



PERSONAL & CONFIDENTIAL

Dear Investor,

Montreal, April 05, 2007 – Palos Income Trust Fund, L.P. For the quarter ended March 31, 2007, the Palos Income Trust Fund generated a positive return of 5.51% compared to 1.31% for the TSX Income Trust Total Return Index. Please note that the Fund had one of its best performing quarters since inception. The Fund has consistently created alpha through excellent stock-picking and sector allocation. In this regard, the Fund outperformed the benchmark by 4.20%.

Real Estate Investment Trusts (REITs)

The Canadian REIT index appreciated 4.3% during the first quarter as M&A activity remained high causing further Cap Rate compression. REIT's do not currently look attractive from a risk/return standpoint. We will continue to monitor the sector for entry opportunities.

Energy Trusts

The Canadian Energy Trust Index was extremely volatile during the quarter and declined approximately 2.2%. However, since the beginning of quarter, the price of oil rose from \$58.32 to \$65.87 or roughly 13.0%. From a risk/return point of view, the sector is attractive and as such, the Fund recently increased its energy exposure. Specifically, the fund bought large cap and high quality issues like Arc Energy and Petro Canada. Weakness in the sector was concentrated in the natural gas producers and energy service companies. Natural gas prices were weak because of warm weather led to record stockpiles of natural gas. The decision to shift the portfolio from natural gas producers to oil weighted producers at the beginning of the quarter proved to be timely.

Utility Trusts

The fund did not change it's exposure to the Utility sector, as utility trusts offered competitive yields around 9.00%. The S&P U.S. Utility Index yields 2.93% and the S&P Canadian Utility Index yields 4.60%

Business Trusts

Stock picking in the Business Trust sector proved to be rewarding. Two of our top picks Cineplex Galaxy and Gateway Casino Income Fund, appreciated by 18% and 17% respectively for the period under review. Furthermore, the Fund recently added several undervalued and defensive business trusts to the portfolio like BFI Income Fund.





Palos Income Trust Fund, L.P.

Quarterly Portfolio Commentary

2007

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

Monthly Performance Net of All Fees (Since Inception)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Year
2007	2.47%	2.56%	0.40%										5.51%
2006	5.09%	-0.27%	1.04%	0.76%	-1.18%	-1.90%	2.43%	1.78%	-0.73%	2.52%	-11.46%	3.36%	0.42%
2005	4.68%	1.97%	1.18%	-5.07%	2.22%	2.93%	5.01%	1.51%	0.74%	-9.52%	7.41%	2.72%	15.65%
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,

Charles Marleau

Head Trader

