

# **Palos Equity Income Fund**

Interim Financial Statements (unaudited)  
**June 30, 2025 and 2024**  
(expressed in Canadian dollars)

# Palos Equity Income Fund

## Notice

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

# Palos Equity Income Fund

## Statements of Financial Position (unaudited)

(expressed in Canadian dollars)

As at June 30, 2025 and December 31, 2024

	June 30, 2025	December 31, 2024
<b>ASSETS</b>		
<b>Current assets</b>		
Investments at fair value through profit or loss (FVTPL)	\$ 31,081,255	\$ 29,911,415
Cash	1,134,466	727,590
Accrued income receivable	116,600	62,811
Subscription receivable	32,050	1,050
Receivable from investments sold	109,545	—
Prepaid expenses	9,341	—
Other assets	—	4,256
	<u>32,483,257</u>	<u>30,707,122</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Distributions payable	13,952	115,881
Accrued liabilities	38,584	70,974
Payable for investments purchased	45,920	—
	<u>98,456</u>	<u>186,855</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>\$ 32,384,801</u>	<u>\$ 30,520,267</u>
<b>Net assets attributable to holders of redeemable units per series</b>		
Series A	\$ 25,893,382	\$ 24,059,745
Series F	6,491,419	6,460,522
	<u>\$ 32,384,801</u>	<u>\$ 30,520,267</u>
<b>Net assets attributable to holders of redeemable units per series per unit</b>		
Series A	\$ 7.92	\$ 7.50
Series F	8.71	8.20

Approved by the Manager, Palos Wealth Management Inc.

(s) Alain Lizotte Director

(s) Philippe Marleau Director

# Palos Equity Income Fund

## Statements of Comprehensive Income (unaudited)

(expressed in Canadian dollars)

For the periods ended June 30, 2025 and 2024

	2025	2024
<b>Income</b>		
Dividend income	\$ 392,451	\$ 388,446
Interest income for distribution purposes	118,327	66,155
Net realized gain on sale of investments	764,098	900,411
Net change in unrealized appreciation of investments	1,058,421	478,990
Early redemption fees	133	—
Tax refund	12,156	—
Other income	—	71
	<u>2,345,586</u>	<u>1,834,073</u>
<b>Expenses</b>		
Management fees (Note 9)	233,904	211,153
Administration and other professional fees	78,452	56,615
Audit fees (Note 5)	26,953	27,102
Legal fees	19,781	19,891
Transaction costs (Note 10)	17,275	13,743
Trustee fees	7,848	7,892
Bank charges and interest	7,790	11,548
Independent review committee fees	5,935	5,968
Withholding tax expense	82	67
	<u>398,020</u>	<u>353,979</u>
<b>Increase in net assets attributable to holders of redeemable units</b>	<u>\$ 1,947,566</u>	<u>\$ 1,480,094</u>
<b>Increase in net assets attributable to holders of redeemable units per series (Note 11)</b>		
Series A	\$ 1,535,466	\$ 1,120,082
Series F	<u>412,100</u>	<u>360,012</u>
	<u>\$ 1,947,566</u>	<u>\$ 1,480,094</u>
<b>Increase in net assets attributable to holders of redeemable units per series per unit (Note 11)</b>		
Series A	\$ 0.47	\$ 0.36
Series F	0.55	0.43

# Palos Equity Income Fund

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

(expressed in Canadian dollars)

For the periods ended June 30, 2025 and 2024

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued*	Redemption of redeemable units*	Distributions to holders of redeemable units***	Reinvestment of distributions to holders of redeemable units	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
<b>June 30, 2025</b>							
Series A	\$ 24,059,745	\$ 920,351	\$ (602,857)	\$ (163,636)	\$ 144,313	\$ 1,535,466	\$ 25,893,382
Series F	6,460,522	139,272	(511,964)	(37,161)	28,650	412,100	6,491,419
	<u>\$ 30,520,267</u>	<u>\$ 1,059,623</u>	<u>\$ (1,114,821)</u>	<u>\$ (200,797)</u>	<u>\$ 172,963</u>	<u>\$ 1,947,566</u>	<u>\$ 32,384,801</u>

\* Total proceeds from redeemable units relating to switch-ins and redemptions of redeemable units relating to switch-outs for the period ended June 30, 2025 were \$30,702 and \$(30,702), respectively.

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

\*\* Total proceeds from redeemable units relating to switch-ins and redemptions of redeemable units relating to switch-outs for the period ended June 30, 2024 were \$171,064 and \$(171,064), respectively.

# Palos Equity Income Fund

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

(expressed in Canadian dollars)

For the periods ended June 30, 2025 and 2024

\*\*\*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
<b>June 30, 2025</b>				
Class A	\$ —	\$ (163,636)	\$ —	\$ (163,636)
Class F	—	(37,161)	—	(37,161)
	<u>\$ —</u>	<u>\$ (200,797)</u>	<u>\$ —</u>	<u>\$ (200,797)</u>
<b>June 30, 2024</b>				
Class A	\$ —	\$ (154,859)	\$ —	\$ (154,859)
Class F	—	(41,895)	—	(41,895)
	<u>\$ —</u>	<u>\$ (196,754)</u>	<u>\$ —</u>	<u>\$ (196,754)</u>

# Palos Equity Income Fund

## Statements of Cash Flows (unaudited)

(expressed in Canadian dollars)

For the periods ended June 30, 2025 and 2024

	2025	2024
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase in net assets attributable to holders of redeemable units	\$ 1,947,566	\$ 1,480,094
Adjustments for non-cash items		
Net realized gain on sale of investments	(764,098)	(900,411)
Net change in unrealized appreciation of investments	(1,058,421)	(478,990)
Foreign exchange (gain) loss on cash	(78)	1,014
Change in non-cash balances		
(Increase) decrease in accrued income receivable	(53,789)	3,365
Increase in prepaid expenses	(9,341)	(2,885)
Decrease in other assets	4,256	210
(Decrease) increase in accrued liabilities	(32,390)	10,587
Decrease in management fees payable	—	(1,472)
Proceeds from sale of investments	6,637,680	5,926,336
Purchase of investments	(6,048,626)	(5,468,781)
Cash provided by operating activities	<u>622,759</u>	<u>569,067</u>
<b>Financing Activities</b>		
Proceeds from issuance of redeemable units	997,921	867,462
Amount paid on redemption of redeemable units	(1,084,119)	(1,282,309)
Distributions to holders of redeemable units, net of reinvested distributions	(129,763)	(127,105)
Cash used in financing activities	<u>(215,961)</u>	<u>(541,952)</u>
Increase in cash during the period	406,798	27,115
Foreign exchange gain (loss) on cash	78	(1,014)
Cash, beginning of period	<u>727,590</u>	<u>412,620</u>
<b>Cash, end of period</b>	<u>\$ 1,134,466</u>	<u>\$ 438,721</u>
<b>Supplemental information*</b>		
Interest paid	\$ 60	\$ 540
Interest received	116,711	66,241
Dividends received, net of withholding taxes	340,196	417,695

\*Included as a part of cash flows from operating activities

# Palos Equity Income Fund

## Schedule of Investment Portfolio as at June 30, 2025 (Unaudited)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
<b>Investments owned (95.97%)</b>				
<b>Equities (93.07%)</b>				
<b>Basic Materials (8.67%)</b>				
Agnico Eagle Mines Ltd.	CAD	1,911 \$	120,802 \$	310,040
Cameco Corp.	CAD	1,000	61,604	101,130
Equinox Gold Corp.	CAD	25,900	219,891	203,574
Franco-Nevada Corp.	CAD	1,950	314,126	435,962
K92 Mining Inc.	CAD	21,927	145,571	336,799
North American Construction Group Ltd.	CAD	20,009	496,098	435,996
Russel Metals Inc.	CAD	6,300	251,306	276,255
Teck Resources Ltd.	CAD	6,630	320,501	365,114
Wheaton Precious Metals Corp.	CAD	2,800	143,508	342,888
<b>Total Basic Materials</b>			2,073,407	2,807,758
<b>Communications (3.91%)</b>				
Blackline Safety Corp.	CAD	13,500	94,555	97,200
Rogers Communications Inc.	CAD	11,150	579,251	450,349
TELUS Corp.	CAD	20,940	500,492	457,958
Thomson Reuters Corp.	CAD	950	215,341	260,148
<b>Total Communications</b>			1,389,639	1,265,655
<b>Consumer, Cyclical (3.20%)</b>				
ADENTRA Inc.	CAD	10,300	326,787	297,154
Canadian Tire Corp Ltd.	CAD	1,700	219,828	315,163
Pollard Banknote Ltd.	CAD	11,770	271,518	254,821
Superior Plus Corp.	CAD	21,000	133,032	167,580
<b>Total Consumer, Cyclical</b>			951,165	1,034,718
<b>Consumer, Non-cyclical (6.00%)</b>				
Boyd Group Services Inc.	CAD	920	197,935	196,788
CareRx Corp.	CAD	16,000	45,920	46,560
dentalcorp Holdings Ltd.	CAD	25,900	212,142	218,078
Green Thumb Industries Inc.	CAD	17,800	226,195	132,610
Information Services Corp.	CAD	7,900	180,020	252,879
K-Bro Linen Inc.	CAD	5,600	193,480	195,440
KITS Eyecare Ltd.	CAD	14,900	128,622	226,629
Premium Brands Holdings Corp.	CAD	4,500	361,879	365,490
Sienna Senior Living Inc.	CAD	16,150	256,797	307,658
<b>Total Consumer, Non-cyclical</b>			1,802,990	1,942,132



# Palos Equity Income Fund

## Schedule of Investment Portfolio as at June 30, 2025 (Unaudited) (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
<b>Energy (16.37%)</b>				
AltaGas Ltd.	CAD	7,300	\$ 166,815	\$ 288,569
Alvopetro Energy Ltd.	CAD	5,600	33,403	35,000
ARC Resources Ltd.	CAD	12,100	236,005	347,391
Canadian Natural Resources Ltd.	CAD	12,700	403,170	543,560
CES Energy Solutions Corp.	CAD	43,900	190,304	291,057
Enbridge Inc.	CAD	5,600	249,987	345,800
Enerflex Ltd.	CAD	9,500	84,782	102,125
Headwater Exploration Inc.	CAD	55,800	326,109	375,534
Keyera Corp.	CAD	8,720	248,098	388,389
Keyera Corp.	CAD	3,000	117,450	130,890
Secure Waste Infrastructure Corp.	CAD	29,000	252,405	451,530
Tamarack Valley Energy Ltd.	CAD	97,719	368,896	471,983
TC Energy Corp.	CAD	4,600	206,734	305,808
Topaz Energy Corp.	CAD	16,600	320,088	425,956
Tourmaline Oil Corp.	CAD	7,520	360,360	494,064
Trican Well Service Ltd.	CAD	67,300	234,599	303,523
<b>Total Energy</b>			3,799,205	5,301,179
<b>Financial (29.89%)</b>				
Alaris Equity Partners Income	CAD	15,000	205,315	286,949
Bank of Montreal	CAD	8,641	941,706	1,304,013
Brookfield Asset Management Ltd.	CAD	3,600	161,704	271,332
Brookfield Corp.	CAD	5,100	229,826	429,828
BSR Real Estate Investment Trust	USD	14,400	211,807	255,377
Canadian Imperial Bank of Commerce	CAD	13,463	698,576	1,301,334
Dream Industrial Real Estate Investment Trust	CAD	32,305	387,047	380,876
EQB Inc.	CAD	2,850	153,585	295,146
Flagship Communities REIT	USD	12,600	220,379	308,753
Minto Apartment Real Estate Investment Trust	CAD	24,500	326,590	344,960
National Bank of Canada	CAD	5,510	369,883	774,265
Primaris REIT	CAD	20,400	304,965	300,288
Propel Holdings Inc.	CAD	7,500	201,967	283,800
Royal Bank of Canada	CAD	7,550	649,182	1,354,999
StorageVault Canada Inc.	CAD	59,120	210,105	241,801
The Toronto-Dominion Bank	CAD	12,729	707,117	1,274,937
Trisura Group Ltd.	CAD	6,200	205,051	274,536
<b>Total Financial</b>			6,184,805	9,683,194

# Palos Equity Income Fund

## Schedule of Investment Portfolio as at June 30, 2025 (Unaudited) (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
<b>Funds (6.20%)</b>				
BMO Short Corporate Bond Index ETF	CAD	60,927	\$ 783,497	\$ 853,587
BMO Short Federal Bond Index ETF	CAD	64,930	857,063	904,475
Purpose High Interest Savings ETF	CAD	4,990	249,456	249,600
<b>Total Funds</b>			1,890,016	2,007,662
<b>Industrial (9.81%)</b>				
ATS Corp.	CAD	6,300	272,247	273,609
Canadian National Railway Co.	CAD	2,220	262,075	314,996
Canadian Pacific Kansas City Ltd.	CAD	3,795	203,206	410,543
Cargojet Inc.	CAD	3,315	353,551	314,361
CCL Industries Inc.	CAD	3,810	199,242	302,552
Chemtrade Logistics Income Fund	CAD	8,600	72,018	95,460
GFL Environmental Inc.	CAD	4,900	172,339	336,826
MDA Space Ltd.	CAD	2,200	52,474	77,242
Mullen Group Ltd.	CAD	23,200	289,013	329,208
TFI International Inc.	CAD	2,895	366,300	353,885
WSP Global Inc.	CAD	1,320	159,286	366,656
<b>Total Industrial</b>			2,401,751	3,175,338
<b>Technology (4.10%)</b>				
CGI Inc.	CAD	1,820	178,619	260,278
Constellation Software Inc.	CAD	62	119,173	309,578
Kinaxis Inc.	CAD	1,690	239,090	342,259
Shopify Inc.	CAD	2,650	209,287	416,209
<b>Total Technology</b>			746,169	1,328,324
<b>Utilities (4.92%)</b>				
Boralex Inc.	CAD	18,300	541,931	579,012
Brookfield Infrastructure Corp.	CAD	4,475	243,429	253,554
Capital Power Corp.	CAD	7,520	308,370	412,096
Northland Power Inc.	CAD	16,318	430,695	348,716
<b>Total Utilities</b>			1,524,425	1,593,378
<b>Total Equities</b>			22,763,572	30,139,338

# Palos Equity Income Fund

## Schedule of Investment Portfolio as at June 30, 2025 (Unaudited) (continued)

Expressed in Canadian Dollars

Description	Currency	Number of shares	Average cost	Fair value
<b>Fixed Income (2.89%)</b>				
<b>Basic Materials (0.78%)</b>				
Chemtrade Logistics Income Fund 6.50% 31OCT26	CAD	250,000	\$ 250,000	\$ 253,720
<b>Total Basic Materials</b>			250,000	253,720
<b>Consumer, Cyclical (1.01%)</b>				
Exchange Income Corp. 5.25% 15JAN29	CAD	300,000	300,000	328,314
<b>Total Consumer, Cyclical</b>			300,000	328,314
<b>Financial (1.10%)</b>				
Alaris Equity Partners Income 6.50% 30JUN30	CAD	350,000	350,000	355,333
<b>Total Financial</b>			350,000	355,333
<b>Total Fixed Income</b>			900,000	937,367
<b>Warrants (0.01%)</b>				
<b>Basic Materials (0.01%)</b>				
i-80 Gold Corp. \$2.15 01MAY28	CAD	32,500	12,350	4,550
<b>Total Basic Materials</b>			12,350	4,550
<b>Technology (0.00%)</b>				
Constellation Software Inc. \$0 31MAR40	CAD	90	—	—
HealWELL AI Inc. \$2.50 21JAN28	CAD	15,000	—	—
<b>Total Technology</b>			—	—
<b>Total Warrants</b>			12,350	4,550
<b>Total investments owned</b>			23,675,922	31,081,255
Commissions and other portfolio transaction costs			(30,104)	—
Net investments owned (95.97%)			23,645,818	31,081,255
Other assets, net (4.03%)				1,303,546
<b>Net Assets Attributable to Holders of Redeemable Units (100%)</b>				<b>32,384,801</b>

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(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 period ended June 30, 2025, 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 Wealth Management Inc. (the Manager).

These financial statements have been authorized for issue by the Board of Directors of the Manager on August 29, 2025.

### 2 Basis of presentation

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

### 3 Summary of material accounting policy information

#### Financial instruments

##### Classification

IFRS 9, Financial Instruments, sets out a classification and measurement model for financial assets to determine whether a financial asset should be classified at amortized cost, at fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held. The Fund manages its investments in financial assets with the objective of realizing cash flows through both the sale of the assets and income generated from those assets. The Manager makes decisions based on the assets' fair values and manages the assets to realize those fair values.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(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 (unaudited)

As at June 30, 2025

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(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.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(expressed in Canadian dollars)

### Foreign currency translation

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

### Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statements of comprehensive income.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(expressed in Canadian dollars)

### **New standards and amendments to existing standards effective January 1, 2025**

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2025 that have a material effect on the financial statements of the Fund.

### **New standards, amendments and interpretations effective after January 1, 2025 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, 2025, 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.



# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(expressed in Canadian dollars)

### 4 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Manager has made in preparing the financial statements:

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).

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(expressed in Canadian dollars)

### 6 Risks associated with financial instruments

#### Risk factors

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

#### Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities. In selecting fixed income securities for the Fund, the Manager considers factors such as the debt security's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread and duration. As at June 30, 2025, all investments in fixed income were non-rated (December 31, 2024 – 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, payable for investments purchased 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.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

The Fund may invest in debt securities and unlisted equity investments that are not traded in an active market. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts that approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Fund's policy, the Manager monitors the Fund's liquidity position on a daily basis. The tables below analyze the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows.

	June 30, 2025		
Financial liabilities	On demand \$	< 3 months \$	Total \$
Distributions payable	—	13,952	13,952
Accrued liabilities	—	38,584	38,584
Payable for investments purchased	—	45,920	45,920
Redeemable units	32,384,801	—	32,384,801

  

	December 31, 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

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.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

### a) Currency risk

The Fund invests in monetary assets denominated in currencies other than Canadian dollar. These investments result in currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The table below indicates the foreign currencies to which the Fund had significant exposure as at June 30, 2025 and December 31, 2024, 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
<b>June 30, 2025</b>						
U.S. Dollar	\$ 34,361	\$ 564,130	\$ 598,491	\$ 1,718	\$ 28,207	\$ 29,925
% of Net Assets Attributable to Holders of Redeemable Units	0.1	1.7	1.8	—	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
<b>December 31, 2024</b>						
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	—	0.1	0.1

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

### b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds securities with fixed interest rates that expose the Fund to fair value interest rate risk. The Fund also holds cash that is subject to variable interest rates that exposes the Fund to cash flow interest rate risk.

The Fund mitigates interest rate risk by monitoring interest rates and the maturities of its portfolio of interest-bearing financial instruments. The following table summarizes the Fund's exposure to interest rate risk. It includes the Fund's interest-bearing financial assets at fair value, categorized by the earlier of contractual interest rate reset dates or maturity dates. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 1%, assuming a parallel shift in the yield curve with all other variables held constant.

	<b>Total Exposure</b>	
<b>Terms to maturity</b>	<b>June 30, 2025</b>	<b>December 31, 2024</b>
	<b>\$</b>	<b>\$</b>
1-3 years	253,720	258,118
3-5 years	683,647	712,671
Over 5 years	—	—
<b>Total</b>	<b>937,367</b>	<b>970,789</b>
<b>Impact on net assets attributable to holders of redeemable units</b>	<b>31,500</b>	<b>27,195</b>
<b>Impact on net assets attributable to holders of redeemable units (%)</b>	<b>0.1%</b>	<b>0.1%</b>

### c) Price risk

Price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or by factors affecting all securities traded in the market. The Fund is exposed to price risk through its equity investment portfolio, which includes a variety of common shares in a wide range of industries. Other assets and liabilities are monetary items that are short-term in nature, and as such are not subject to price risk.

As at June 30, 2025, 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 \$1,476,360 and would represent 4.6% of the net assets attributable to holders of redeemable units of the Fund (December 31, 2024 – \$1,301,147 representing 4.3%).

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

### Concentration risk

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

Market segment	Percentage of portfolio	
	June 30, 2025	December 31, 2024
<b>Investments owned</b>		
Basic Materials	9.8	9.5
Communications	4.1	3.7
Consumer, Cyclical	4.4	4.4
Consumer, Non-cyclical	6.2	3.6
Energy	17.1	19.1
Financial	32.3	30.6
Funds	6.5	7.8
Industrial	10.2	10.5
Technology	4.3	4.6
Utilities	5.1	6.2
Warrants	—*	—*
Total net investments	100.0	100.0

Asset class weighting	Percentage of net assets	
	June 30, 2025	December 31, 2024
<b>Investments owned</b>		
Fixed Income	2.9	3.2
Equity	93.1	94.8
Warrants	—*	—*
Other net assets	4.0	2.0
Total net investments	100.0	100.0

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

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

### Fair value measurement

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

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

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

June 30, 2025:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equities	\$ 30,139,338	\$ –	\$ –	\$ 30,139,338
Fixed Income	–	937,367	–	937,367
Warrants	4,550	–	–	4,550
	\$ 30,143,888	\$ 937,367	\$ –	\$ 31,081,255

December 31, 2024:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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

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 period ended June 30, 2025 and year ended December 31, 2024.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

### 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 June 30, 2025, margin debt was \$nil (December 31, 2024 – \$nil).

### 8 Redeemable units

During the periods ended June 30, 2025 and 2024, the number of units issued, redeemed and outstanding were as follows:

	Redeemable Units, beginning of period	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of period
<b>June 30, 2025</b>					
Series A	3,208,389	124,193	(82,961)	18,960	3,268,581
Series F	787,614	16,941	(62,479)	3,428	745,504
<b>June 30, 2024</b>					
Series A	3,118,688	140,674	(148,861)	19,114	3,129,615
Series F	851,733	23,956	(55,857)	4,497	824,329

During the period ended June 30, 2025, redeemable units of Series A and Series F were in issuance.



# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

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(expressed in Canadian dollars)

### Capital structure

Units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements.

The Fund is authorized to issue an unlimited number of redeemable unit series, as well as an unlimited number of redeemable units within each series. Each series unit enables its bearer to participate equally in the allocations the Fund completes for the given series. Unit fractions may also be issued.

The Fund is composed of more than one redeemable unit series; each redeemable unit series may feature different structures regarding management fees, performance fees and brokerage. As a result, each redeemable unit entitles its holder to one vote and to participate equally in the allocations the Fund completes and, in the case of Fund liquidation, in the allocation of the redeemable unit series' net assets attributable to holders of redeemable units after all current liabilities have been paid.

## 9 Related party transactions

### Management fees and performance fees

The Manager provides management and advisory services to the Fund in accordance with the agreement. In return for these services, the Manager is paid a management fee and a performance fee. The Series A units of the Fund are subject to a monthly management fee equal to 1/12 of 1.5% of the NAV of the Series A units. The Manager will pay a trailer fee of 0.75% out of the management fees collected from the Fund with respect to Series A units.

Series F is similar to Series A, but no trailer fee is included in the management fee. Series F charges a monthly management fee of 1/12 of 0.75% of the NAV of Series F.

Based on the agreement amended and restated on August 26, 2013, the performance fee is 20% of the amount by which the Fund outperforms its benchmark, the S&P/TSX Composite Index. Performance fees are paid annually.

The total management fees and performance fees for the period ended June 30, 2025 amounted to \$233,904 and \$nil, respectively (2024 – \$211,153 and \$nil, respectively), with \$363 in advance paid to the Manager as at June 30, 2025 (December 31, 2024 - \$176).

The Manager may waive or absorb the operation of management fees of the Fund. The decision to do so is reviewed regularly and is determined at the sole discretion of the Manager. During the period, the Manager did not waive any fees (2024 – did not waive any fees).

Effective June 30, 2025, Palos Wealth Management Inc. became the Investment Fund Manager and portfolio advisor (the Manager) for the Fund. Palos Management Inc. was the Manager for the period from January 1, 2025 to June 29, 2025 and for the year ended December 31, 2024.

# Palos Equity Income Fund

## Notes to Financial Statements (unaudited)

As at June 30, 2025

(expressed in Canadian dollars)

The change in Manager from Palos Management Inc. to Palos Wealth Management Inc. was a related party transaction under IAS 24. It did not affect fund governance, unitholder rights, or investment objectives.

### Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee during the period ended June 30, 2025 amounted to \$5,935 (2024 – \$5,968) and consisted only of fixed fees.

## 10 Brokerage commissions and soft dollars

The total commissions paid by the Fund to brokers in connection with portfolio transactions for the periods ended June 30, 2025 and 2024, together with other transaction charges, are disclosed in the statements of comprehensive income of the Fund. Brokerage business is allocated to brokers based on the best net result for the Fund. Subject to these criteria, preference may be given to brokerage firms that provide (or pay for) certain services (arrangements referred to as “soft dollar”), which may include investment research, analysis and reports, and databases or software in support of these services. The ascertainable soft dollar value received as a percentage of total brokerage commissions paid during the periods ended June 30, 2025 and 2024 is disclosed below:

		2025	2024
Soft dollars	\$	7,773	\$ 6,975
Percentage of total transaction costs (%)		45%	51%

## 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 periods ended June 30, 2025 and 2024 is calculated as follows:

	Increase in net assets attributable to holders of redeemable units per series	Weighted average of redeemable units outstanding during the period	Increase in net assets attributable to holders of redeemable units per series per unit
<b>June 30, 2025</b>			
Series A	\$ 1,535,466	3,253,008	\$ 0.47
Series F	412,100	754,169	0.55
<b>June 30, 2024</b>			
Series A	\$ 1,120,082	3,080,707	\$ 0.36
Series F	360,012	838,887	0.43

# Palos Equity Income Fund

Notes to Financial Statements (unaudited)

As at June 30, 2025

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(expressed in Canadian dollars)

## 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).