. Financial assets held by the Fund that 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 statement of financial position dates, 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. Transaction costs are expensed as incurred in the statements of comprehensive income. The Fund's investment assets and liabilities are measured at 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 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. 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 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 (loss) 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.

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(expressed in Canadian dollars)

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 Investment at FVTPL 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 comprehensive income.

Classification of redeemable units

The Fund's outstanding redeemable units are in different series that 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.

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(expressed in Canadian dollars)

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 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 indebtedness.

Increase in net assets attributable to holders of redeemable units per unit

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

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.

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(expressed in Canadian dollars)

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.

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 Audit fees

For the year ended December 31, 2023, fees paid or payable to PricewaterhouseCoopers LLP and its network firms for the audit of the financial statements of Canadian Reporting Issuer were \$46,897 (2022 – \$37,514). Fees for other services were \$11,810 (2022 – \$11,853).

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(expressed in Canadian dollars)

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. As at June 30, 2024, all investments in fixed income were non-rated (December 31, 2023 – non-rated).

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, 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.

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(expressed in Canadian dollars)

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 that 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, 2024		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Accrued liabilities	–	62,010	62,010
Distributions payable	–	13,257	13,257
Redemptions payable	–	5,366	5,366
Payable for investments purchased	–	14,520	14,520
Redeemable units	28,418,885	–	28,418,885

	December 31, 2023		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Distributions payable	–	113,638	113,638
Accrued liabilities	–	51,423	51,423
Management fees payable	–	1,472	1,472
Redeemable units	27,263,378	–	27,263,378

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 tables 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.

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(expressed in Canadian dollars)

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, 2024 and December 31, 2023, 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 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 30, 2024						
U.S. Dollar	\$ (15,642)	\$ 491,526	\$ 475,884	\$ (782)	\$ 24,576	\$ 23,794
% of Net Assets						
Attributable to Holders of Redeemable Units						
	(0.1)	1.7	1.6	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, 2023						
U.S. Dollar	\$ 3,019	\$ 475,952	\$ 478,971	\$ 151	\$ 23,798	\$ 23,949
% of Net Assets						
Attributable to Holders of Redeemable Units						
	0.0	1.7	1.7	0.0	0.1	0.1

Palos Equity Income Fund

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(expressed in Canadian dollars)

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 that 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.

Terms to maturity	June 30, 2024	December 31, 2023
	\$	\$
1-3 years	259,540	244,280
3-5 years	642,476	367,836
Over 5 years	-	281,229
Total	902,016	893,345
Impact on net assets attributable to holders of redeemable units	31,500	26,646
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, 2024, 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 \$1,194,641 and would represent 4.2% of the net assets attributable to holders of redeemable units of the Fund (December 31, 2023 – \$1,317,432 representing 4.8%).

Palos Equity Income Fund

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(expressed in Canadian dollars)

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 investments market value:

Market segment	Percentage of portfolio	
	June 30, 2024	December 31, 2023
Investments owned		
Basic Materials	10.2	4.6
Communications	4.7	4.9
Consumer, Cyclical	4.1	2.9
Consumer, Non-cyclical	2.7	3.7
Energy	19.7	20.1
Financial	29.4	31.3
Funds	7.6	6.9
Industrial	12.4	11.1
Technology	3.6	3.9
Utilities	5.5	7.2
Bonds	–	3.3
Warrants	0.1	0.1
Total net investments	100.0	100.0

Asset class weighting	Percentage of net assets	
	June 30, 2024	December 31, 2023
Investments owned		
Bonds	3.2	3.3
Common stock	94.5	95.2
Warrants	0.1	0.1
Other net assets	2.2	1.4
Total net investments	100.0	100.0

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

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(expressed in Canadian dollars)

Fair value measurement

The carrying amounts of accrued income receivable, subscription receivable, prepaid expenses, other assets, distributions payable, accrued liabilities, redemptions payable 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).

June 30, 2024:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 26,865,482	\$ –	\$ –	\$ 26,865,482
Fixed Income	–	902,016	–	902,016
Warrant	14,841	–	–	14,841
	\$ 26,880,323	\$ 902,016	\$ –	\$ 27,782,339

December 31, 2023:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 25,975,003	\$ –	\$ –	\$ 25,975,003
Fixed Income	–	893,345	–	893,345
Warrant	18,021	–	–	18,021
	\$ 25,993,024	\$ 893,345	\$ –	\$ 26,886,369

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 period ended June 30, 2024 and year ended December 31, 2023.

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.

Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2024

(expressed in Canadian dollars)

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.

7 Bank indebtedness

The Partnership has bank indebtedness in the form of margin debt. The maximum amount authorized by this lending arrangement is based on the securities held by the Partnership. The margin debt is guaranteed dollar for dollar by a security held by the Partnership. Any outstanding balance in the margin account accrued interest on a daily basis at a rate of the Bank of Canada prime rate plus 0.65%. As at June 30, 2024, margin debt was \$nil (December 31, 2023 – \$nil).

8 Redeemable units

During the periods ended June 30, 2024 and 2023, 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, 2024					
Series A	3,118,688	140,674	(148,861)	19,114	3,129,615
Series F	851,733	23,956	(55,857)	4,497	824,329
June 30, 2023					
Series A	3,123,732	108,762	(146,299)	20,006	3,106,201
Series F	912,859	11,127	(89,913)	4,650	838,723

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(expressed in Canadian dollars)

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.

9 Related party transactions

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 NAV 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 period ended June 30, 2024 amounted to \$211,153 and nil, respectively (2023 – \$208,473 and nil, respectively), with \$3,951 in advance paid to the Manager as at June 30, 2024 (December 31, 2023 outstanding fees due to manager - \$1,472).

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 (2023 – did not waive any fees).

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Notes to Financial Statements (unaudited)

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(expressed in Canadian dollars)

Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee during the period ended June 30, 2024 amounted to \$5,968 (2023 – \$5,951) and consisted only of fixed fees.

10 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, 2024 and 2023, 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 these criteria, preference may be given to brokerage firms that 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, 2024 and 2023 is disclosed below:

		2024	2023
Soft dollars	\$	6,975	2,958
Percentage of total transaction costs (%)		50.8%	11.4%

11 Increase in net assets attributable to holders of redeemable units per series

The increase in net assets attributable to holders of redeemable units per series for the periods ended June 30, 2024 and 2023 is calculated as follows:

	Increase in net assets attributable to holders of redeemable units per series	Weighted average of redeemable units outstanding during the period	Increase in net assets attributable to holders of redeemable units per series per unit
June 30, 2024			
Series A	\$ 1,120,082	3,080,707	\$ 0.36
Series F	360,012	838,887	0.43
June 30, 2023			
Class A	\$ 694,231	3,148,781	\$ 0.22
Class F	262,372	869,448	0.30

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12 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, 2023 were \$nil (2022 – \$nil).