



PERSONAL & CONFIDENTIAL

Dear Investor,

MONTREAL, April 24, 2006 – Palos Income Trust Fund, L.P. For the quarter ending March 31, 2006 the Palos Income Trust Fund generated a net return of 5.89%. We are very pleased with our performance this past quarter as we continue to consistently create alpha through our stock-picking as well as active trading (by taking advantage of short-term price volatility in individual securities).

Business Trust

Reviewing our Business Trust book, our decision to shift the portfolio from larger cap expensive names into smaller cap undervalued names late last year proved to be quite timely. Specifically, our Business Trust book produced a net return of approximately 4.0% during the first quarter driven by our exposure in K-Bro, Colabor, Altus Group, Cineplex, Liquor Stores, and Second Cup.

REITs

Our REIT book produced a net return of about 7.5% during the first quarter. However, we have since become net sellers of REITs. Liquidity abounds and valuations seem extreme in this sector. Specifically, most REITs are now trading at premiums to net asset value that we feel are difficult to justify. We believe that this will eventually change but as to when and why is anyone’s guess. Nonetheless, from a risk/return standpoint, for the time being, it is not worth being exposed to this sector.

Utilities

Our Utility Trust book produced a net return of around 5.0% in the first quarter as we took advantage of individual stock opportunities, particularly in the power sector. In particular we took very large positions in Countryside Power and Macquarie Power which paid off nicely.

Energy

Our Energy Trust book produced a net return of approximately 5.0% as oil went from \$65.15 per barrel to \$67.93 per barrel as a result of strong supply/demand fundamentals and rising geopolitical tensions. We continue to view our net exposure to the energy sector as a way to participate in global economic growth as well as a partial hedge against rising geopolitical tensions.

The fund has generated the following monthly net returns since inception:

Monthly Performance Net of Fees (Since Inception)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Year
2006	5.09%	-0.27%	1.04%										5.89% ⁽¹⁾
2005	4.68%	1.97%	1.18%	-5.07%	2.22%	2.93%	5.01%	1.51%	0.72%	-9.52	7.41%	2.72%	15.62%
2004	2.99%	4.95%	0.59%	-6.66%	0.24%	3.12%	2.58%	1.83%	3.57%	1.04%	3.86%	2.83%	22.48%
2003	3.04%	0.90%	-0.98%	4.16%	1.32%	3.08%	2.82%	4.80%	-1.37%	2.45%	3.35%	4.97%	32.29%
2002	2.07%	5.40%	3.39%	-3.97%	3.63%	3.48%	-2.47%	1.51%	3.37%	-0.37%	-4.12%	4.28%	16.76%
2001									0.24%	0.21%	2.31%	5.50%	8.43% ⁽¹⁾

(1) Does not include full year.

Best regards,

Phil Marleau, CFA
Portfolio Manager & Director

