

SUBSCRIPTION AGREEMENT

1. INSTRUCTIONS

1. Read this Subscription Agreement.
2. Complete and sign this Subscription Agreement in all relevant places.
3. Complete and sign the Accredited Investor Certificate.

2. INVESTMENT DETAILS

- PALOS INCOME FUND L.P. / FONDS DE REVENU PALOS, S.E.C.
- PALOS IOU HIGH YIELD FUND / FONDS PALOS IOU À HAUT RENDEMENT

(The indicated fund or investment vehicle is, hereinafter, the “Fund”.)

3. SUBSCRIPTION, TERMS AND CONDITIONS AND POWER OF ATTORNEY

- I. The undersigned (referred to herein as the “**Purchaser**”), hereby irrevocably agrees to contribute the sum set out below to subscribe for units of the investment fund or investment vehicle indicated in Part 2, above (in each case, the “**Units**” and each individually, a “**Unit**”, and holders of Units shall be “**Unitholders**”) of the Fund at a purchase price per Unit equal to the net asset value per Unit immediately prior to the time that the Units are issued by the Fund to the Purchaser. This Subscription Agreement, the terms and conditions (including a power of attorney), and the attached Accredited Investor Certificate, all form integral components of this Subscription Agreement are collectively referred to as the “**Subscription Agreement**”. The Purchaser agrees to be bound by the Subscription Agreement and agrees that the Fund may rely upon the covenants, representations and warranties contained in the Subscription Agreement. The Purchaser hereby agrees that by signing this Subscription Agreement, he or she or it will be agreeing to be, and upon acceptance of this Subscription Agreement, bound as a beneficiary Unitholder to the terms and conditions applicable to the Unitholders set forth in the applicable Trust Agreement or Partnership Agreement of the Fund (the “**Fund Agreement**”), which is incorporated by reference into this Subscription Agreement, and agrees to perform all obligations therein imposed upon Unitholders. Purchasers should review the instructions for completing this Subscription Agreement, above.
- II. The Purchaser acknowledges that this subscription is subject to acceptance by Palos Management Inc. (“**Palos**”) in whole or in part, in its sole and absolute discretion, whether or not acting reasonably.
- III. The Purchaser hereby appoints Palos as the Purchaser’s attorney to do all such acts as may be required to effect a redemption of units owned by the Purchaser for the purposes of paying any management fee or investment advisory fee and for any other purpose set out in the Fund Agreement. This power of attorney in favour of Palos is a power coupled with an interest and is irrevocable by the Purchaser.
- IV. The Purchaser represents and warrants that:
 - a. it is purchasing the Units as principal for its own account, not for the benefit of any other person;
 - b. it is resident in the jurisdiction set out herein and intends that all applicable laws, regulations, national instruments, national policies and similar instruments (“**Applicable Law**”) of that jurisdiction governs the Purchaser’s subscription. Such address was not created and is not used solely for the purpose of acquiring the Units;
 - c. it is sufficiently aware of the applicable Fund’s affairs and financial condition to reach an informed decision to acquire the Units. The Purchaser has been afforded an opportunity to obtain any additional information it may require, and such information, if any, has been found to be fully satisfactory to the Purchaser;
 - d. the information provided herein is true and correct;
 - e. it is a resident of Canada for purposes of the *Income Tax Act* (Canada) and will be at all times it is a Unitholder;
 - f. If it ceases to be a resident of Canada for tax purposes, the Purchaser shall notify Palos as soon as possible and, in any event, before becoming a non-resident, and the Purchaser shall redeem all units of the Fund immediately prior to

becoming a nonresident. If the Purchaser fails to redeem Units immediately prior to becoming a nonresident, Palos shall redeem the Purchaser's Units on the Purchaser's behalf;

- g. if the Purchaser is a corporation, partnership, trust, unincorporated association or other entity, it has the legal capacity and competence to enter into and be bound by this Subscription Agreement and to perform all of its obligations hereunder, and if it is a body corporate, it is duly incorporated or created and validly subsisting under the laws of the jurisdiction of its incorporation, and further certifies that all necessary approvals of directors, shareholders or otherwise have been given and obtained;
 - h. if the Purchaser is an individual, it is of the full age of majority and is legally competent to execute this Subscription Agreement and take all action pursuant hereto;
 - i. it shall not make any additional investment in the Fund unless the Purchaser continues to fall within the category of Accredited Investor indicated on the Purchaser's most recently completed and delivered Subscription Agreement or the Purchaser completes and delivers to Palos, on behalf of the Fund, a new Subscription Agreement;
 - j. this Subscription Agreement has been duly and validly authorized, executed and delivered by and constitutes a legal, valid, binding and enforceable obligation of the Purchaser. This Subscription Agreement is enforceable in accordance with its terms against the Purchaser;
 - k. it has such knowledge and experience in financial and business affairs as to be capable of evaluating the merits and risks of its investment and it is able to bear the economic risk of loss of its investment;
 - l. none of the funds the Purchaser is using to purchase the Units represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)* (the "**PCMLTFA**") and the Purchaser acknowledges that the Fund may in the future be required by law to disclose the Purchaser's name and other information relating to this Subscription Agreement and the Purchaser's subscription hereunder, on a confidential basis, pursuant to the PCMLTFA. To the best of its knowledge (a) none of the subscription funds to be provided by the Purchaser: (i) have been or will be derived from or related to any activity that is deemed criminal under the laws of Canada, or (ii) are being tendered on behalf of a person or entity who has not been identified to the Purchaser, and (b) it shall promptly notify Palos if the Purchaser discovers that any of such representations ceases to be true, and to provide Palos with appropriate information in connection therewith;
 - m. none of the funds the Purchaser is using to purchase the Units are, to the knowledge of the Purchaser, proceeds obtained or derived, directly or indirectly, as a result of illegal activities;
 - n. it is solely responsible for and has been encouraged to and should obtain independent legal, income tax and investment advice with respect to its subscription for Units and accordingly, has been independently advised as to the meanings of all terms contained herein relevant to the Purchaser for purposes of giving representations, warranties and covenants under this Subscription Agreement;
 - o. if the Purchaser is a corporation or a partnership, syndicate, trust, association, or any other form of unincorporated organization or organized group of persons, it was not created and is not being used solely to permit purchases of or to hold securities without a prospectus in reliance on a prospectus and registration exemption and it pre-existed this subscription and has a *bona fide* purpose other than investment in the Units; and
 - p. Palos is relying on the representations, warranties, acknowledgements and covenants contained herein to determine the Purchaser's eligibility to subscribe for the Units under Applicable Law and the Purchaser agrees to indemnify Palos and its affiliates, directors, officers, employees, shareholders and agents against all losses, claims, costs, expenses, damages or liabilities which any of them may suffer or incur as a result of or arising from reliance thereon.
- V. The Purchaser acknowledges that:
- a. no securities commission or similar regulatory authority has reviewed or passed on the merits of the Units;
 - b. there is no government or other insurance covering the Units;
 - c. there are risks associated with the purchase of the Units;
 - d. there are restrictions on the Purchaser's ability to resell or redeem the Units;
 - e. there may be material tax consequences to the Purchaser of an acquisition or disposition of the Units even where the Purchaser makes its investment through an tax exempt vehicle such as a trust governed by any of the following: (i) a registered retirement savings plan, (ii) a registered retirement income fund, (iii) a registered disability savings plan, (iv) a registered education savings plan; (v) a deferred profit sharing plan, or (vi) a tax-free savings account (each as defined in the *Income Tax Act (Canada)*); Palos does not give any opinion or makes any representation with respect to the tax consequences to the Purchaser under any tax law;
 - f. Palos has advised the Purchaser that it is relying on an exemption from the requirements to provide the Purchaser with a prospectus and, as a consequence of acquiring Units pursuant to this exemption, certain protections, rights and remedies provided by securities laws, including statutory rights of rescission or damages, may not be available to the

- Purchaser. The Purchaser may not receive information that would otherwise be required to be given if the Fund was issued via prospectus, and the Fund is relieved from certain obligations that would otherwise apply;
- g. pursuant to the Fund Agreement, the assignment, transfer, hypothecation or pledge of the Units is restricted;
 - h. it acknowledges the contents of the Privacy Notice attached hereto and, to the extent required by law, it authorizes and consents to the collection, use and disclosure of personal information of the Purchaser as set forth therein; and without limiting the generality of the foregoing, the Purchaser acknowledges notice by or on behalf of the Fund that: (i) the Purchaser's name, address and telephone number as disclosed herein, the number of securities purchased hereunder, the exemption relied upon by the Fund in connection therewith and the total purchase price paid will be delivered to the Ontario Securities Commission and other securities regulatory authorities in Canada or other jurisdictions; (ii) this information is being collected indirectly by the Ontario Securities Commission and other securities regulatory authorities in Canada or other jurisdictions under the authority granted to it in securities legislation; (iii) this information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario and other Canadian or foreign jurisdictions; and (iv) the Administrative Assistant to the Director of Corporate Finance of the Ontario Securities Commission, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, telephone (416) 593-8086, can answer questions about the Ontario Securities Commission's indirect collection of the information. The Purchaser hereby authorizes the indirect collection of this information by the Ontario Securities Commission and other securities regulatory authorities in Canada and other jurisdictions as aforesaid;
 - i. the distribution of the Units has not been made through, or as a result of, and is not being accompanied by: (i) a general solicitation; (ii) any advertisement including articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television; or (iii) any seminar or meeting whose attendees have been invited by general solicitation or general advertising;
 - j. it consents to the collection, use and disclosure of personal information by Palos necessary to comply with Applicable Law, including the PCMLTFA and the disclosure of that information to Canadian securities regulatory authorities. Personal information may be disclosed to: (a) stock exchanges or securities regulatory authorities, (b) the Fund's registrar and transfer agent, (c) taxation authorities, and (d) any of the other parties involved in the issuance of the Units, including legal counsel. It is understood that this personal information may only be used and disclosed for the purpose(s) it was collected; and
 - k. the Purchaser's decision to execute and enter into this Subscription Agreement and to purchase the Units in the amount set out herein has not been based upon any verbal or written representation as to fact or otherwise, other than as set out in the Fund's offering memorandum dated January 1, 2014, made or purported to be made by or on behalf of the Fund, Palos or any other person.
- VI. The contract arising out of this Subscription Agreement and all documents relating thereto shall be governed by and construed in accordance with the laws of the Province of Québec and the federal laws of Canada applicable therein. The parties irrevocably attorn to the exclusive jurisdiction of the courts of the Province of Québec. Time shall be of the essence hereof.
- VII. The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Purchaser and Palos and their respective heirs, executors, administrators, successors and assigns; provided that this Subscription Agreement shall not be assignable by any party without prior written consent of the other parties.
- VIII. Neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.
- IX. The invalidity, illegality or unenforceability of any provision of this Subscription Agreement shall not affect the validity, legality or enforceability of any other provision hereof.
- X. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.
- XI. The parties to this Agreement have requested that this Agreement be drawn up in the English language only. Les Parties a cette accord ont exigé que cet accord soit rédigé en anglais.

Subscription Amount

FOR OFFICE USE ONLY	
Price per Unit	Number of Units

4. TREATMENT OF DISTRIBUTIONS

Please select how distributions from the Fund should be treated:

- Paid out in cash
- Reinvested in the Fund

Note: if no selection is made, distributions will automatically be reinvested in the Fund.

5. SIGNATURE OF THE PURCHASER

"By signing this Subscription Agreement, I hereby agree to be bound by the terms and conditions herein. All representations herein are true and accurate."

NAME OF PURCHASER			
CORPORATE OR ENTITY PURCHASER SIGN HERE:			INDIVIDUAL PURCHASER SIGN HERE
BY:			
X-----			X-----
AUTHORIZED SIGNATURE			
OFFICIAL CAPACITY OR TITLE			
NAME OF SIGNATORY (if different from Purchaser)			
PURCHASER'S ADDRESS			
HOME PHONE	OFFICE PHONE	MOBILE	EMAIL ADDRESS
DEALER	DEALER CODE	REP NAME	REP CODE

FOR OFFICE USE ONLY

6. ACCEPTANCE

Palos Management Inc. hereby accepts the subscription as set forth above on the terms and conditions contained in this Subscription Agreement.

Date: _____

PALOS MANAGEMENT INC.

Signature: _____

Name: _____

PRIVACY NOTICE

This Agreement requires the Purchaser to provide certain personal information to the Fund and Palos. Such information is being collected by the Fund and Palos for the purposes of completing the distribution of the Units, which includes, without limitation, determining the eligibility of the Purchaser to purchase the Units under Applicable Laws and regulatory requirements, preparing and registering certificates representing the Units to be issued hereunder and completing filings required under applicable corporate, securities or taxation laws or regulatory requirements.

Such personal information may also be used or disclosed by the Fund and Palos for the purpose of administering the Fund's relationship and Palos' relationship with the Purchaser. For example, personal information may be used by the Fund to communicate with the Purchaser such as by providing annual or quarterly reports, to prepare tax filings and forms, or to comply with the Fund's obligations under taxation, securities, corporate and other laws (such as maintaining a list of holders of Units). We will collect, use and disclose your social insurance number in order to comply with Canada Revenue Agency income tax reporting requirements but for no other purpose.

In connection with the foregoing, the personal information of the Purchaser may be disclosed by the Fund and Palos to: (i) comply with securities legislation, including the disclosure of your personal information at the request of stock exchanges or securities regulators; (ii) comply with legislation relating to money laundering, anti-terrorism and proceeds of crime, including the disclosure of your personal information at the request of investigative authorities; (iii) the Fund's registrar and transfer agent, if any; (iv) other service providers retained to assist the Fund and Palos in their activities, including, without limitation, legal counsel, accountants, auditors, investment advisors and information technology service providers; (v) for use and disclosure for income tax related purposes, including without limitation, where required by law, disclosure to Canada Revenue Agency; (vi) disclosure to a governmental or other authority to which the disclosure is required by court order or subpoena compelling such disclosure and where there is no reasonable alternative to such disclosure; (vii) any of the other parties involved in the distribution of the Units, including legal counsel, and may be included in record books prepared in connection with the distribution of the Units; and (viii) for use and disclosure as otherwise required or permitted by law.

By executing this Agreement, the Purchaser consents to the collection, use and disclosure of such personal information as described above. The Purchaser also consents to the filing of copies or originals of any of the documents provided to the Fund and Palos, by or on behalf of the Purchaser with any securities regulatory or taxation authorities or stock exchange in relation to the transactions contemplated by this Agreement.

ACCREDITED INVESTOR CERTIFICATE

TO: PALOS MANAGEMENT INC.

AND TO:

PALOS INCOME FUND L.P. / FONDS DE REVENU PALOS, S.E.C.

PALOS IOU HIGH YIELD FUND / FONDS PALOS IOU À HAUT RENDEMENT

(The indicated fund or investment vehicle is, hereinafter, the "Fund".)

In connection with the purchase by the undersigned Purchaser of units of the Fund, the Purchaser hereby represents, warrants, covenants and certifies to Palos and to the Fund (and acknowledges that Palos and the Fund and its legal counsel are relying thereon) that:

- (a) the Purchaser is resident in or otherwise subject to the securities laws of one of the provinces of Canada;
- (b) the Purchaser is purchasing the Units as principal for its own account and not for the benefit of any other person;
- (c) the Purchaser is an "accredited investor" within the meaning of NI 45-106 on the basis that the undersigned fits within one of the categories of an "accredited investor" reproduced below, beside which the undersigned has indicated the undersigned belongs to such category;
- (d) the Purchaser was not created or used solely to purchase or hold securities as an accredited investor as described in paragraph (m) below; and
- (e) upon execution of this Accredited Investor Certificate by the Purchaser, this Accredited Investor Certificate shall be incorporated into and form a part of the Subscription Agreement.

PLEASE CHECK THE BOX OF THE APPLICABLE CATEGORY OF ACCREDITED INVESTOR

- (a) a Canadian financial institution, or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada);
- (c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary;
- (d) a person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than a person registered solely as a limited market dealer under one or both of the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador);
- (e) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in paragraph (d);
- (f) the Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada;
- (g) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l'île de Montréal or an intermunicipal management board in Québec;
- (h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- (i) a pension fund that is regulated by the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada;
- (j) an individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000;
- (k) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year;
- (l) an individual who, either alone or with a spouse, has net assets of at least \$5,000,000;

- (m) a person, other than an individual or investment fund or a person created or used solely to purchase or hold securities as an accredited investor, that has net assets of at least \$5,000,000 as shown on its most recently prepared financial statements;
- (n) an investment fund that distributes or has distributed its securities only to (i) a person that is or was an accredited investor at the time of the distribution, (ii) a person that acquires or acquired securities in the circumstances referred to in sections 2.10 [*Minimum amount investment*] or 2.19 [*Additional investment in investment funds*] of NI 45-106, or (iii) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 [*Investment fund reinvestment*] of NI 45-106;
- (o) an investment fund that distributes or has distributed securities under a prospectus in a jurisdiction of Canada for which the regulator or, in Québec, the securities regulatory authority, has issued a receipt;
- (p) a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be;
- (q) a person acting on behalf of a fully managed account managed by that person, if that person (i) is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction, and (ii) in Ontario, is purchasing a security that is not a security of an investment fund;
- (r) a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded;
- (s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) to (d) or paragraph (i) in form and function;
- (t) a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors;
- (u) an investment fund that is advised by a person registered as an adviser or a person that is exempt from registration as an adviser, or
- (v) a person that is recognized or designated by the securities regulatory authority or, except in Ontario and Québec, the regulator as (i) an accredited investor, or (ii) an exempt purchaser in Alberta or British Columbia.

For the purposes hereof, the following definitions are included for convenience:

- (a) **“Canadian financial institution”** means (i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act, or (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada;
- (b) **“entity”** means a company, syndicate, partnership, trust or unincorporated organization;
- (c) **“financial assets”** means cash, securities, or a contract of insurance, a deposit or an evidence of a deposit that is not a security for the purposes of securities legislation;
- (d) **“founder”** means, in respect of an issuer, a person who, (i) acting alone, in conjunction, or in concert with one or more persons, directly or indirectly, takes the initiative in founding, organizing or substantially reorganizing the business of the issuer, and (ii) at the time of the trade is actively involved in the business of the issuer;
- (e) **“fully managed account”** means an account of a client for which a person makes the investment decisions if that person has full discretion to trade in securities for the account without requiring the client’s express consent to a transaction;
- (f) **“investment fund”** has the same meaning as in National Instrument 81-106 *Investment Fund Continuous Disclosure*;
- (g) **“NI 45-106”** means National Instrument or Regulation 45-106;

- (h) **“mutual fund”** means an issuer whose primary purpose is to invest money provided by its security holders and whose securities entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in part of the net assets, including a separate fund or trust account, of the issuer;
- (i) **“non-redeemable investment fund”** has the same meaning as in National Instrument 81-106 *Investment Fund Continuous Disclosure*;
- (j) **“person”** includes: (i) an individual, (ii) a corporation, (iii) a partnership, trust, fund and an association, syndicate, organization or other organized group of persons, whether incorporated or not, and (iv) an individual or other person in that person’s capacity as a trustee, executor, administrator or personal or other legal representative;
- (j) **“related liabilities”** means liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets or liabilities that are secured by financial assets;
- (k) **“Schedule III bank”** means an authorized foreign bank named in Schedule III of the *Bank Act* (Canada);
- (l) **“spouse”** means an individual who (i) is married to another individual and is not living separate and apart within the meaning of the *Divorce Act* (Canada), from the other individual, (ii) is living with another individual in a marriage-like relationship, including a marriage-like relationship between individuals of the same gender, or (iii) in Alberta, is an individual referred to in paragraph (i) or (ii), or is an adult interdependent partner within the meaning of the *Adult Interdependent Relationships Act* (Alberta); and
- (m) **“subsidiary”** means an issuer that is controlled directly or indirectly by another issuer and includes a subsidiary of that subsidiary.

In NI 45-106 an issuer is an affiliate of another issuer if one of them is a subsidiary of the other, or if each of them is controlled by the same person.

In NI 45-106 a person (first person) is considered to control another person (second person) if (a) the first person, beneficially owns or directly or indirectly exercises control or direction over securities of the second person carrying votes which, if exercised, would entitle the first person to elect a majority of the directors of the second person, unless that first person holds the voting securities only to secure an obligation, (b) the second person is a partnership, other than a limited partnership, and the first person holds more than 50% of the interests of the partnership, or (c) the second person is a limited partnership and the general partner of the limited partnership is the first person.

The foregoing representations contained in this certificate are true and accurate as of the date of this certificate and will be true and accurate as of the Closing Time. If any such representations shall not be true and accurate prior to the Closing Time, the undersigned shall give immediate written notice of such fact to the Corporation prior to the Closing Time.

Dated: _____

Signed: _____

Witness (If Purchaser is an Individual) _____

Print the name of Purchaser

Print Name of Witness

If Purchaser is a corporation, print name and title of Authorized Signing Officer