



PALOS EQUITY INCOME FUND

Independent Review Committee - Annual Report to Security holders

Date: 23 February 2023

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Introduction

The Independent Review Committee ("IRC") of the Palos Equity Income Fund (the "Fund") is pleased to present this report for the year ended December 31, 2022. Palos Management Inc. (the "Manager") has actively cooperated in disclosing to the IRC any actual or potential conflicts of interest by Palos Management in its capacity as manager of the Fund for the reporting period. In addition, the Manager has provided the IRC with access to the Manager's administrative personnel to enable the committee to have an overview of the application of policies and procedures and the measures applied to detect, prevent, and control conflicts of interest.

The mandate of the IRC is to review, approve or make a recommendation regarding conflicts of interest identified by Palos Management Inc, as manager of the Fund.

A conflict of interest is a situation where it is reasonable or likely to believe that the Manager or an entity related to the Manager has a conflict of interest in its ability to act in good faith and in the best interests of the Fund. The IRC reviews and approves or recommends the Manager's actions after determining whether the Manager's proposed actions will achieve a fair and reasonable result for the Fund.

At least once a year, the IRC reviews and assesses the adequacy and effectiveness of the Manager's policies and procedures and the adequacy and effectiveness of the standing instructions used in the event of a potential conflict of interest.

This report covers the period from January 01, 2022, to December 31, 2022.

Composition of the IRC

Name of Member	Chairman	Date Member Joined IRC
Richard Guay	Yes	June 14, 2012
Jacques Lemieux	No	July 11, 2014
Laurent Biron	No	September 28, 2016

With the manager's agreement, the mandate of the 3 members of the independent review committee was renewed for 3 years from 6 February 2020.

Compensation Paid to IRC Members and Indemnities

For 2022, IRC members received an individual amount of \$4,000 for their service on the committee. The Fund paid no indemnities to the members of the IRC in 2022.

In determining its compensation, the IRC relied on the Manager's recommendations. Given the nature of the Funds, including the quantum of assets under management, the age of the Fund, and the complexity of the Fund and actual or potential conflicts of interest, the Manager suggested an annual compensation of \$4,000 per member.

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Over and above the Manager's recommendation, the IRC determined that compensation of \$4,000 was appropriate.

In all cases, the IRC considered the following criteria in determining its compensation:

- the best interests of the Fund;
- the size and complexity of the Fund;
- The workload and the complexity of the cases under review;
- Industry best practices regarding compensation; and
- the Manager's most recent assessment of the compensation of its members.

Other involvement of IRC Members

None of the IRC members sit on any other IRC of an investment fund that is a reporting issuer.

Relationships that could Compromise the independence of the IRC.

The IRC does not foresee any situation that would cause a rational person to question the independence of a member. Thus, there is no need for the IRC to address what makes a member independent.

Ownership of securities

The IRC has not been involved in any relationship that would cause anyone to reasonably question the independence of any member. During the period under review, the members did not own, individually or collectively, any units of the Fund, or securities of the Manager.

In addition, during the reporting period, the members did not individually or collectively own, directly, or indirectly, any securities of any person or entity providing principal services¹ to the Fund or the Manager.

During the reporting period, the IRC reviewed and assessed the independence of the members and the effectiveness of the members as well as the IRC and was satisfied.

Situation in which the Manager fails to comply with the IRC's recommendations and approval.

To the best of the IRC's knowledge, the Manager has, in all cases, accepted the standing instruction issued by the IRC. The Manager has complied with the approvals and standing instructions issued by the IRC.

Furthermore, to the best of the IRC's knowledge, standing instructions regarding conflict of interest issued by the IRC were complied with by the Manager in 2022.

¹SGGG Fund Services Inc. – National Bank Independent Network – PricewaterhouseCoopers LLP, - Fasken

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Summary of Recommendations and Approvals

In 2022, the IRC provided the Manager with the following recommendations and/or approvals of standing instructions:

- to monitor the Manager's dual role as investment fund manager and as portfolio manager of the Fund.
- to ensure, in full compliance with National Instrument 23-102, that any transactions are not more costly to clients because of soft dollar agreements.
- to comply with the guidance provided by the Investment Funds Institute of Canada with respect to any potential Net Asset Value mispricing's.
- to continue to follow the policy in the Compliance manual regarding the fairness in allocation of investment opportunities to its clients and/or funds, as appropriate.
- to impose controls on gifts and other benefits that the Manager may accept from service providers, dealers, management of issuers, or other suppliers; and
- to monitor the Fund to ensure that employees of the Manager are not able to trade on material non-public information, recognizing, in any case, that the nature of the Fund does not create significant opportunities for such trades.

(s) Richard Guay

Richard Guay, Chairman
Independent Review Committee