PALOS

2024 ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

PALOS EQUITY INCOME FUND

FOR THE ANNUAL PERIOD ENDED DECEMBER 31, 2024

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This 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 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.sedarplus.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 affecting the Fund's performance and outlook. The Fund is a mutual fund managed and advised by Palos Management Inc. (the "Manager").

Investment Objective and Strategies

The Fund's objective is to provide long-term capital growth, attractive and steady income, and deliver trading-enhanced returns.

To achieve its objective, the Fund invests primarily in Canadian income-paying securities, such as equity securities of Canadian issuers that pay dividends or selected debt obligations that pay interest.

The primary investment strategy employed by the Fund is to apply qualitative, quantitative and comparative research in order to build and manage a portfolio of select high-grade and undervalued dividend-paying equity securities and income-paying debt securities. This core portfolio of securities currently represents approximately 90% of the Fund's portfolio. The Fund holds no more than 25% of non-Canadian securities.

The debt investments held in the Fund are often convertible debentures. Convertible debentures are debt securities that the holder can convert into common stock of the issuing company (or cash at an equivalent value) at a predetermined price. In selecting fixed income securities for the Fund (whether convertible or non-convertible), the Manager considers factors such as the debenture's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread (i.e., the difference between the yield offered by the debenture and by a predetermined risk-free bond, such as Bank of Canada treasury bills with a similar maturity) and the duration (the weighted average of the time periods until the debenture's cash flows are received by the Fund, which measures the debentures' price sensitivity to its yield). Typically, the Manager seeks out bonds or debentures with a high yield compared to their credit risk and relatively low duration. However, the Fund's overall debt portfolio may include bonds or debentures that are outside these parameters, depending on the components of the remainder of the portfolio, and whether the bond has other features, such as a convertibility feature. When evaluating convertible debentures, the Manager engages in an analysis using the above factors, and also includes an analysis of features particular to convertible debentures, such as clauses, the volatility of the underlying stock, and the amount of time left until the conversion feature expires. In valuing a convertible debenture, therefore, the Manager engages in an analysis of the underlying stock volatility, the features of the particular debenture, and a traditional analysis of the fixed income portion that takes into account the firm's credit profile, the ranking of the convertible within the capital structure, the bond's duration, and yield.

Essentially, the Manager calculates the value of a convertible debenture by calculating the present value of future interest and principal payments discounted at the cost of debt and adding the present value of the convertible component. The Manager then engages in a qualitative and quantitative analysis of a variety of factors, including the debenture's duration, its credit risk, the firm's corporate management, macroeconomic factors, including the likelihood of fluctuations in prevailing interest rates, and any particular clauses inherent in the convertible feature of the debenture.

In some cases, the Manager's motivation for purchasing a convertible debenture is to be able to engage in merger arbitrage (i.e., to make an educated guess about a company's likelihood of being purchased by another company at a price that is at a premium to the prevailing market price of the first company). Buying a convertible debenture may allow the Fund to gain exposure to an issuer or to its securities that it might not otherwise be able to access due to the Fund's investment parameters and restrictions. For example, because a convertible debenture pays an interest income, it may be an appropriate investment to hold in the Fund's portfolio, even if the underlying stock would not, on its own, be an acceptable investment. However, the Fund can purchase the convertible debenture and benefit from the coupon payments, while at the same time waiting for a merger to occur.

In selecting equity investments for the Fund, the Manager focuses on companies that, in its judgment, provide good value. The Manager believes that good value companies are likely to experience capital appreciation and/or increases in distributions to investors, and that these companies tend to have significant potential for growth of cash flow, increases of dividend distribution, and stock buybacks.

In making the determination of what companies' stock present good value, the Manager typically focuses on a variety of financial ratios and metrics that provide relative points of reference that are transferable across companies and industries. The Manager primarily considers six financial ratios: earnings yield spread, debt vs. EBITDA, cash per unit, return on equity, price to earnings (P/E ratio), and free cash flow yield.

Earnings Yield

The earnings yield is the earnings per share for the most recent period (typically twelve months) divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company. The Manager considers the differential between the earnings yield compared to the stock price versus the US Treasury Bond yield, sometimes called the earnings yield spread. A wide earnings yield spread represents good value, particularly as compared to bonds, and therefore presents a buying opportunity for the Manager.

Debt to EBITDA

The Manager also considers a company's debt as a percentage of its earnings before interest, taxes, depreciation and amortization or EBITDA. A low ratio indicates that the company is able to repay its debt and/or to take on additional debt, thus allowing it to finance expansion of operations or share buybacks. Conversely, a high debt/EBITDA ratio suggests that a firm may not be able to repay debt and interest as it comes due, which could potentially lead to a restructuring and/or bankruptcy of the company.

Cash per Unit

Cash per unit (sometimes known as free cash flow per share) is determined by dividing free cash flow by the total number of units outstanding. It is a measure of a company's financial flexibility. More free cash flow allows a company to engage in a variety of transactions, such as repaying debt, paying and increasing dividends, buying back stock and facilitating the growth of the business. The amount of free cash flow per unit can also be used to give a preliminary prediction concerning future share prices. For example, when a firm's unit price is low and free cash flow is on the rise, the Manager believes that this is a positive indicator that earnings and share value will soon increase, because a high cash flow per share value means that earnings per share could potentially be high as well.

Return on Equity

Return on equity (sometimes known as return on net worth) is the amount of net income returned as a percentage of unitholders' equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money unitholders have invested in common stock (preferred stock is generally excluded, as are the dividends paid on that stock). Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock). Unitholders' equity does not include preferred shares. The Manager uses return on equity to compare the profitability of a company to that of other firms in the same industry. If a given company's return on equity is particularly high compared to its peers, then the company may present good value and therefore may be a good buying opportunity.

Price to Earnings

Price to earnings, or P/E, is one of the most commonly used financial ratios. In general, a high P/E suggests that the market is expecting higher earnings growth in the future compared to companies with a lower P/E. However, a high P/E ratio may also imply that a company is overvalued. The Manager focuses on companies with low P/E ratios because a low P/E ratio implies that a significant component of the company's stock price is comprised of earnings, rather than market expectations for future growth. The Manager also recognizes that it is impossible to base a decision on the P/E ratio alone. The denominator (earnings) is based on an accounting measure of earnings that is susceptible to forms of manipulation, making the quality of the P/E only as good as the quality of the underlying earnings number.

Free Cash Flow Yield

The free cash flow yield is a measure of the free cash flow per unit a company is expected to earn against its market price per unit. As compared to the price to earnings ratio, the free cash flow yield is a more standardized measure that eliminates many of the problems involved in evaluating the quality of the earnings as reported by a company. Because free cash flow takes into account capital expenditures and other ongoing costs a business incurs to keep itself running, the Manager believes that the free cash flow yield is a more accurate representation of the returns shareholders receive from owning a business compared to the price to earnings ratio. In selecting equity investments, the Manager considers other factors beyond the financial ratios described above. The Manager also considers macroeconomic factors such as currency exchange rates, consumer demand, taxation policy, geopolitical factors that could affect commodity prices, and the quality of corporate management. The Manager recognizes that equity prices can be affected by a huge variety of factors, and that investing requires knowledge of a wide variety of disciplines. The Manager seeks to consider all of these factors while remaining focused on its core value investment philosophy.

In addition to the primary strategy, the Manager seeks to enhance returns through the following five targeted, short-term secondary trading strategies:

1. Pair trading, whereby the Manager identifies a security that is either undervalued or overvalued, and purchases (or sells) the security and simultaneously takes the opposite action with regard to the security's index. For example, the Manager might identify the common equity of Bank ABC as being overvalued. The Manager would borrow a quantity of Bank ABC common equity and sell it "short", while simultaneously buying a security that represents an index in which Bank ABC is a component. This strategy effectively eliminates market risk from the pair trade;
2. Syndication trading, whereby the Manager invests in securities being offered in the market for the first time, while simultaneously selling the index "short". New issues are typically underpriced by a small amount in order to encourage investors to purchase the security. This strategy effectively eliminates market risk from the investment in the new issue;
3. Merger arbitrage, whereby the Manager trades in the equity of an acquirer in a merger while simultaneously taking the opposite action with regard to the security's index. The actual trade will depend on the Manager's view of whether the transaction is likely to be completed;
4. Statistical pair trading, whereby the Manager identifies securities that historically trade in tight correlation but that, for some reason, have become uncorrelated. The actual trading strategy will depend on the nature of the uncorrelation; and
5. Dividend capturing, whereby the Manager purchases a security just prior to the ex-dividend date and sell the security just after the dividend is paid. This strategy locks in a dividend payment while limiting risk.

The Fund may use derivatives only as permitted by securities regulations to earn additional income for the Fund. These transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieve the Fund's investment objectives and to create additional income for the Fund.

The Fund has obtained regulatory relief in order to permit the Fund to engage in short selling. In determining whether securities of a particular issuer should be sold short, the Manager uses the same analysis that is described above for deciding whether to purchase the securities. The Fund will engage in short selling as a complement to the Fund's primary discipline of buying securities with the expectation that they will appreciate in market value.

The Fund may temporarily buy or sell exchange traded funds in order to mitigate systematic risk related to the Fund's investment strategies. These funds will not be managed by the

Manager, an affiliate or associate of the Manager. At no time will the Fund's interest in any single exchange-traded fund be more than 10%. The selection criteria employed by the Manager in respect of the exchange-traded funds will be limited to specific funds corresponding to the applicable syndication trading or merger arbitrage investment strategy being implemented.

Risk

The overall risks of investing in the Fund are as discussed in its simplified prospectus. There were no material changes to the Fund over the review period that affected the overall level of risk of the Fund.

This Fund is suitable for an investor with a medium to long-term investment horizon, who has a need for quarterly income and who wishes to add the appreciation potential of equity securities to their portfolio and can accept a moderate degree of risk.

Results of Operations

The Palos Equity Income Fund (the "Fund") Series A (PAL101) posted a total return of 15.25% per unit, net of fees and expenses for 2024. Series F (PAL102) generated a return per unit of 16.25%; please refer to the "Past Performance" section for the details on returns by series. Performance differences between each series of fund units is mostly attributable to whether the fund is classified on an "advisory" basis (Series A) or a "discretionary" basis (Series F). As per standard industry practices and rules established by regulators, management fees are commonly differentiated by class.

The Fund's benchmark is the S&P/TSX Composite Total Return Index. This index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX). The S&P/TSX Composite Total Return Index includes reinvested dividends and is used by investors to track the collective performance of the constituent companies in the index, including dividends. Constituent companies must maintain strict liquidity and market capitalization requirements to be included in the index. The S&P/TSX Composite Total Return Index saw an increase in market value of 21.65% for the 12-month period ended December 31, 2024.

The total return per unit for the Fund's Series A (PAL101), including distributions, was 15.25%. Both Series A and Series F underperformed the benchmark which delivered a total return of 21.65%. It is important to note that the Fund maintains a target fixed income allocation of 10.0% and is mostly invested in dividend paying companies. As of December 31, 2024, the Fund's fixed income allocation was on target at 10.9%.

Sector Performance

The strongest performing sectors in Canada in 2024 were Information Technology at 38.0%, Financials at 30.1%, and Energy at 23.8%. The weakest sectors were Communication Services at –21.1% and Real Estate at –1.9%.

The Information Technology sector in the U.S., particularly the "Magnificent Seven" companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla), continued to drive the U.S.-based S&P 500 and NASDAQ indices higher. This infamous segment produced a total return of ~70% for the year, compared to ~26% and ~32% returned by the S&P 500 and the NASDAQ respectively. After lagging for the first half of the year, Tesla finally contributed to the segment's total return by posting a 104.1% return in the last six months alone. What this group has in common is massive amounts of capital to continue spending on incorporating artificial intelligence (AI) into their respective businesses. The notable outlier is NVIDIA which had a 178.9% total return for 2024 alone. NVIDIA is the leading supplier of graphics chips and data center platforms that are necessary for driving AI applications. Generative AI (e.g., ChatGPT) is a rapidly evolving technological advancement that's being compared to prior innovations like the automobile, personal computers and the internet. AI will impact productivity, efficiency, machine learning, medicine, cyber security, defense, and education.

Financials remain the Fund's highest-weighted sector. As of December 31, 2024, the top four holdings were Royal Bank of Canada (4.3% weight), Canadian Imperial Bank of Commerce (4.2% weight), Bank of Montreal (4.0% weight), and Toronto-Dominion Bank (3.4% weight). The S&P/TSX Banks sub-index, a proxy for Canadian financials, returned ~21.8% for the year. Canada's banks continue to overcome a Canadian economy that's weaker and less productive than in the United States. Despite this, they continue to grow their earnings and raise dividend payments to shareholders. Canadian banks are generally viewed as more conservative than many foreign banks which offers a Canadian-style "margin of safety". We believe that, over the long term, they will continue to grow and reward investors.

Interest rate-sensitive sectors like Communications, Utilities and Real Estate Investment Trusts (REITs) look attractive given the recent rate cuts from central banks, which appear to be winning the battle against sometimes sticky inflation. The Fund holds high-yielding Telus (~8% dividend) and Rogers (5% dividend) in the communications sector. While Canada's "telcos" have struggled with the rise in interest rates in recent years and stiff competition, we believe their current share prices offer attractive return potential. In the Utilities sector, the Fund's top holdings include Boralex (~2.5% dividend), Capital Power (~5% dividend), Innergex Renewable Energy (~5% dividend), and Northland Power (~7% dividend). Notably, Capital Power, the Alberta based power-generating company, has posted impressive results given the opportunity to power the AI revolution. The Fund's REIT holdings are focused on residential, retail and multi-family income properties while avoiding exposure to office. In our view, the latter remain exposed to the repercussions of the pandemic, specifically, elevated vacancy rates occurring from persistent trends in work-from-home and telecommuting. Although there has been an uptick in mandated return to offices, at least in a hybrid capacity, we remain skeptical about that subsegment's potential.

In the Energy sector, the Fund is invested in Canadian energy companies that are laser-focused on strengthening balance sheets (i.e., reducing debt), buying back shares in public markets, and increasing dividend payments to shareholders. The Fund is well positioned on heavy oil producers which are seeing increased demand from U.S. refineries while light oil, on the other hand, is in oversupply territory. With regard to natural gas, Canada's newest Liquefied Natural Gas (LNG) facility in Kitimat, B.C., will introduce new markets to Canadian gas, with first shipments from the terminal expected in mid-2025. Gas-fired turbines produce lower carbon emissions than coal-fired generation, which is common in China, India, and the U.S. LNG is viewed as a critical "transition fuel" for driving electricity production while renewables ramp up, given the abundance and low cost of natural gas in Canada compared to Asia and Europe. LNG can play an important role in fighting climate change and reducing Canada's carbon footprint. Lastly, there has been a shift in sentiment with regard to pipelines, with both investors and Canadians showing more support than we have seen in the last decade. The Trump administration's stance on tariffs has played a significant role in driving this change.

Diversification

The Fund remains well diversified across all eleven sectors. At year-end, the highest exposures by sector were Financials at 23.3%, Energy at 19.8%, and Industrials at 13.4%. As of December 31, 2024, the Fund held eighty-five stock positions, and fixed-income exposure was 10.9%, which was comprised of a 2.9% weighting in the BMO Short Federal Bond Index ETF, a 2.8% weighting in the BMO Short Corporate Bond Index ETF, a 2.8% weighting in convertible debentures, and a 2.4% weighting in the Purpose High Interest Saving ETF. The BMO ETFs (exchange-traded funds) are designed to replicate the performance of the FTSE Canada Short Term Federal Bond Index and the FTSE Canada Short Term Corporate Bond Index.

Recent Developments

Closing Out 2024

The last two months of 2024, especially, and indeed all of 2024, have been among the busiest we can remember. We have navigated continuing conflicts in Ukraine and the Middle East, alongside political upheaval worldwide. Some fear that rising tensions between China and Washington could escalate into a "hot" confrontation over Taiwan, which would significantly impact the global semiconductor supply chain. It seems there is always something to worry about!

Despite these risks, investor enthusiasm for AI drove the "Magnificent Five" (Amazon, Apple, Meta Platforms, Microsoft, and NVIDIA) to record highs, while smaller-cap companies struggled to gain traction. The divergence between AI-driven tech giants and the broader market has reached unprecedented levels, reminiscent of past technological booms, such as the rise of the automobile, personal computers, and the internet.

For Canada, the growing energy demand required to support AI infrastructure is a key consideration. Powering this technological revolution will require contributions from multiple sources, including nuclear, natural gas, oil, and renewables, all of which will play a vital role in the evolving energy landscape.

Economic and Market Trends

One of the biggest surprises of 2024 was the bond market. Initial expectations suggested that declining interest rates would fuel strong bond returns. However, rising bond yields in the U.S. (which move inversely to prices) signaled that rate cuts would be more gradual than anticipated. This created headwinds for dividend-paying stocks, particularly in sectors like REITs, Utilities, and Communications.

The U.S. Federal Reserve made a key move in December 2024, cutting its policy rate by 25 basis points, bringing the midpoint of its target range to 4.375%. While the decision wasn't unanimous, Fed Chair Jerome Powell emphasized that we are entering a "new phase" where future rate cuts will be cautious. The Fed's statement also highlighted "sticky inflation" and stronger-than-expected economic growth. U.S. GDP is projected to have grown by 3.2% in Q4 2024, with core inflation expected to hover around 2.5% into 2025.

The U.S. dollar index (DXY), which measures the U.S. dollar against a basket of foreign currencies, surged in late 2024, reaching its highest level since the fall of 2022. This divergence is largely due to the Fed's higher interest rate policy compared to other central banks. A stronger U.S. dollar benefits Canadian businesses with U.S. exposure but also makes cross-border spending more expensive —something Canadian snowbirds in Florida are certainly feeling this winter!

The European Central Bank (ECB) and the Bank of Canada (BoC) continued cutting rates heading into 2025, whereas the Fed has remained steadfast, keeping rates steady until inflation is clearly under control. We believe Canadian rates should settle into a new neutral range of 2.5% to 3%, higher than the 1.5% to 2% levels seen during the pandemic.

Political Landscape

In November 2024, President-elect Trump handily won the U.S. election; he officially took office on January 20, 2025, with global leaders scrambling to mitigate tariff threats and appease his administration.

Trump is undeniably pro-business, with tax cuts and deregulation expected to spur economic growth. However, his protectionist trade policies are inflationary and contradict the concept of comparative advantage. Economic theory, as introduced by David Ricardo in 1817, suggests that countries should specialize in the production of goods they can create at the lowest opportunity cost and then trade with other nations for mutual benefit.

For example, Canada specializes in heavy oil production, which is transported to U.S.-based refineries to produce cheaper fuel for American consumption, while the U.S. excels in health sciences and technology. Such trade relationships create efficiencies. Unfortunately, Trump's tariff strategies could increase prices, acting as an indirect tax on American consumers. For corporations, policy uncertainty often leads to reduced capital investment and spending, which could have significant economic repercussions.

Another concern is Trump's stance on environmental regulation. His opposition to subsidies for green technology and relaxed enforcement of environmental laws could hinder Environmental, Social, and Governance (ESG) investing and slow the transition toward clean energy.

In Canada, the resignation of Finance Minister Chrystia Freeland in December 2024 further weakened Prime Minister Trudeau's already declining approval ratings; the Prime Minister's resignation followed in January 2025, signaling a major shift in Canada's political landscape. With Trump in power in the U.S., Canada faces significant uncertainty in its trade relationship. The big question remains: Who will take charge of defending Canada's interests?

In Europe, political instability remains a key theme. In France, Prime Minister Michel Barnier's government was ousted in a historic no-confidence vote, the first such event in over 60 years, while Germany prepares for early elections in February 2025 following the collapse of Chancellor Olaf Scholz's coalition government. We remain hopeful that new leadership can bring greater stability.

The Canadian Market

Canada's economy underperformed relative to the U.S. in 2024, leading to a faster decline in inflation. The absence of major AI companies in Canada's stock market, compared to the U.S., resulted in weaker market performance. In 2024, the TSX Composite rose by 21.7%, closing at 24,727.90 on December 31, 2024 (a gain of 107.35 points), while the U.S.-based S&P 500 climbed 25%, reaching 5,881.63 points at year-end.

Additional challenges, such as the new capital gains tax and sluggish productivity, have dampened investor sentiment. Many investors sought to crystallize gains before the tax increase, putting downward pressure on Canadian equities. Looking ahead, Canadian GDP growth in 2025 is expected to remain below that of the U.S. However, a weaker Canadian dollar could make Canadian exports more attractive, especially for companies with strong U.S. exposure.

The Impact of AI on Markets

The past year was defined by an AI-driven market boom, with significant investments in data centers, cloud computing, and energy infrastructure. However, we anticipate that AI hype will begin to normalize in 2025 as valuations adjust. This could lead to increased market volatility but may also create opportunities for nimble investors. Underperforming sectors such as real estate, utilities, and renewables, which are currently trading at historically low multiples, are poised for a potential rebound as economic conditions stabilize.

One of the biggest AI developments was the emergence of DeepSeek AI, a Chinese alternative to OpenAI. Reports suggest that DeepSeek operates with lower energy inputs and without reliance on NVIDIA's advanced chips. If confirmed, this could significantly reshape the semiconductor and technology sectors, presenting both risks and opportunities for investors.

Looking Ahead to 2025

January 2025 was marked by significant developments, with Trump's return to the presidency setting the tone. His "Day 1" agenda included five key statements:

1. "The U.S. will once again consider itself a growing nation" — a signal of ambitious territorial and economic aspirations.
2. The U.S. will defend its borders — this renewed domestic focus could impact alliances like NATO and NORAD.
3. Tariffs and taxes on foreign countries — protectionism remains a key risk, though tariffs may be used as negotiation tools.
4. Measuring success by the wars the U.S ends — possible U.S. disengagement from Ukraine and shifting responsibilities to regional players.
5. Exporting American energy worldwide — the U.S. aims to position itself as a dominant global energy player.

Canada could find itself under increased U.S. scrutiny. While outright annexation is a non-starter, the U.S. may seek to exploit vulnerabilities to assert influence.

While uncertainty remains high, we believe 2025 will reward disciplined, long-term investors who focus on strong fundamentals and strategic sector allocation. As always, we remain vigilant and proactive in navigating changing market conditions to optimize investment outcomes.

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 constitute 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 the unitholders since July 1, 2016.

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 Asset per Unit [1]	2024	2023	2022	2021	2020	2019
Net assets, beginning of period	**$6.74**	**$6.51**	**$7.24**	**$6.38**	**$5.72**	**$5.35**
Increase (decrease) from operations						
Total revenue	0.23	0.23	0.19	0.17	0.16	0.18
Total expenses	(0.19)	(0.19)	(0.19)	(0.20)	(0.15)	(0.17)
Realized gain (loss) for the period	0.38	0.36	0.10	0.82	0.20	0.01
Unrealized gain (loss) for the period	0.61	0.10	(0.73)	0.61	0.52	0.74
Total increase (decrease) from operations [2]	**1.03**	**0.50**	**(0.63)**	**1.40**	**0.73**	**0.76**
Distributions:						
From net income (excluding dividends)	-	-	-	-	-	(0.02)
From dividends	(0.01)	(0.01)	-	-	(0.01)	-
From capital gains	(0.25)	(0.26)	(0.04)	(0.54)	(0.01)	-
Return of capital	-	-	(0.06)	-	(0.08)	(0.38)
Total Annual Distributions [3]	**(0.26)**	**(0.27)**	**(0.10)**	**(0.54)**	**(0.10)**	**(0.40)**
Net assets, end of period	**$7.50**	**$6.74**	**$6.51**	**$7.24**	**$6.38**	**$5.72**

Ratios and Supplemental Data						
Total Net Asset Value ($000's) [1]	24,060	$ 21,010	$ 20,332	$ 22,005	$ 17,924	$ 17,011
Number of units outstanding (000's)	3,208	3,119	3,124	3,038	2,808	2,976
Management expense ratio [2]	2.60%	2.68%	2.64%	2.62%	2.66%	2.71%
Management expense ratio before waivers or absorptions	2.60%	2.68%	2.64%	2.62%	2.66%	2.71%
Trading expense ratio [3]	0.10%	0.18%	0.16%	0.18%	0.33%	0.18%
Portfolio turnover rate	41.98%	72.61%	67.39%	68.29%	97.73%	63.56%
Net Asset Value per Unit	**$7.50**	**$6.74**	**$6.51**	**$7.24**	**$6.38**	**$5.72**

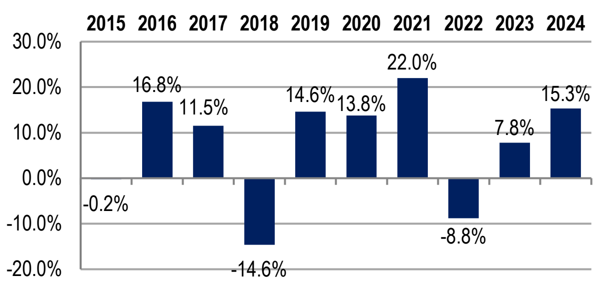
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

PAST PERFORMANCE

The following information 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, redemptions, distributions or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The following bar chart shows the Fund's Series A annual performance for each of the years shown, and illustrates how the performance has changed from year to year. In percentage terms, the chart shows 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.



Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2024. The returns are compared against the S&P/TSX Composite Total Return Index over the same period.

Overall Portfolio	1 Year	3 Years	5 Years	10 Years	Since Inception
Series A Units - Overall	**15.3%**	**4.3%**	**9.5%**	**7.2%**	**6.3%**
S&P/TSX Composite TR Index	21.7%	8.6%	11.1%	8.7%	7.3%

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 Asset per Unit (1)	2024	2023	2022	2021	2020	2019
Net assets, beginning of period	**$7.34**	**$7.05**	**$7.77**	**$6.96**	**$6.17**	**$5.69**
Increase (decrease) from operations						
Total revenue	0.26	0.24	0.21	0.19	0.18	0.19
Total expenses	(0.14)	(0.15)	(0.14)	(0.16)	(0.12)	(0.13)
Realized gain (loss) for the period	0.42	0.39	0.12	0.91	0.15	0.01
Unrealized gain (loss) for the period	0.66	0.13	(0.85)	0.68	0.20	0.79
Total increase (decrease) from operations (2)	**1.20**	**0.61**	**(0.66)**	**1.62**	**0.42**	**0.86**
Distributions:						
From net income (excluding dividends)	-	-	-	-	-	(0.06)
From dividends	(0.04)	(0.03)	-	-	(0.02)	-
From capital gains	(0.28)	(0.29)	(0.05)	(0.78)	(0.01)	-
Return of capital	-	-	(0.05)	-	(0.07)	(0.34)
Total Annual Distributions (3)	**(0.32)**	**(0.32)**	**(0.10)**	**(0.78)**	**(0.10)**	**(0.40)**
Net assets, end of period	**$8.20**	**$7.34**	**$7.05**	**$7.77**	**$6.96**	**$6.17**

Ratios and Supplemental Data						
Total Net Asset Value ($000's) (1)	6,461	$ 6,253	$ 6,436	$ 7,723	$ 7,252	$ 8,509
Number of units outstanding (000's)	788	852	913	994	1,042	1,380
Management expense ratio (2)	1.74%	1.82%	1.78%	1.77%	1.81%	1.86%
Management expense ratio before waivers or absorptions	1.74%	1.82%	1.78%	1.77%	1.81%	1.86%
Trading expense ratio (3)	0.10%	0.21%	0.15%	0.19%	0.17%	0.19%
Portfolio turnover rate	41.98%	72.61%	67.39%	68.29%	97.73%	63.56%
Net Asset Value per Unit	**$8.20**	**$7.34**	**$7.05**	**$7.77**	**$6.96**	**$6.17**

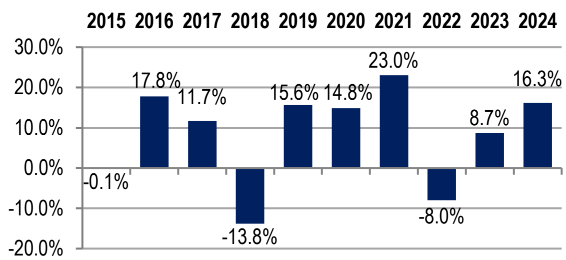
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

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 or performance. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The following bar chart shows the Fund's Series F annual performance for each of the years shown, and illustrates how the performance has changed from year to year. In percentage terms, the chart shows 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.



Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2024. The returns are compared against the S&P/TSX Composite Total Return Index over the same period.

Overall Portfolio	1 Year	3 Years	5 Years	10 Years	Since Inception
Series F Units	**16.3%**	**5.2%**	**10.4%**	**8.0%**	**8.5%**
S&P/TSX Composite TR Index	21.7%	8.6%	11.1%	8.7%	7.3%

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2024

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	98.3%
United States	1.7%
Total	100.0%

Sector Weightings (%)	
Basic Materials	9.3%
Communications	5.2%
Consumer, Cyclical	4.1%
Consumer, Non-cyclical	3.5%
Energy	18.7%
Financial	29.8%
Funds	7.7%
Industrial	10.2%
Technology	3.1%
Utilities	6.0%
Cash	2.4%
Total	100.0%

Portfolio Long/Short Breakdown (%)	
Long positions	97.6%
Short positions	0.0%
Cash	2.4%
Total	100.0%

Asset Class Weightings (%)	
Common Stocks	94.8%
Fixed Income	3.2%
Warrants	0.0%
Cash	2.0%
Total	100.0%

Top 25 Holdings (%)	
Royal Bank of Canada	4.3%
Canadian Imperial Bank of Commerce	4.2%
Bank of Montreal	4.1%
The Toronto-Dominion Bank	3.4%
BMO Short Federal Bond Index ETF	2.9%
BMO Short Corporate Bond Index ETF	2.8%
Cash	2.4%
National Bank of Canada	2.3%
Purpose High Interest Savings ETF	2.0%
Canadian Natural Resources Ltd.	1.7%
Tourmaline Oil Corp.	1.6%
Boralex Inc.	1.6%
Rogers Communications Inc.	1.6%
Topaz Energy Corp.	1.4%
Tamarack Valley Energy Ltd.	1.4%
Franco-Nevada Corp.	1.4%
Capital Power Corp.	1.4%
Shopify Inc.	1.4%
TELUS Corp.	1.3%
Secure Energy Services Inc.	1.3%
Brookfield Corp.	1.3%
Canadian Pacific Kansas City Ltd.	1.3%
North American Construction Group Ltd. 5.50% 30JUN28	1.3%
Keyera Corp.	1.3%
Enbridge Inc.	1.2%
Top 25 Holdings	50.9%

The total Net Asset Value of the Fund as at December 31, 2024 was $30.5 million.

EXPLANATORY NOTES TO FINANCIAL HIGHLIGHTS

Net Assets per Unit:

(1) This information is derived from the Fund's audited annual financial statements.

(2) Net assets and distributions are based on the actual number of units 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 financial period. This table is not intended to be a reconciliation of opening and closing nets assets per units.

(3) 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 and Supplemental Data:

(1) This information is provided as at December 31 of the year shown.

(2) The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction 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 daily average 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 turnover rate 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 necessarily a relationship between a high turnover rate and the performance of a fund.

The Fund's prospectus and additional information are available at www.sedarplus.com.

For more information contact your investment advisor or:

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