

January 4, 2012

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■ **Portfolio Management & Advisors**

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Palos Weekly Commentary

■ Palos Income Fund

By Charles Marleau

2012 Report

Palos is pleased to announce that the Palos Income Fund was up 5.5% for 2012. This brings the Palos track record to 9 years of positive returns and 9 years of outperforming the TSX since its inception in 2002 and translates to a compound annual return of approximately 11.05% compared to 7.12% for the TSX. But what is most impressive is that the returns that the fund generated did not come by taking additional risk. In fact, the fund took less risk.

Like in any year, it is important to look back and see what worked and what did not. From an industry allocation perspective, we were right on the money. In 2012, we were overweight REITs, telco's, financials, energy infrastructure, consumer products and utilities. We were

underweight natural gas E&P's, gold, materials, healthcare and lifeco's. Our industry allocations performed well. What did not work was company specific and came from two stocks we owned: SNC-Lavalin Group Inc. (TSX: SNC) and Freeport-McMoran Copper (NYSE: FCX). Both situations were impossible to predict. On February 28, 2012, SNC announced that it was being investigated for fraud. That day SNC dropped 25% and Palos immediately sold its position as we concluded that we could no longer analyze the company. Hope is not a strategy and events of this magnitude can easily turn to a tsunami. SNC stock has not recovered. FCX was a little different. On December 5, 2012, FCX announced that it was acquiring Plains Exploration & McMoRan Exploration for \$9 billion. That day the stock went down 20% as investors did not like the acquisition for the reason that the company diversified itself from being a pure copper play. Palos did not see this as a reason to sell but a reason to add to our

Chart 1: Palos Domestic Funds*

	FundServ	NAVPS	5D Returns	YTD Returns
Palos Income Fund L.P.	PAL 100	CA \$8.86	1.04%	1.04%
Palos Equity Income Fund - RRSP	PAL 101	CA \$6.87	0.81%	0.81%
Palos Merchant Bank L.P. (Dec 31, 2012)	PAL 500	CA \$8.18	---	---
Palos Majestic Commodity Fund L.P. (Jan 3, 2013)	PAL 600	CA \$N/A	---	---

Chart 2: Market Data*

	Value	5D Returns	YTD Returns
S&P 500 Total Return Index	2,575.66	4.59%	2.84%
S&P TSX Total Return Index	36,022.60	1.88%	0.91%
S&P TSX Venture Index	1,228.22	2.20%	0.57%
MSCI All Countries World TR Index (CAD)	3,422.62	3.72%	2.80%
US Government 10-Year	1.90%	0.20%	0.14%
Canadian Government 10-Year	1.94%	0.17%	0.14%
Crude Oil Spot	US \$93.09	\$2.29	\$1.27
Gold Spot	US \$1,648.90	-\$7.00	-\$26.90
US Gov't10-Year/Moody BAA Corp. Spread	190 bps	-2 bps	-1 bps
USD/CAD Exchange Rate Spot	US \$1.0129	\$0.0099	\$0.0077

* Period ending Jan 4, 2013

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position. We concluded that FCX acquired Plains and McMoRan at extremely attractive prices. FCX stock has recovered some of the value it lost since the announcement and we expect positive returns in 2013.

Unpredictable events happen. Fortunately, most of the time, these events are positive for the fund, such as a company being acquired or a company making an accretive acquisition. However, 2012 was a year of unpredictable negative company events.

Overall, Palos is content with its 2012 result as we feel that the fund navigated successfully in difficult markets. We will continue to provide the best of service by generating positive returns with less risk. Our strategies will not change and our risk tolerance will be very similar to prior years.

Happy New Year

■ Palos Merchant Fund

By George Kaneb, Cameron McDonald

IOU Financial Inc. (IOU)* is a core position of the Palos Merchant Fund LP. IOU recently closed the first two tranches of a financing for an initial total of \$3.1 Million. This is exciting for the growth prospects of the company.

Please see the two press releases below for further details on the company and the financing.

IOU Financial announces the completion of the first tranche of its private placement for total gross proceeds of \$2.4 million

MONTREAL , Dec. 21, 2012 /CNW Telbec/ - IOU Financial Inc. ("IOU Financial") (CNSX:IOU) is pleased to announce that it closed on the date hereof the first tranche of its previously announced private placement of class B shares (the "Class B Shares") and warrants to purchase Class B Shares (the "Warrants", and together with the Class B Shares, collectively the "Units") for total gross proceeds of approximately \$2.4 million. The Units were offered to investors at a price of \$0.40 per Unit.

Philippe Marleau, CEO and director of IOU Financial, is a shareholder in a company that owns a significant stake in Palos Capital Corporation, the parent company of Palos Management Inc. ("Palos"), one of IOU Financial's co-lead brokers in the private

placement. Palos will receive 215,467 Warrants in the private placement as compensation for its services and an insider of Palos will subscribe for 100,000 Units in the private placement.

The issuance of securities to such persons may be considered a related party transaction within the meaning of Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions. However, this transaction is exempt from the valuation and minority approval requirements provided under such regulation since the fair market value of the private placement to such persons is less than 25% of the market capitalization of IOU Financial. The Board of Directors of IOU Financial has approved the private placement. Philippe Marleau declared his interest prior to the approval by the Board of Directors of IOU Financial and abstained from voting thereon.

This news release shall not constitute an offer to sell nor the solicitation of an offer to buy nor shall there be any securities of IOU Financial offered in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Units will be offered on a private placement basis in Canada and only to "accredited investors", as such term is defined under applicable Canadian securities laws.

THE SECURITIES WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "1933 ACT") AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION UNDER OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT.

Forward Looking Statements

Certain information set forth in this news release may contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of IOU Financial including, but not limited to, the impact of general economic conditions, industry conditions, dependence upon regulatory and shareholder approvals, the execution of definitive documentation and the uncertainty of obtaining additional financing. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. IOU Financial does not assume any obligation to update or revise its

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forward-looking statements, whether as a result of new information, future events, or otherwise. The CNSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

SOURCE: IOU FINANCIAL INC.

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IOU Financial announces the completion of the second tranche of its private placement for total gross proceeds of \$665,000

MONTREAL, Dec. 28, 2012 /CNW Telbec/ - IOU Financial Inc. ("IOU Financial") (CNSX: IOU) is pleased to announce that it closed on the date hereof the second tranche of its previously announced \$5 million private placement of class B shares (the "Class B Shares") and warrants to purchase Class B Shares (the "Warrants", and together with the Class B Shares, collectively the "Units") for total gross proceeds of approximately \$665,000. The Units were offered to investors at a price of \$0.40 per Unit.

Philippe Marleau, CEO and director of IOU Financial, is a shareholder in a company that owns a significant stake in Palos Capital Corporation, the parent company of Palos Management Inc. ("Palos"), one of IOU Financial's co-lead brokers in the private placement. Palos will receive 83,094 Warrants in the second tranche of the private placement as compensation for its services and insiders of Palos will subscribe for 225,000 Units in the private placement.

The issuance of securities to such persons may be considered a related party transaction within the meaning of Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions. However, this transaction is exempt from the valuation and minority approval requirements provided under such regulation since the fair market value of the private placement to such persons is less than 25% of the market capitalization of IOU Financial. The Board of Directors of IOU Financial has approved the private placement. Philippe Marleau declared his interest prior to the approval by the Board of Directors of IOU Financial and abstained from voting thereon.

When combined with the first tranche closing of its previously announced \$5 million private placement, IOU Financial has closed on total gross proceeds of \$3.1 million.

This news release shall not constitute an offer to sell nor the solicitation of an offer to buy nor shall there be any securities of IOU Financial offered in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Units will be offered on a private placement basis in Canada and only to "accredited investors", as such term is defined under applicable Canadian securities laws.

THE SECURITIES WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "1933 ACT") AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION UNDER OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT.

Forward Looking Statements
 Certain information set forth in this news release may contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of IOU Financial including, but not limited to, the impact of general economic conditions, industry conditions, dependence upon regulatory and shareholder approvals, the execution of definitive documentation and the uncertainty of obtaining additional financing. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. IOU Financial does not assume any obligation to update or revise its forward-looking statements, whether as a result of new information, future events, or otherwise. The CNSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

SOURCE: IOU FINANCIAL INC.

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*The fund and principals of Palos have significant ownership positions in IOU Financial Inc.

If you have any questions about the weekly commentary, the securities that we follow, or investment ideas, please contact us at info@palosmanagement.com

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Chart 3: Palos International Fund**

	Last	5D Returns	YTD Returns
Palos International Equity Income Fund PLC - CAD	CA \$5.16	---	---
Palos International Equity Income Fund PLC - EUR	EUR 6.90	---	---
Palos International Equity Income Fund PLC - USD	US \$6.62	---	---
S&P TSX Composite Total Return Index - CAD	35,696.72	---	---
S&P TSX Composite Total Return Index - USD	35,879.71	---	---

** Period ending Dec 31, 2012