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Palos Weekly Commentary

■ Palos Income Fund

By Charles Marleau

The Raging River Seesaw

For the last 48 hours, Raging River Exploration Inc (TSX:RRX) experienced severe volatility in its stock price. This volatility was driven by unsubstantiated news reports on the company. On April 5, 2017, Scott Deveau, an editorialist for Bloomberg, reported that RRX hired GMP FirstEnergy to explore a potential sale of the company. When the news hit the wire, the stock jumped 9%. We acted quickly and sold our position as the news wire did not make much sense. Our justification for selling was based on the following:

- RRX is an acquirer and not an acquiree
- RRX trades at a premium to its peers. Who would buy them? The only option would be to go private. Teine Energy Ltd., a private company, would be the best candidate to go private via a reverse takeover. It is however difficult to imagine that such a transaction would be done at a premium.
- The reality is that the board of directors of public companies hire bankers as advisors all the time. This is also known as fishing for a potential deal and the company usually keeps this quite confidential.

This morning, RRX responded by stating that RRX management and its board of directors ended its engagement with GMP FirstEnergy. This abrupt action brings about speculation that there may have been a breach of confidentiality between RRX and the banker. This morning the stock lost more than it had gained on Wednesday. We see this as a good entry point as there is nothing fundamentally wrong with the company or its management. RRX continues to be a top tier Canadian E&P and such circumstances bring about appealing opportunities.

RRX Price Action

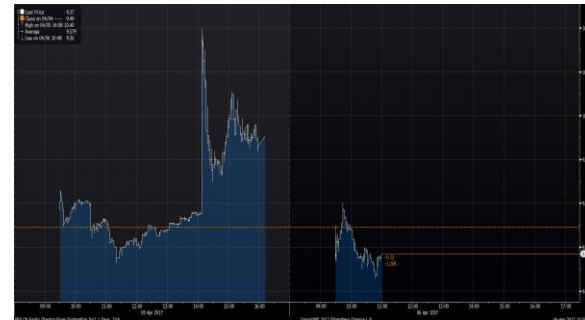


Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns)*

	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL 100	\$9.81	2.62%
Palos Equity Income Fund - RRSP	PAL 101	\$6.45	2.71%
Palos Merchant Fund L.P. (Dec 31, 2016)	PAL 500	\$4.33	-16.73%
Palos IOU High Yield Fund (Feb 28, 2017)	PAL 701	US \$7.37	-1.40%
Palos WP Growth Fund - RRSP (Apr 6, 2017)	PAL200	\$9.95	-0.24%
S&P TSX Composite			3.46%
S&P 500			5.90%
S&P TSX Venture			7.86%
Bloomberg USD High Yield Corporate Bond Index 1 to 3 Year			2.73%

Chart 2: Market Data*

	Value
US Government 10-Year	2.34%
Canadian Government 10-Year	1.55%
Crude Oil Spot	US \$51.74
Gold Spot	US \$1,250.30
US Gov't10-Year/Moody BAA Corp. Spread	229 bps
USD/CAD Exchange Rate Spot	US \$0.7455

* Period ending Apr 6, 2017