

Palos Equity Income Fund

Financial Statements

December 31, 2024 and 2023

(expressed in Canadian dollars)



Independent auditor's report

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

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2024 and 2023;
- the statements of comprehensive income for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
March 28, 2025

¹ CPA auditor, public accountancy permit No. A136473

Palos Equity Income Fund

Statements of Financial Position

(expressed in Canadian dollars)

As at December 31, 2024 and 2023

	2024	2023
ASSETS		
Current assets		
Investments at fair value through profit or loss (FVTPL)	\$ 29,911,415	\$ 26,886,369
Cash	727,590	412,620
Accrued income receivable	62,811	121,536
Subscription receivable	1,050	5,225
Other assets	4,256	4,161
	<u>30,707,122</u>	<u>27,429,911</u>
LIABILITIES		
Current liabilities		
Distributions payable	115,881	113,638
Accrued liabilities	70,974	51,423
Management fees payable	–	1,472
	<u>186,855</u>	<u>166,533</u>
Net assets attributable to holders of redeemable units	<u>\$ 30,520,267</u>	<u>\$ 27,263,378</u>
Net assets attributable to holders of redeemable units per series		
Series A	\$ 24,059,745	\$ 21,010,350
Series F	<u>6,460,522</u>	<u>6,253,028</u>
	<u>\$ 30,520,267</u>	<u>\$ 27,263,378</u>
Net assets attributable to holders of redeemable units per series per unit		
Series A	\$ 7.50	\$ 6.74
Series F	8.20	7.34

Approved by the Manager, Palos Management Inc.

(s) Alain Lizotte Director

(s) Philippe Marleau Director

Palos Equity Income Fund

Statements of Comprehensive Income

(expressed in Canadian dollars)

For the years ended December 31, 2024 and 2023

	2024	2023
Income		
Dividend income	\$ 763,371	\$ 776,571
Interest income for distribution purposes	166,340	145,136
Net realized gain on sale of investments	1,561,348	1,450,626
Net change in unrealized appreciation of investments	2,417,254	414,390
Other income	6,465	—
	<u>4,914,778</u>	<u>2,786,723</u>
Expenses		
Management fees (Note 9)	445,181	413,642
Administration and other professional fees	108,835	96,404
Audit fees (Note 5)	49,633	58,707
Legal fees	40,000	39,964
Transaction costs (Note 10)	29,405	50,613
Bank charges and interest	22,794	37,977
Trustee fees	17,470	13,834
Independent review committee fees	12,001	12,001
Withholding tax expense	146	—
	<u>725,465</u>	<u>723,142</u>
Increase in net assets attributable to holders of redeemable units	<u>\$ 4,189,313</u>	<u>\$ 2,063,581</u>
Increase in net assets attributable to holders of redeemable units per series (Note 11)		
Series A	\$ 3,201,023	\$ 1,521,977
Series F	<u>988,290</u>	<u>541,604</u>
	<u>\$ 4,189,313</u>	<u>\$ 2,063,581</u>
Increase in net assets attributable to holders of redeemable units per series per unit (Note 11)		
Series A	\$ 1.03	\$ 0.49
Series F	1.20	0.64

Palos Equity Income Fund

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

(expressed in Canadian dollars)

For the years ended December 31, 2024 and 2023

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued*	Redemption of redeemable units*	Distributions to holders of redeemable units***	Reinvestment of distributions to holders of redeemable units	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
December 31, 2024							
Series A	\$ 21,010,350	\$ 1,533,317	\$ (1,584,071)	\$ (816,535)	\$ 715,661	\$ 3,201,023	\$ 24,059,745
Series F	6,253,028	181,819	(907,661)	(256,028)	201,074	988,290	6,460,522
	<u>\$ 27,263,378</u>	<u>\$ 1,715,136</u>	<u>\$ (2,491,732)</u>	<u>\$ (1,072,563)</u>	<u>\$ 916,735</u>	<u>\$ 4,189,313</u>	<u>\$ 30,520,267</u>

* Total proceeds from redeemable units relating to switch-ins and redemptions of redeemable units relating to switch-outs for the year ended December 31, 2024 were \$171,064 and \$(171,064), respectively.

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued**	Redemption of redeemable units**	Distributions to holders of redeemable units***	Reinvestment of 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 year
December 31, 2023							
Series A	\$ 20,332,452	\$ 1,119,340	\$ (1,852,114)	\$ (837,502)	\$ 726,197	\$ 1,521,977	\$ 21,010,350
Series F	6,435,647	230,166	(907,614)	(264,166)	217,391	541,604	6,253,028
	<u>\$ 26,768,099</u>	<u>\$ 1,349,506</u>	<u>\$ (2,759,728)</u>	<u>\$ (1,101,668)</u>	<u>\$ 943,588</u>	<u>\$ 2,063,581</u>	<u>\$ 27,263,378</u>

** Total proceeds from redeemable units relating to switch-ins and redemptions of redeemable units relating to switch-outs for the year ended December 31, 2023 were \$177,252 and \$(177,252), respectively.

Palos Equity Income Fund

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

(expressed in Canadian dollars)

For the years ended December 31, 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
December 31, 2024				
Series A	\$ 41,108	\$ 775,427	\$ –	\$ 816,535
Series F	29,100	226,928	–	256,028
	<u>\$ 70,208</u>	<u>\$ 1,002,355</u>	<u>\$ –</u>	<u>\$ 1,072,563</u>
December 31, 2023				
Series A	\$ 37,086	\$ 800,416	\$ –	\$ 837,502
Series F	26,027	238,139	–	264,166
	<u>\$ 63,113</u>	<u>\$ 1,038,555</u>	<u>\$ –</u>	<u>\$ 1,101,668</u>

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

Palos Equity Income Fund

Statements of Cash Flows

(expressed in Canadian dollars)

For the years ended December 31, 2024 and 2023

	2024	2023
Cash provided by (used in):		
Operating Activities		
Increase in net assets attributable to holders of redeemable units	\$ 4,189,313	\$ 2,063,581
Adjustments for non-cash items		
Net realized gain on sale of investments	(1,561,348)	(1,450,626)
Net change in unrealized appreciation of investments	(2,417,254)	(414,390)
Foreign exchange on cash	(566)	477
Change in non-cash balances		
Decrease (increase) in accrued income receivable	58,725	(20,584)
Increase in other assets	(95)	(4,161)
Increase (decrease) in accrued liabilities	19,551	(15,252)
(Decrease) increase in management fees payable	(1,472)	1,472
Proceeds from sale of investments	12,966,636	21,779,689
Purchase of investments	(12,013,080)	(20,157,607)
Cash provided by operating activities	<u>1,240,410</u>	<u>1,782,599</u>
Financing Activities		
Proceeds from issuance of redeemable units	1,548,247	1,344,281
Amount paid on redemption of redeemable units	(2,320,668)	(2,759,728)
Distributions to holders of redeemable units, net of reinvested distributions	(153,585)	(61,511)
Cash used in financing activities	<u>(926,006)</u>	<u>(1,476,958)</u>
Increase in cash during the year	314,404	305,641
Foreign exchange gain (loss) on cash	566	(477)
Cash, beginning of year	<u>412,620</u>	<u>107,456</u>
Cash, end of year	<u>\$ 727,590</u>	<u>\$ 412,620</u>
Supplemental information*		
Interest paid	\$ 875	\$ 2,562
Interest received	174,590	138,048
Dividends received, net of withholding taxes	839,738	755,987

*Included as a part of cash flows from operating activities

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2024

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Investments owned (98.01%)				
Equities (94.81%)				
Basic Materials (7.16%)				
Agnico Eagle Mines Ltd.	CAD	2,161	\$ 136,605	\$ 243,026
Arizona Metals Corp.	CAD	20,000	34,000	32,000
Cameco Corp.	CAD	1,500	88,828	110,865
Endeavour Mining PLC	CAD	6,000	154,922	156,300
Franco-Nevada Corp.	CAD	2,500	402,726	422,300
K92 Mining Inc.	CAD	27,527	182,749	238,934
North American Construction Group Ltd.	CAD	5,600	153,374	173,488
Russel Metals Inc.	CAD	5,400	216,803	227,340
Teck Resources Ltd.	CAD	5,780	276,852	336,858
Wheaton Precious Metals Corp.	CAD	3,000	153,758	242,730
Total Basic Materials			1,800,617	2,183,841
Communications (3.61%)				
Rogers Communications Inc.	CAD	10,750	563,371	475,043
TELUS Corp.	CAD	20,940	500,492	408,121
Thomson Reuters Corp.	CAD	950	215,341	219,279
Total Communications			1,279,204	1,102,443
Consumer, Cyclical (3.27%)				
ADENTRA Inc.	CAD	8,300	272,839	308,178
AutoCanada Inc.	CAD	2,500	36,445	43,325
Canadian Tire Corp Ltd.	CAD	1,650	211,659	249,513
Groupe Dynamite Inc.	CAD	4,000	80,049	77,800
Pollard Banknote Ltd.	CAD	8,570	214,947	205,680
Superior Plus Corp.	CAD	18,000	111,791	115,020
Total Consumer, Cyclical			927,730	999,516
Consumer, Non-cyclical (3.54%)				
Boyd Group Services Inc.	CAD	770	167,145	166,921
dentalcorp Holdings Ltd.	CAD	18,900	153,924	156,681
Green Thumb Industries Inc.	CAD	14,000	192,739	165,340
Information Services Corp.	CAD	8,200	186,856	214,758
KITS Eyecare Ltd.	CAD	17,100	149,250	144,153
Sienna Senior Living Inc.	CAD	14,850	236,778	231,957
Total Consumer, Non-cyclical			1,086,692	1,079,810

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2024 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Energy (18.75%)				
AltaGas Ltd.	CAD	7,500	\$ 171,385	\$ 251,100
ARC Resources Ltd.	CAD	12,800	236,672	333,696
Canadian Natural Resources Ltd.	CAD	11,600	352,885	514,808
CES Energy Solutions Corp.	CAD	29,300	97,183	290,656
Enbridge Inc.	CAD	6,000	267,844	366,060
Enerflex Ltd.	CAD	9,300	71,252	133,083
Freehold Royalties Ltd.	CAD	19,200	212,028	245,568
Headwater Exploration Inc.	CAD	48,600	288,575	321,246
Keyera Corp.	CAD	8,720	248,098	383,331
Parkland Corp.	CAD	8,100	255,105	263,331
Precision Drilling Corp.	CAD	2,850	210,133	250,572
Secure Energy Services Inc.	CAD	24,800	165,897	403,248
Tamarack Valley Energy Ltd.	CAD	91,200	347,915	436,848
TC Energy Corp.	CAD	4,800	215,722	321,552
Topaz Energy Corp.	CAD	15,700	296,224	437,245
Tourmaline Oil Corp.	CAD	7,520	360,360	500,230
Trican Well Service Ltd.	CAD	52,300	170,249	268,299
Total Energy			3,967,527	5,720,873
Financial (29.95%)				
Alaris Equity Partners Income	CAD	14,000	187,370	268,100
Bank of Montreal	CAD	8,900	963,093	1,241,995
Boardwalk Real Estate Investment Trust	CAD	3,817	166,117	245,242
Brookfield Asset Management Ltd.	CAD	3,400	142,436	265,064
Brookfield Business Corp.	CAD	2,700	78,356	94,797
Brookfield Corp.	CAD	4,850	201,766	400,707
BSR Real Estate Investment Trust	USD	14,400	216,510	251,589
Canadian Imperial Bank of Commerce	CAD	14,113	732,304	1,283,295
Dream Industrial Real Estate Investment Trust	CAD	21,305	263,759	251,612
EQB Inc.	CAD	2,850	153,585	282,065
European Residential Real Estate Investment Trust	CAD	30,000	90,143	114,000
Flagship Communities REIT	USD	12,600	224,935	270,593
InterRent Real Estate Investment Trust	CAD	30,100	362,078	305,515
National Bank of Canada	CAD	5,310	345,665	695,822
Primaris REIT	CAD	13,600	206,968	210,392
Propel Holdings Inc.	CAD	4,000	114,809	147,160
Royal Bank of Canada	CAD	7,600	653,482	1,317,232
StorageVault Canada Inc.	CAD	59,120	210,105	232,933
The Toronto-Dominion Bank	CAD	13,729	762,669	1,050,680
Trisura Group Ltd.	CAD	5,400	179,030	210,492
Total Financial			6,255,180	9,139,285

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2024 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Funds (7.69%)				
BMO Short Corporate Bond Index ETF	CAD	60,927	\$ 784,291	\$ 849,322
BMO Short Federal Bond Index ETF	CAD	64,930	857,854	897,982
Purpose High Interest Savings ETF	CAD	11,990	599,623	599,620
Total Funds			2,241,768	2,346,924
Industrial (10.25%)				
Ag Growth International Inc.	CAD	4,500	233,221	228,690
Air Canada	CAD	5,800	101,758	129,108
ATS Corp.	CAD	5,800	258,384	254,272
Canadian National Railway Co.	CAD	2,220	262,075	324,053
Canadian Pacific Kansas City Ltd.	CAD	3,795	203,206	394,984
Cargojet Inc.	CAD	2,265	269,988	244,326
CCL Industries Inc.	CAD	3,610	186,002	266,960
Chemtrade Logistics Income Fund	CAD	7,400	59,720	80,956
GFL Environmental Inc.	CAD	5,100	179,373	326,808
Mullen Group Ltd.	CAD	19,500	239,600	284,310
TFI International Inc.	CAD	1,345	158,124	261,253
WSP Global Inc.	CAD	1,320	159,286	333,907
Total Industrial			2,310,737	3,129,627
Technology (4.52%)				
CGI Inc.	CAD	1,770	171,150	278,386
Constellation Software Inc.	CAD	62	119,173	275,584
Dye & Durham Ltd.	CAD	5,900	121,534	103,722
Kinaxis Inc.	CAD	1,740	246,163	301,264
Shopify Inc.	CAD	2,750	193,429	420,723
Total Technology			851,449	1,379,679
Utilities (6.07%)				
Boralex Inc.	CAD	16,900	514,135	485,199
Brookfield Infrastructure Corp.	CAD	3,875	213,706	223,510
Capital Power Corp.	CAD	6,620	249,542	421,826
Emera Inc.	CAD	2,200	111,253	118,206
Innergex Renewable Energy Inc.	CAD	41,500	480,125	334,075
Northland Power Inc.	CAD	15,118	410,504	270,612
Total Utilities			1,979,265	1,853,428
Total Equities			22,700,169	28,935,426

Palos Equity Income Fund

Schedule of Investment Portfolio as at December 31, 2024 (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
Fixed Income (3.18%)				
Basic Materials (2.13%)				
Chemtrade Logistics Income Fund 6.50% 31OCT26	CAD	250,000	\$ 250,000	\$ 258,118
North American Construction Group Ltd. 5.50% 30JUN28	CAD	300,000	300,000	392,265
Total Basic Materials			550,000	650,383
Consumer, Cyclical (1.05%)				
Exchange Income Corp. 5.25% 15JAN29	CAD	300,000	300,000	320,406
Total Consumer, Cyclical			300,000	320,406
Total Fixed Income			850,000	970,789
Warrants (0.02%)				
Constellation Software Inc. \$0 31MAR40	CAD	90	–	–
i-80 Gold Corp. \$2.15 01MAY28	CAD	32,500	12,350	5,200
Total Warrants			12,350	5,200
Total investments owned			23,562,519	29,911,415
Commissions and other portfolio transaction costs			(28,118)	–
Net investments owned (98.01%)			23,534,401	29,911,415
Other assets, net (1.99%)				608,852
Net Assets Attributable to Holders of Redeemable Units (100%)				30,520,267

Palos Equity Income Fund

Notes to Financial Statements

December 31, 2024 and 2023

(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. During the year ended December 31, 2024, redeemable units of Series A and Series F were in issuance.

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

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

These financial statements have been authorized for issue by the Board of Directors of the Manager on March 28, 2025.

2 Basis of presentation

These financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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

December 31, 2024 and 2023

(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. Other financial assets and liabilities are recognized at amortized cost which reflects 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

December 31, 2024 and 2023

(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 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.

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Foreign currency translation

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

Offsetting financial assets and financial liabilities

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

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

Cash

Cash comprises deposits with financial institutions and bank overdraft.

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

The increase in net assets attributable to holders of redeemable units per 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 year.

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.

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New standards and amendments to existing standards effective January 1, 2024

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2024 that have a material effect on the Financial Statements of the Fund.

New standards, amendments and interpretations effective after January 1, 2024 and that have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2024, and have not been early adopted in preparing these financial statements. The Fund's assessment of the impact of these new standards and amendments is set out below:

i) Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7 (effective for annual periods beginning on or after January 1, 2026)

The IASB issued targeted amendments to IFRS 9 and IFRS 7 to respond to recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. Among other amendments, the IASB clarified the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system.

ii) IFRS 18 Presentation and Disclosure in Financial Statements (effective for annual periods beginning on or after January 1, 2027)

The IASB issued the new standard on presentation and disclosure in financial statements, which replaces IAS 1, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss with defined subtotals;
- the requirement to determine the most useful structured summary for presenting expenses in the statement of profit or loss;
- required disclosures in a single note within the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

The Fund is currently still assessing the effect of the forthcoming standard and amendments.

No other new standards or amendments to standards are expected to have a material effect on the financial statements of the Fund.

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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:

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, 2024, fees paid or payable to PricewaterhouseCoopers LLP and its network firms for the audit of the financial statements of Canadian Reporting Issuer were \$36,839 (2023 – \$46,897). Fees for other services were \$12,794 (2023 – \$11,810).

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6 Risks associated with financial instruments

Risk factors

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

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities. In selecting fixed income securities for the Fund, the Manager considers factors such as the debt security's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread and duration. As at December 31, 2024, all investments in fixed income were non-rated (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 distributions payable and accrued liabilities. 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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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.

	2024		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Distributions payable	–	115,881	115,881
Accrued liabilities		70,975	70,975
Redeemable units	30,520,267	–	30,520,267

	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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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 December 31, 2024 and 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
December 31, 2024						
U.S. Dollar	\$ 24,345	\$ 522,182	\$ 546,527	\$ 1,217	\$ 26,109	\$ 27,326
% of Net Assets						
Attributable to Holders of Redeemable Units	0.1	1.7	1.8	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

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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.

	Total Exposure	
Terms to maturity	2024	2023
	\$	\$
1-3 years	258,118	244,280
3-5 years	712,671	367,836
Over 5 years	–	281,229
Total	970,789	893,345
Impact on net assets attributable to holders of redeemable units	27,195	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 December 31, 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 \$1,301,147 and would represent 4.3% of the net assets attributable to holders of redeemable units of the Fund (2023 – \$1,317,432 representing 4.8%).

Palos Equity Income Fund

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Concentration risk

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

Market segment	Percentage of portfolio	
	2024	2023
Investments owned		
Basic Materials	9.5	6.9
Communications	3.7	4.9
Consumer, Cyclical	4.4	3.9
Consumer, Non-cyclical	3.6	3.7
Energy	19.1	20.1
Financial	30.6	31.3
Funds	7.8	6.9
Industrial	10.5	11.1
Technology	4.6	3.9
Utilities	6.2	7.2
Warrants	—*	0.1
Total net investments	100.0	100.0

Asset class weighting	Percentage of net assets	
	2024	2023
Investments owned		
Fixed Income	3.2	3.3
Equity	94.8	95.2
Warrants	—*	0.1
Other net assets	2.0	1.4
Total net investments	100.0	100.0

* Value shown as "-" is percentage that round to zero.

Palos Equity Income Fund

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Fair value measurement

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

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

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

December 31, 2024:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 28,935,426	\$ –	\$ –	28,935,426
Fixed Income	–	970,789	–	970,789
Warrants	5,200	–	–	5,200
	\$ 28,940,626	\$ 970,789	\$ –	29,911,415

December 31, 2023:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 25,975,003	\$ –	\$ –	25,975,003
Fixed Income	–	893,345	–	893,345
Warrants	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 significant change in levels during the years ended December 31, 2024 and 2023.

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7 Bank indebtedness

The Fund 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 Fund. The margin debt is guaranteed dollar for dollar by a security held by the Fund. 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 December 31, 2024, margin debt was \$nil (2023 – \$nil).

8 Redeemable units

During the years ended December 31, 2024 and 2023, the number of units issued, redeemed and outstanding were as follows:

	Redeemable Units, beginning of year	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of year
December 31, 2024					
Series A	3,118,688	215,654	(222,321)	96,368	3,208,389
Series F	851,733	24,295	(113,141)	24,727	787,614
December 31, 2023					
Series A	3,123,732	165,774	(278,950)	108,132	3,118,688
Series F	912,859	31,829	(122,653)	29,698	851,733

During the year ended December 31, 2024, redeemable units of Series A and Series F were in issuance.

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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 year ended December 31, 2024 amounted to \$445,181 and \$nil, respectively (2023 – \$413,642 and \$nil, respectively), with \$176 in advance paid to the Manager as at December 31, 2024 (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 year, the Manager did not waive any fees (2023 – did not waive any fees).

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Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2024 amounted to \$12,001 (2023 – \$12,001) 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 years ended December 31, 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 years ended December 31, 2024 and 2023 is disclosed below:

		2024	2023
Soft dollars	\$	3,150	\$ 5,461
Percentage of total transaction costs (%)		11%	11%

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

The increase in net assets attributable to holders of redeemable units per series for the years ended December 31, 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 year	Increase in net assets attributable to holders of redeemable units per series per unit
December 31, 2024			
Series A	\$ 3,201,023	3,111,017	\$ 1.03
Series F	988,290	823,332	1.20
December 31, 2023			
Series A	\$ 1,521,977	3,114,887	\$ 0.49
Series F	541,604	852,408	0.64

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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, 2024 were \$nil (2023 – \$nil).