

June 29, 2017

CONFIDENTIAL OFFERING MEMORANDUM

The securities referred to in this offering memorandum (the “Offering Memorandum”) are being offered on a private placement basis. This Offering Memorandum constitutes an offering of securities only in those jurisdictions, and to those persons, where, and to whom, they may be lawfully offered for sale. The Offering Memorandum is not, and under no circumstances is to be construed as, a prospectus or advertisement or a public offering of these securities. The securities offered under this Offering Memorandum qualify for distribution in the jurisdictions in which they are offered pursuant to exemptions under securities laws in those jurisdictions.

This Offering Memorandum is for the confidential use of only those persons to whom it is transmitted in connection with this offering. By their acceptance of this Offering Memorandum, recipients agree that they will not transmit, reproduce or make available to anyone, other than their professional advisers, this Offering Memorandum or any information contained therein. No person has been authorized to give any information or to make any representation not contained in this Offering Memorandum. Any such information or representation which is given or received must not be relied upon.

In this Offering Memorandum, “Fund” means Palos Income Fund, L.P.; “you”, “your”, “Unitholder” and “Limited Partner” mean you and all other investors in units of the Fund; “we”, “us”, “our” “General Partner” and the “Manager” mean Palos Management Inc., the manager, promoter, general partner and portfolio advisor of the Fund.

The Issuer

Continuous Offering

PALOS INCOME FUND, L.P.

1 Place Ville Marie, Suite 1670, Montreal, QC H3B 2B6
Tel: (514) 397-0188 Fax: (514) 397-0199
E-mail: info@ palos.ca

CLASS A, CLASS F, CLASS I, CLASS O AND CLASS X UNITS

Palos Income Fund, L.P. (the “Fund”) is an open-end investment fund established under the laws of Québec as a limited partnership. **Units of the Fund do not trade on any exchange or market.** The Fund is not a reporting issuer under applicable securities laws.

The Offering

Class A, Class F, Class I, Class O and Class X units of the Fund (each a “Class” of units, and together, the “Units”) are offered for sale on a private placement basis (the “Offering”). This means that you may subscribe if you qualify for one of the following prospectus exemptions:

Applicable Exemption	Jurisdictions	Minimum Initial Investment Amount*
Accredited Investor Exemption	All Provinces and Territories	Class A - \$5,000 Class F - \$5,000
\$150,000 minimum purchase exemption	All Provinces and Territories	All Classes - \$150,000
“offering memorandum” exemption	British Columbia and Newfoundland and Labrador	Class A - \$5,000 Class F - \$25,000

* For other Classes and for more details, see the section entitled *Investing in Units*

Units are issued at the Net Asset Value per Unit of the relevant class as at the relevant purchase date. See the section below called *The Limited Partnership Agreement – Determination of Net Asset Value*. **There is no minimum number of Units of any Class that will be sold as part of this Offering. This means that you may be the only purchaser of Units. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.** There is also no maximum number of Units of any Class that may be issued as part of this Offering.

Each investor must invest an amount equal to the minimum investment amount established by us from time to time for initial and subsequent investments. The minimum investment amount will vary depending on the jurisdiction where you live and whether you qualify as an “accredited investor” within the meaning of applicable securities laws, and will be set out in the instructions that accompany your subscription agreement. As at the date of this Offering Memorandum, for residents of the provinces of British Columbia and Newfoundland and Labrador relying on the “offering memorandum” exemption, and for “accredited investors” in other provinces, the minimum investment amount is \$5,000 whereas, for investors that are not individuals, in all other circumstances the minimum investment is \$150,000.

For subsequent investments, in most cases the minimum investment amount is \$2,500, depending on the amount of your initial investment, the Net Asset Value of your existing investment at the time you make the additional investment, the jurisdiction where you live and whether you qualify as an “accredited investor” within the meaning of applicable laws. See the section below called *Investing in Units* for additional detail.

Investors may be admitted to the Fund or may acquire additional Units on any day which the Toronto Stock Exchange (“**TSX**”) is open for trading (each a “**Business Day**”). The Class A and Class F Units are being offered through the mutual fund order entry system FundSERV. Subscription for Units may be made directly through the Manager (in jurisdictions where it is registered to sell the securities) or through FundSERV under the Manufacturer Code for PMI and the order code “PAL110” for Series A Units and the order code “PAL111” for Series F Units. Funds in respect of any subscription will be payable by investors at the time of the subscription. For subscriptions of Units other than Class A, you must pay the full purchase price for the Units by certified cheque (or other means acceptable to us) at the time of your purchase. Units of the Fund are sold on a continuous basis. However, we may close the Fund to new investors from time to time. See section below called *Investing in Units*.

There are important tax consequences associated with an investment in Units of the Fund. See the section below called *Canadian Federal Income Tax Considerations*.

We have not hired any agent or underwriter to sell Units on our behalf. However, in certain jurisdictions Units may be sold through registered dealers. These dealers may receive compensation for their services in the form of up-front commissions payable by investors or servicing fees paid by the Manager out of the Management Fee or through sharing of our Performance Fee (as defined below). See *Compensation Paid to Sellers and Finders*.

Resale Restrictions

You will be restricted from selling your Units to other investors for an indefinite period. Transfers are subject to the approval of the Manager and to applicable securities law. Generally, the Manager will approve transfers between accounts owned or controlled by the same person, family or corporate group. In addition, you will be able to require the Fund to redeem your Units at certain times if you follow the procedures we have established. See the section below called *Resale Restrictions*.

Purchasers' Rights

You have two business days to cancel your agreement to purchase Units. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the purchase agreement. See the section below called *Description of Units* and *Redemption of Units*.

No securities regulatory authority has assessed the merits of the securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See the section below called *Risk Factors*.

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USE OF PROCEEDS

There is no maximum and no minimum number of Units that will be sold as part of this Offering. No selling commissions or fees will be paid by the Fund or us in connection with the sale of Units under this Offering Memorandum; however, we will pay approved salespersons of qualified dealers a service fee for ongoing advice and service provided to holders of Class A and Class X Units (see the section below called *Compensation Paid to Sellers and Finders*). The costs associated with the sale of Units under this Offering Memorandum will be paid by us, other than: (i) the filing fees payable to securities regulators with respect to the issuance of Units, which will, in all circumstances, be paid by the Fund, and (ii) the costs that are considered operating expenses of the Fund, which will be paid by the Fund as described below in the section called *The Limited Partnership Agreement – Expenses*.

The money the Fund receives from the sale of Units will be used to invest in securities in the manner described below in the section called *Investment Objective, Strategies and Restrictions*, and to pay the fees described below in the section called *Fees* and the operating expenses of the Fund described below in the section called *The Limited Partnership Agreement – Expenses*.

SUMMARY

The following information is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Memorandum.

The Fund

The Palos Income Fund, L.P. is an open-end investment fund established under the laws of Québec as a limited partnership. See the section called *The Fund*.

Management of the Fund

Palos Management Inc. is the manager and general partner of the Fund (“PMI” or the “Manager” or the “General Partner”) and is responsible for providing or arranging for the provision of administrative services required by the Fund, as well as providing portfolio advisory services. Charles Marleau, the President of the Manager, will have primary responsibility for providing portfolio management services to the Fund. See the section called *Management of the Fund*.

Investment Objective

The Fund’s primary investment objectives are to preserve capital, to provide Unitholders with an attractive and steady stream of income, and to deliver trading-enhanced returns.

The Fund shall employ qualitative, quantitative and comparative research to manage a portfolio of select high grade and undervalued dividend-paying and income-paying securities. The Fund shall take both long and short positions and shall employ market and statistical arbitrage techniques to maximize returns. The Fund’s asset allocation shall be roughly comparable to the TSX. However, the Fund shall be actively managed by the Manager to ensure that the Fund’s volatility is lower than that of the TSX.

Investment Strategies

The Fund seeks to outperform the TSX (on a total return basis) with less risk than investing in an index fund tracking the TSX. The Fund’s portfolio (the “Portfolio”) will consist primarily of investments which generate income, but will also include investments which seek to generate capital gains. The Fund will invest primarily in North American income-paying securities and may focus its assets in specific industry sectors and asset classes based on analysis of business cycles, industry sectors and market outlook.

The Manager is responsible for the investment of the Fund’s assets. In managing the Portfolio, the Manager intends to use the following techniques:

- Investing in Undervalued Income-Paying Securities. The primary investment strategy employed by the Manager is to apply qualitative, quantitative and comparative research in order to build and manage a Portfolio of select high-grade and undervalued dividend-paying equity securities and income-paying debt securities.
- Pair Trading. The Manager identifies a security that is either undervalued or overvalued, and purchases (or sells) the security

and simultaneously takes the opposite action with regards to the security's index.

- **Syndication Trading.** The Manager invests in securities being offered in the market for the first time, while simultaneously selling the index "short".
- **Merger Arbitrage.** The Manager trades in the equity of an acquirer in a merger while simultaneously taking the opposite action with regards to the security's index.
- **Statistical Pair Trading.** The Manager identifies securities that historically trade in tight correlation but that, for some reason, have become uncorrelated. The actual trading strategy will depend on the nature of the uncorrelation.
- **Dividend Capturing.** The Manager purchases a security just prior to the ex-dividend date and sells the security just after the dividend is paid. This strategy locks in a dividend payment while limiting risk.
- **Covered Call and Put Writing.** The Manager may "write" (i.e., sell) covered calls or puts to generate additional income.
- **Leverage.** The Fund may incur indebtedness in the form of margin debt in order to seek to enhance returns. In providing margin to the Fund, the Fund's prime broker will be subject to capital margin requirements of the Investment Industry Regulatory Organization of Canada. Such indebtedness may be secured by the Portfolio.

Investment Restrictions

While the Fund's Limited Partnership Agreement (as defined below) allows the Fund to invest in a broad array of financial assets, the Manager hereby undertakes to limit the investment activities of the Fund in accordance with the following restrictions:

- ***Sole Undertaking.*** The Fund will not engage in any undertaking other than the investment of the Fund's assets in accordance with the Fund's investment objective and investment strategies.
- ***Liquidity.*** The Fund will not purchase any securities of a private issuer if, immediately after the purchase, more than 20% (based on cost amount) of the assets of the Fund is invested directly in securities of private issuers.
- ***Interest of Manager.*** The Fund will not purchase securities from, or sell securities to, the Manager or any of its affiliates or any officer, director or shareholder of any of them, any person managed by the Manager or any of its affiliates, or any person in which any officer, director or shareholder of the Manager or any of its affiliates may have a material interest (which, for these purposes, includes beneficial ownership or more than 10% of the voting securities of such person).
- ***Commodities.*** The Fund will not purchase any physical commodity

other than gold, silver, platinum and palladium in the form of bullion, coins, receipts, certificates or permitted gold certificates, but may purchase and sell commodity futures or options on futures, options, forward contracts or swaps. The Fund will not purchase such physical commodities if, immediately after the purchase, the total amount invested by the Fund in such commodities would exceed 10% of the Net Asset Value of the Fund.

- *Control Restrictions.* The Fund will not purchase a security of an issuer if, immediately after the purchase, the Fund would hold securities representing more than 10% of either the votes attaching to the outstanding voting securities of that issuer or the outstanding equity securities of that issuer, or purchase a security for the purpose of exercising control over or management of the issuer of the security. If the Fund acquires a security other than as the result of a purchase and the acquisition results in the Fund exceeding the 10% limit described in this paragraph, the Fund shall, as quickly as is commercially reasonable, reduce its holdings of those securities so that it does not hold securities exceeding such limits.
- *Net Asset Value Restriction.* The Fund will not purchase a security of an issuer if, immediately after the purchase, the total amount invested by the Fund in such issuer exceeds 15% of the Net Asset Value of the Fund. If at any time more than 15% of the Net Asset Value consists of securities of any one issuer, the Manager will, as quickly as is commercially reasonable, take all necessary steps to reduce the percentage of Net Asset Value represented by such securities to 15% or less.

Units

Your investment in the Fund will be represented by Class A, Class F, Class I, Class O or Class X Units, depending on which Class of Units you currently own or purchase. Each Unit of a Class represents an equal undivided beneficial interest in the net assets of that Class. A holder of any Class of Units is entitled to one vote for each whole Unit on matters for which separate approval of the Class is sought at any meeting of the Unitholders and one vote for each whole Unit held on matters for which approval is sought from all Unitholders, voting together as a group, at any meeting of the Unitholders. Units are not transferable, except in very limited circumstances. The consent of the General Partner is required to effect any transfer, which consent may be unreasonably withheld. However, Unitholders have the right to redeem their Units at certain times if they follow the procedures we have established. See the section called *Description of Units*.

Investing in the Fund

You may invest in the Fund by purchasing Units. Class A, Class F, Class I, Class O and Class X Units of the Fund are offered for sale in reliance on exemptions from the prospectus requirements of applicable securities laws. You will only be permitted to purchase Units if your purchase qualifies for one of these exemptions. Units may be purchased on each Business Day. Units are issued at the Net Asset Value per Unit of the relevant class as at the relevant purchase date. The minimum investment amounts and documentation required to

purchase Units are described below. See the section called *Investing in Units*.

Management Fee

We will receive a fee for managing and administering the business and affairs of the Fund (the “**Management Fee**”) which is calculated and payable monthly in advance (plus applicable taxes, such as GST, QST or HST). The Management Fee for each Class of Units is as follows:

- Class A – 1.75% per annum of Class A Net Asset Value.
- Class F⁽¹⁾ – 0.75% per annum of Class F Net Asset Value.
- Class I – To be agreed with the Manager.
- Class O – To be agreed with the Manager.
- Class X⁽²⁾ – 1.0% per annum of Class X book value.

⁽¹⁾ Class F Units are only available to investors who have a fee-based account with approved dealers. See *Description of Units – Class F Units*.

⁽²⁾ Class X Units are only available to current holders of Class X Units or to investors who enter into a discretionary management agreement with the Manager or its affiliates. See *Description of Units – Class X Units* Class F Units.

See the section called *Fees*.

Performance Fee

We will also receive a fee based on the performance of the Fund (the “**Performance Fee**”) which is payable each fiscal quarter (each a “**Period**”) (plus applicable taxes, such as GST, QST or HST) for acting as portfolio advisor. The Performance Fee for each Class of Units is as follows:

- Class A – 20% of the amount, determined as of the close of each Period, by which the Performance Change with respect to Class A Units is greater than the Preferred Return for the Period. The Preferred Return for Class A Units is 1.25% per Period (5% annually).
- Class F – 20% of the amount, determined as of the close of each Period, by which the Performance Change with respect to Class A Units is greater than the Preferred Return for the Period. The Preferred Return for Class F Units is 1.25% per Period (5% annually).
- Class I – As agreed with the Manager
- Class O – As agreed with the Manager
- Class X – 20% of the amount, determined as of the close of each Period, by which the Performance Change with respect to Class X Units is greater than the Preferred Return for the Period. The Preferred Return for Class X Units is 2.5% per Period (10% annually).

The Performance Fee is earned only when the Net Asset Value, plus the aggregate of all of the distributions declared since the last Period when a Performance Fee was earned is greater than the High-Water

Mark (as defined below). See the section called *Fees*.

High-Water Mark

A “High-Water Mark” refers to the Net Asset Value as of the last day of the Period in which a Performance Fee has last been earned.

Performance Change

The growth in the Net Asset Value each Period is measured as a percentage of growth called the Performance Change which is the result of:

- a) the pre-distribution Net Asset Value as of the end of the Period, plus
- b) the amount of the accrued Performance Fees for the current Period; less
- c) the Net Asset Value at the end of the prior Period;

divided by:

the Net Asset Value at the end of the prior Period.

Expenses

All of the expenses related to the administration and operation of the Fund are paid by the Fund, except for certain specific expenses which are paid by us. See the sections called *The Limited Partnership Agreement – Expenses*.

Risk Factors

There are a number of risks associated with an investment in Units of the Fund. See the section called *Risk Factors*.

Income Tax Considerations

Generally, a Unitholder must include (in computing income for a year) the portion of the net income and the taxable portion of the net realized capital gains of the Fund that is paid or payable to the Unitholder in the year.

When a Unitholder disposes of Units, the Unitholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, less any associated costs of disposition, are greater (or less) than the adjusted cost base of the Units. Redesignating Units of one Class of the Fund as Units of another Class of the Fund will not result in a disposition.

See the section called *Canadian Federal Income Tax Considerations*.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements with respect to the Fund. In particular, the information contained in the section called *Investment Objective, Strategies and Restrictions* may constitute “forward-looking information” for the purpose of securities legislation, as it contains statements of the intended course of conduct and future operations of the Fund. These statements are based on assumptions made by us about the success of the Fund’s investment strategies in certain market conditions, relying on the experience of our officers and employees and their knowledge of historical economic and market trends. Investors are cautioned that the assumptions we make and the success of our investment strategies are subject to a number of mitigating factors. Economic and market conditions may change, which may materially impact the success of our intended strategies as well as the Fund’s actual course of conduct. Investors are urged to read the section called *Risk Factors* for a discussion of other factors that will impact the Fund.

THE FUND

The Fund is an open-end investment fund established under the laws of the Province of Québec as a limited partnership pursuant to a limited partnership agreement dated June 21, 2001, as amended on February 2, 2004; February 3, 2004, March 21, 2006 and May 30, 2014 (the “**Limited Partnership Agreement**”). The Fund is considered to be a “mutual fund” within the meaning of applicable securities laws, but Units of the Fund do not trade on any exchange or market and the Fund is not a reporting issuer under applicable securities laws.

The Manager is responsible for providing or arranging for the provision of administrative services required by the Fund, as well as providing portfolio advisor services, pursuant to an investment management agreement dated September 30, 2010 (the “**Investment Management Agreement**”). Charles Marleau, the President of the Manager, has primary responsibility for providing Portfolio management services to the Fund. NBCN Inc. is the custodian of the assets of the Fund (the “**Custodian**”). SGGG Fund Services Inc. (“**SGGG FSI**”) acts as the registrar and transfer agent for the Fund, and also provides certain other administrative services to the Fund.

The descriptions below of the Limited Partnership Agreement and the Investment Management Agreement are summaries only and are qualified in their entirety by reference to the full text of such Agreements, copies of which may be obtained from the Manager.

The head office of the Fund (which is also our head office) is located at 1 Place Ville Marie, Suite 1670, Montreal, QC, H3B 2B6. You can contact us by telephone at toll-free telephone number: 1-855-725-6788; telephone number (not toll-free): 514-397-0188; fax number: 514-397-0199; and e-mail: info@palos.ca.

The Fund is currently divided into Class A, Class F, Class I, Class O and Class X Units. Class X Units are no longer offered for sale to the public through dealers; only current Class X Unitholders and the Manager on behalf of clients that have a discretionary management agreement with the Manager may acquire additional Class X Units.

INVESTMENT OBJECTIVE, STRATEGIES AND RESTRICTIONS

Investment Objective

The Fund’s primary investment objectives are to preserve capital, to provide Unitholders with an attractive and steady stream of income, and to deliver trading-enhanced returns.

The Fund shall employ qualitative, quantitative and comparative research to manage a Portfolio of select high grade and undervalued dividend-paying and income-paying securities. The Fund shall take both long

and short positions and shall employ market and statistical arbitrage techniques to maximize returns. The Fund's asset allocation shall be roughly comparable to the TSX. However, the Fund shall be actively managed by the Manager to ensure that the Fund's volatility is lower than that of the TSX.

Investment Strategies

The Fund seeks to outperform the TSX (on a total return basis) with less risk than investing in an index fund tracking the TSX. The Fund's Portfolio will consist primarily of investments which generate income, but will also include investments which seek to generate capital gains. The Fund will invest primarily in Canadian income-paying securities and may focus its assets in specific industry sectors and asset classes based on analysis of business cycles, industry sectors and market outlook.

In managing the Portfolio, the Manager intends to use the techniques described below.

The primary investment strategy employed by the Fund is to apply qualitative, quantitative and comparative research in order to build and manage a Portfolio of select high-grade and undervalued dividend-paying equity securities and income-paying debt securities. This core Portfolio of securities will normally represent approximately 95% of the Fund's Portfolio; however, this percentage may vary significantly. The Fund will hold no more than 25% of non-Canadian securities.

Basic Investment Strategy in Fixed Income Securities

The debt investments held in the Fund are often convertible bonds. Convertible bonds are bonds that the holder can convert into common stock of the issuing company (or cash at an equivalent value) at a predetermined price. In selecting fixed income securities for the Fund (whether convertible or non-convertible), the Manager considers factors such as the bond's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread (i.e. the difference between the yield offered by the bond and by a predetermined, risk-free bond, such as Bank of Canada treasury bills with a similar maturity), duration (the weighted average of the time periods until the bond's cash flows are received by the Fund, which measures the bond's price sensitivity to its yield). Typically, the Manager seeks out bonds with a high yield compared to their credit risk and relatively low duration. However, the Fund's overall bond Portfolio may include bonds that are outside these parameters, depending on the components of the remainder of the Portfolio, and whether the bond has other features, such as a convertibility feature. When evaluating convertible bonds, the Manager engages in an analysis using the above factors, and also includes an analysis of features particular to convertible bonds, such as clauses, the volatility of the underlying stock, and the amount of time left until the conversion feature expires, if any. In valuing a convertible bond, therefore, the Manager engages in an analysis of the underlying stock volatility, the features of the particular bond, and a traditional analysis of the fixed income portion that takes into account the firm's credit profile, the ranking of the convertible within the capital structure, the bond's duration, yield, etc. Essentially, the Manager calculates the value of a convertible bond by calculating the present value of future interest and principal payments discounted at the cost of debt and adding the present value of the convertible component. The Manager then engages in a qualitative and quantitative analysis of a variety of factors, including the bond's duration, its credit risk, the firm's corporate management, macroeconomic factors including the likelihood of fluctuations in prevailing interest rates, and any particular clauses inherent in the convertible feature of the bond.

In some cases, the Manager's motivation for purchasing a convertible bond is to be able to engage in merger arbitrage (i.e. to make an educated guess about a company's likelihood of being purchased by another company at a price that is at a premium to the prevailing market price of the first company). Buying a convertible bond may allow the Fund to gain exposure to an issuer or to its securities that it might not otherwise be able to access, based on the Fund's investment parameters and restrictions. For example, because a convertible bond pays a distribution, it may be an appropriate investment to hold in the Fund's Portfolio, even if the underlying stock would not, on its own, be an acceptable investment.

However, the Fund can purchase the convertible bond and benefit from the coupon payments, while at the same time waiting for a merger to occur.

Basic Investment Strategy in Equity Securities

In selecting equity investments for the Fund, the Manager focuses on companies that, in its judgment, provide good value. The Manager believes that good value companies are likely to experience capital appreciation and/or increases in distributions to investors, and that these companies tend to have significant potential for growth of cash flow, increases of dividend distribution, and stock buybacks.

In making the determination of what companies' stock present good value, the Manager typically focuses on a variety of financial ratios and metrics that provide relative points of reference that are transferable across companies and industries. The Manager primarily considers six financial ratios: earnings yield spread, debt vs. EBITDA, cash per share, return on equity, price to earnings, and free cash flow yield.

Earnings Yield

The earnings yield is the earnings per share for the most recent period (typically twelve months) divided by the current market price per share. The earnings yield (which is the inverse of the price to earnings "P/E" ratio) shows the percentage of each dollar invested in the stock that was earned by the company. The Manager considers the differential between the earnings yield compared to the stock price versus the U.S. Treasury Bond yield, sometimes called the earnings yield spread. A wide earnings yield spread represents good value, particularly as compared to bonds, and therefore presents a buying opportunity for the Manager.

Debt to EBITDA

The Manager also considers a company's debt as a percentage of its earnings before interest, taxes, depreciation and amortization, or EBITDA. A low ratio indicates that the company is able to repay its debt and/or to take on additional debt, thus allowing it to finance expansion of operations or share buybacks. Conversely, a high debt/EBITDA ratio suggests that a firm may not be able to repay debt and interest as it comes due, which could potentially lead to a restructuring and/or bankruptcy of the company.

Cash per Share

Cash per share (sometimes known as free cash flow per share) is determined by dividing free cash flow by the total number of shares outstanding. It is a measure of a company's financial flexibility. More free cash flow allows a company to engage in a variety of transactions, such as repaying debt, paying and increasing dividends, buying back stock and facilitating the growth of the business. The amount of free cash flow per share can also be used to give a preliminary prediction concerning future share prices. For example, when a firm's share price is low and free cash flow is on the rise, the Manager believes that this is a positive indicator that earnings and share value will soon increase, because a high cash flow per share value means that earnings per share could potentially be high as well.

Return on Equity

Return on equity (sometimes known as return on net worth) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested in common stock (preferred stock is generally excluded, as are the dividends paid on that stock). Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares. The Manager uses return on equity to compare the profitability of a company to that of other firms in the same industry. If a given company's return on

equity is particularly high compared to its peers, then the company may present good value and therefore may be a good buying opportunity.

Price to Earnings

Price to earnings, or P/E, is one of the most commonly used financial ratios. In general, a high P/E suggests that the market is expecting higher earnings growth in the future compared to companies with a lower P/E. However, a high P/E ratio may also imply that a company is overvalued. The Manager focuses on companies with low P/E ratios because a low P/E ratio implies that a significant component of the company's stock price is comprised of earnings, rather than market expectations for future growth. The Manager also recognizes that it is impossible to base a decision on the P/E ratio alone. The denominator (earnings) is based on an accounting measure of earnings that is susceptible to forms of manipulation, making the quality of the P/E only as good as the quality of the underlying earnings number.

Free Cash Flow Yield

The free cash flow yield is a measure of the free cash flow per share a company is expected to earn against its market price per share. As compared to the price to earnings ratio, the free cash flow yield is a more standardized measure that eliminates many of the problems involved in evaluating the quality of the earnings as reported by a company. Because free cash flow takes into account capital expenditures and other ongoing costs a business incurs to keep itself running, the Manager believes that the free cash flow yield is a more accurate representation of the returns shareholders receive from owning a business compared to the price to earnings ratio. In selecting equity investments, the Manager considers other factors beyond the financial ratios described above. The Manager also considers macroeconomic factors such as currency exchange rates, consumer demand, taxation policy, geopolitical factors that could affect commodity prices, and the quality of corporate management. The Manager recognizes that equity prices can be affected by a huge variety of factors, and that investing requires knowledge of a wide variety of disciplines. The Manager seeks to consider all of these factors while remaining focused on its core value investment philosophy.

Short-Term Trading Strategies

In addition to the primary strategy, the Manager seeks to enhance returns through the following five targeted, short-term trading secondary strategies:

1. Pair trading, whereby the Manager identifies a security that is either undervalued or overvalued, and purchases (or sell) the security and simultaneously take the opposite action with regards to the security's index. For example, the Manager might identify the common equity of Bank ABC as being overvalued. The Manager would borrow a quantity of Bank ABC common equity and sell it "short", while simultaneously buying a security that represents the index in which Bank ABC trades in. This strategy effectively limits market risk from the pair trade;
2. Syndication trading, whereby the Manager invests in securities being offered in the market for the first time, while simultaneously selling the index "short". New issues are typically underpriced by a small amount in order to encourage investors to purchase the security. This strategy effectively eliminates market risk from the investment in the new issue;
3. Merger arbitrage, whereby the Manager trades in the equity of an acquirer in a merger while simultaneously taking the opposite action with regards to the security's index. The actual trade will depend on the Manager's view of whether the transaction is likely to be completed;
4. Statistical pair trading, whereby the Manager identifies securities that historically trade in tight correlation but that, for some reason, have become uncorrelated. The actual trading strategy will depend on the nature of the uncorrelation; and

5. Dividend capturing, whereby the Manager purchases a security just prior to the ex-dividend date and sell the security just after the dividend is paid. This strategy locks in a dividend payment while limiting risk.

Derivatives Strategy

A derivative is an investment that derives its value from another investment - called the underlying investment. This could be a stock, bond, currency or market index. Usually, derivatives grant the right or require the holder to buy or sell a specific asset during a certain period of time. Some examples of derivatives that could be used by the Fund are covered call options and futures.

The Fund may use derivatives to earn additional income for the Fund. These transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieve the Fund's investment objectives and to create additional income for the Fund. Typically, the Fund will "write", or sell, covered call options. Covered call options are an options strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate increased income from the asset. This is often employed when an investor has a short-term neutral view on the asset and for this reason will hold the asset long and simultaneously have a short position via the option to generate income from the option premium. In other situations, the Fund may "write", or sell, covered put options. Covered put options are an options strategy whereby an investor holds a short position in an asset and writes (sells) put options on that same asset or writes (sells) put options against a cash position in an attempt to generate increased income from the asset.

Outside of this covered call or covered put-writing strategy, the Manager may use derivatives in other situations for the following reasons:

- To hedge its investments against losses from factors like currency fluctuations, stock market risks and interest rate changes; or
- To invest indirectly in securities or financial markets, provided the investment is consistent with the Fund's investment objectives.

Exchange-Traded Fund Strategy

The Fund may temporarily buy or sell exchange-traded funds in order to mitigate systematic risk relating to the Fund's investment strategies. These funds will not be managed by the Manager or an affiliate or associate of the Manager. At no time will the Fund's interest in any one exchange traded fund be more than 10%. The selection criteria employed by the Manager in respect of the exchange traded funds will be limited to specific funds corresponding to the applicable syndication trading or merger arbitrage investment strategy being implemented.

Leverage

The Fund may incur indebtedness in the form of margin debt in order to seek to enhance returns. In providing margin to the Fund, the Fund's prime broker will be subject to capital margin requirements of the Investment Industry Regulatory Organization of Canada. Such indebtedness may be secured by the Portfolio.

Temporary Deviation from Stated Investment Objective and Strategies

The Fund may choose to deviate from its investment objectives and strategies by temporarily investing most or all of its assets in cash or fixed income securities during periods of market downturn or for other reasons.

Investment Restrictions

While the Fund's Limited Partnership Agreement allows the Fund to invest in a broad array of financial assets, the Manager hereby undertakes to limit the investment activities of the Fund in accordance with the following restrictions:

- *Sole Undertaking.* The Fund will not engage in any undertaking other than the investment of the Fund's assets in accordance with the Fund's investment objective and investment strategies.
- *Liquidity.* The Fund will not purchase any securities of a private issuer if, immediately after the purchase, more than 20% (based on cost amount) of the assets of the Fund is invested directly in securities of private issuers.
- *Interest of Manager.* The Fund will not purchase securities from, or sell securities to, the Manager or any of its affiliates or any officer, director or shareholder of any of them, any person managed by the Manager or any of its affiliates, or any person in which any officer, director or shareholder of the Manager or any of its affiliates may have a material interest (which, for these purposes, includes beneficial ownership or more than 10% of the voting securities of such person).
- *Commodities.* The Fund will not purchase any physical commodity other than gold, silver, platinum and palladium in the form of bullion, coins, receipts, certificates or permitted gold certificates, but may purchase and sell commodity futures or options on futures, options, forward contracts or swaps. The Fund will not purchase such physical commodities if, immediately after the purchase, the total amount invested by the Fund in such commodities would exceed 10% of the Net Asset Value of the Fund.
- *Control Restrictions.* The Fund will not purchase a security of an issuer if, immediately after the purchase, the Fund would hold securities representing more than 10% of either the votes attaching to the outstanding voting securities of that issuer or the outstanding equity securities of that issuer, or purchase a security for the purpose of exercising control over or management of the issuer of the security. If the Fund acquires a security other than as the result of a purchase and the acquisition results in the Fund exceeding the 10% limit described in this paragraph, the Fund shall, as quickly as is commercially reasonable, reduce its holdings of those securities so that it does not hold securities exceeding such limits.
- *Net Asset Value Restriction.* The Fund will not purchase a security of an issuer if, immediately after the purchase, the total amount invested by the Fund in such issuer exceeds 15% of the Net Asset Value of the Fund. If at any time more than 15% of the Net Asset Value consists of securities of any one issuer, the Manager will, as quickly as is commercially reasonable, take all necessary steps to reduce the percentage of Net Asset Value represented by such securities to 15% or less.

THE LIMITED PARTNERSHIP AGREEMENT

The Fund is governed by the terms of the Limited Partnership Agreement; as such agreement may be amended from time to time. The Limited Partnership Agreement sets out our rights, duties and obligations as the manager of the Fund and the rights and restrictions that are attached to each Unit of the Fund.

The following is a summary only of certain provisions of the Limited Partnership Agreement not otherwise summarized in this Offering Memorandum and is not necessarily complete. You should review the Limited Partnership Agreement for complete details of its terms. You may request a copy of the Limited Partnership Agreement by contacting us at the address, numbers or e-mail address set out on the front cover.

Pursuant to the Limited Partnership Agreement, the Manager is also the general partner of the Fund. The Manager is empowered to act on behalf of the Fund and to direct the operational activities of the Fund. The Manager alone shall have the sole and exclusive authority to manage the operations and affairs of the Fund, to make all decisions regarding the Fund and to legally bind the Fund. The Manager shall have all the rights and powers which may be possessed by a general partner pursuant to the laws of Québec.

A Limited Partner shall not, in any case, transact any business on behalf of the Fund nor act as its agent. However, the Limited Partners may, from time to time, make examinations into the state and progress of the Fund, in accordance with the rights given to limited partners by the laws of Québec.

The Fund shall reimburse the Manager for all reasonable operating expenses it incurs in rendering administrative, management and other services required to be rendered to the Fund, including expenses relating to professional fees.

The Manager shall have the right to carry on other activities in addition to its activities as general partner of the Fund. Notwithstanding the foregoing, the Manager shall devote such time and attention as may be necessary to fully, properly and efficiently manage the operations and affairs of the Fund in the best interests and for the joint benefit and profit of the Limited Partners. Among other responsibilities, the Manager shall, at the expense of the Fund: a) negotiate and execute any agreements pertaining to the Fund; b) cause the registrar and transfer agent to provide and maintain an adequate and proper register of the names and addresses of all Limited Partners; c) provide and maintain adequate and proper books of account and records reflecting the activities of the Fund; d) appoint annually the Auditors of the Fund who shall, at the end of each fiscal year of the Fund and upon the termination or dissolution of the Fund, make an audit of the books of account and records of the Fund; e) prepare and forward to each Limited Partner, if requested, all reports and financial statements which may be required under applicable securities legislation and, after the end of each fiscal year, a copy of an annual report containing audited financial statements of the Fund together with the auditors' report thereon; f) on or before March 31 of each year, prepare and forward to each Limited Partner entered in the register of the Fund on December 31 of the preceding year or on dissolution, as the case may be, all necessary income tax reporting information as of the end of the previous fiscal year of the Fund; g) at the request of a Limited Partner, prepare and distribute to such Limited Partner a statement showing the status of the Limited Partner's interest in the Fund; h) prepare and mail all notices for any meetings of the Fund; i) provide office space, staff, equipment and clerical services required for the efficient operation and activities of the Fund; j) upon dissolution of the Fund, execute and file income tax election forms on behalf of the Limited Partners; k) prosecute, defend, settle or compromise actions at law at the expense of the Fund and satisfy any judgment, decree, decision, order or settlement affecting the Fund; l) purchase such liability and other insurance as may be available at a commercially reasonable cost to fully protect the property of the Fund; m) render an account of its administration from time to time as requested by the Limited Partners; n) carry out any resolution of the Limited Partners; o) execute and carry out all agreements which require execution by or on behalf of the Fund involving matters or transactions within or beyond the normal course of the Fund business; and p) do or cause to be done any and all acts necessary, appropriate or incidental to the Fund's business.

Additionally, the Manager has full authority: a) to acquire, subscribe and contract, on behalf of the Fund, for the identification of investment opportunities, the organization of investment syndicates to contribute funds to such opportunities, the subscription to and holding securities issued by business concerns in which the Limited Partners may, either directly, indirectly or through intermediaries or subcontractors,

contribute in diverse manners to grow such businesses and profit from the appreciation in value of the securities acquired, as well as any other activities relating to the foregoing; b) to hold, manage, administer, maintain, develop, use, hypothecate and dispose of all the property, goods, and assets of the Fund and, generally, to participate in all phases of the Fund business, as it deems fit, appropriate and expedient; c) to borrow money on behalf of the Fund and to enter into contracts with others to render services to the Fund, to lease premises and any equipment required in the furtherance of the Fund business; d) to invest any monies of the Fund to the extent that such monies are not required by the Fund; and e) to vote at any meetings of security holders of firms, corporations, partnerships or businesses in which the Fund holds an interest.

The Manager may delegate any of the rights and powers which it possesses and a delegatee may perform the Manager's duties and incur expenses on behalf of the Fund. However, no such delegation shall relieve the Manager from its duties or responsibilities and the remuneration of the delegatee shall be paid by the Manager and shall not be borne by the Fund. The Manager may also, in its discretion, employ other persons interested in or companies owned by, associated with or affiliated with the Manager to render, on behalf of the Manager, part or all of such generalized and specialized management functions or administrative services as the Manager deems necessary to accomplish the Fund's business.

The Manager shall act in the best interests of the Fund. It shall carry out such investigations and obtain such assurances as a prudent administrator in similar circumstances would deem necessary or appropriate prior to entering into any agreement in the course of carrying on the business of the Fund. The Manager has unlimited liability for the liabilities and obligations of the Fund towards third parties. Subject to the Limited Partnership Agreement, the liabilities of the Fund in excess of the contributions of the Unitholders shall be borne entirely by the Manager. The Manager will not be liable to the Unitholders for any mistakes or errors in judgment, except gross negligence or willful misconduct, or for any act or omission believed in good faith to be within the scope of authority conferred by the Limited Partnership Agreement, or for any loss or damage to any of the property of the Fund attributable to a fortuitous event or force majeure. The Manager shall indemnify and hold harmless each Unitholder from and against all claims which result from not having limited liability, other than a loss of limited liability caused by any act or omission of such Unitholder. The Manager will indemnify the Fund for any damages incurred by the Fund as a result of an act of gross negligence or willful misconduct by the Manager or of any act or omission not believed in good faith to be within the scope of authority conferred by the Limited Partnership Agreement.

The Manager, in its capacity as general partner, is not entitled to resign, transfer or otherwise dispose of its interest in the Fund without the consent of the Unitholders expressed by Extraordinary Resolution. The Manager may be removed and a new general partner appointed by Extraordinary Resolution to that effect. However, such consent is not necessary in the case of transfer to a person or an entity controlling more than 50% of the equity shares of the Manager or controlled in the same manner by the latter and having in each case an owner's equity (calculated in conformity with Canadian generally accepted accounting principles applied in a constant and uniform manner) at least equal to that of the Manager, provided that the transferee assumes all the obligations of the Manager with respect to the Fund.

In the event of a change of the Manager to which Limited Partners consent, the Fund and the Unitholders shall release and hold harmless the former Manager from all actions, claims, costs, demands, losses, damages and expenses with respect to events which occur in relation to the Fund as of the effective date of removal or resignation of the former Manager. The Manager shall be deemed to have resigned in the event of its bankruptcy, dissolution, liquidation or winding-up.

The Limited Partners grant the Manager a power of attorney to, among other things, execute documents and to take other steps on behalf of the Limited Partners.

Expenses

With the exception of specific expenses which are to be paid by us, as Manager of the Fund, the Fund is responsible for all expenses relating to the operation of the Fund, including but not limited to:

- (a) brokerage fees and other fees and disbursements directly relating to the implementation of transactions for the Portfolio of the Fund;
- (b) any taxes (and interest and penalties with respect thereto) payable by the Fund or to which the Fund may be subject;
- (c) interest expenses, if any;
- (d) custody and safekeeping charges relating to the Fund's activities;
- (e) tax-related services and related expenses and legal fees of the Fund;
- (f) expenses of conducting Unitholder meetings;
- (g) expenses incurred upon termination of the Fund;
- (h) legal, accounting and audit fees of the Fund;
- (i) any performance measurement fees payable by the Fund,
- (j) costs relating to providing annual and interim financial statements and reports to Unitholders,
- (k) costs of preparing and delivering to Unitholders disclosure documents, such as this Offering Memorandum, in compliance with applicable laws, and
- (l) costs of bookkeeping, fund accounting, registry and transfer agent services.

All such expenses will be allocated among the relevant Class(es) of Units at the end of the Business Day in which the expenses were incurred in order to calculate the Net Asset Value for a Class of Units (the "**Class Net Asset Value**").

Fees

In addition to the expenses described above, the Fund pays us, for our services as Manager and portfolio advisor of the Fund, the Management Fees and performance fees described in the section called *Fees*.

Determination of Net Asset Value

"Net Asset Value" means the total value, as determined by the General Partner in accordance with the Limited Partnership Agreement, of all securities and other assets of the Fund (including net unrealized appreciation or depreciation of securities and accrued interest and dividends receivable net of withholding taxes), less an amount equal to (i) all accrued debts, liabilities and obligations of the Fund, (ii) any Performance Fee accruing since the beginning of a given fiscal quarter of the Fund and (iii) any accrued Management Fees of the Manager.

Upon the designation of a new Class of Units by the General Partner, the Net Asset Value per Unit for such Class shall initially be as designated by the General Partner in the offering document of the Fund from time to time and the Net Asset Value of such Class shall initially be such Net Asset Value per Unit multiplied by the number of Units of such Class issued on the first subscription date for such Class. After

the initial issue of Units of a Class, additional Units of such Class shall be issued in consideration of an amount per Unit equal to the Net Asset Value per Unit of such Class outstanding immediately before such issue in accordance with the Limited Partnership Agreement (each a “**Valuation Date**”). The Net Asset Value of such Class shall be calculated by the General Partner having regard to (i) the Net Asset Value of such Class relative to the Net Asset Value of the Fund on the previous Valuation Date (following payment or accrual of Management Fees and Performance Fees payable to the General Partner and other Class Expenses or deductions on such previous Valuation Date, and adjusted for subscriptions, redemptions, conversions and redesignations), (ii) the increase or decrease in Net Asset Value of the Fund from the previous Valuation Date to the current Valuation Date, (iii) income received by the Fund that is attributable to such Class of Units, (iv) payment or accrual of Class Expenses payable in respect of Units of such Class since the previous Valuation Date and (v) any other adjustments as may be needed to comply with the provisions governing Net Asset Value calculations contained in the Limited Partnership Agreement, adjusted as necessary to apply to each Class. Net Asset Value per Unit for each Class on the applicable Valuation Date shall then be calculated by dividing the Net Asset Value of the Class by the number of Units of such Class then outstanding (before subscriptions and redemptions on such date). “Class Expenses” in respect of any particular Class of Units means the expenses of the Fund (including any management, performance and other fees) that are charged or allocable only to that Class. Expenses incurred that are specific to a Class of Units shall be deducted from the Net Asset Value of the relevant Class only.

Meetings

A meeting of the Unitholders must be held upon our written request or upon the written request of Unitholders holding not less than 20% of the Units outstanding. You will receive at least 15 days’ notice of any meeting of Unitholders at which you are entitled to vote. The quorum for any meeting is one Unitholder present in person or by proxy representing, at least 30% of all Units outstanding. The number of votes you will have on any question submitted to any meeting will be equal to the number of Units then held by you.

Acts Requiring Unitholder Approval

Pursuant to the Limited Partnership Agreement, certain matters require approval by a Simple Resolution or an Extraordinary Resolution. A “Simple Resolution” is means a resolution passed by a majority of the votes cast at a duly constituted meeting of the Limited Partners called for the purpose of considering such resolution, each Limited Partner having one vote for each Unit of the Fund held or, alternatively, a written resolution signed in one or more counterparts by Limited Partners holding at least a majority of the outstanding Units of the Fund and who are entitled to vote on such resolution. An “Extraordinary Resolution” means a resolution passed by 66 2/3% or more of the votes cast at a duly constituted meeting of the Limited Partners called for the purpose of considering such resolution, each Limited Partner having one vote for each Unit of the Fund held or, alternatively, a written resolution signed in one or more counterparts by Limited Partners holding 66 2/3% or more of the outstanding Units of the Fund and who are entitled to vote on such resolution.

A quorum for any meeting shall consist of one Limited Partner present in person or by proxy representing at least 30% of the outstanding Units.

The following matters require approval by an Extraordinary Resolution:

- a) the amendment of the Limited Partnership Agreement (subject to the exception described below);
- b) the sale of the whole or a substantial part of the Fund’s assets outside the normal course of business; or
- c) the removal or change of the Manager.

Other matters requiring Limited Partner approval, or other matters proposed by Limited Partners, may be approved by Simple Resolution.

The Manager, in its capacity as General Partner may, without Limited Partner approval, make any amendments, changes or modifications to the Limited Partnership Agreement if such amendment is to cure an ambiguity or to correct or supplement any provision which may be defective or inconsistent with any other provisions and the cure, correction or supplemental provision does not and will not adversely affect the interests of the Limited Partners.

Unless it has been consented to unanimously by all the Limited Partners, no amendment can be made to the Limited Partnership Agreement which would have the effect of:

- a) amending the rules for amending the Limited Partnership Agreement;
- b) reducing the fees payable to the Manager;
- c) reducing the interest in the Fund of the Limited Partners; or
- d) changing the liability of any Limited Partner.

The Fund will not hold regular meetings.

Termination of the Fund

The Fund has no fixed term.

The Fund shall be dissolved on the earliest to occur of:

- (a) the date fixed by Extraordinary Resolution of the Limited Partners;
- (b) the date of any event which would make it unlawful for the Fund's business to be continued; or
- (c) the date of the extinction, loss or disposition of all the Fund's assets.

The Fund shall not terminate as a result of the bankruptcy, dissolution, liquidation or winding-up of the Manager in its capacity as General Partner, or of any Limited Partner.

Change in Investment Strategies and Restrictions

We may from time to time amend the investment strategies or investment restrictions of the Fund without your approval, provided that the investment strategies or investment restrictions remain consistent with the primary investment objective of the Fund as set out in the Limited Partnership Agreement. A change in the primary investment objective of the Fund requires the approval of the Unitholders. See the section above called *Acts Requiring Unitholder Approval*.

MATERIAL CONTRACTS AND PRINCIPAL SERVICE PROVIDERS

In addition to the Limited Partnership Agreement, the Fund is party to the material contracts and has engaged the principal service providers described below.

Investment Management Agreement

Pursuant to the Investment Management Agreement, the Manager, in its capacity as general partner, has appointed itself to be the manager of the Fund and has the authority to manage the operations and affairs of the Fund and to contract on behalf of the Fund. The Manager's role is to provide advisory, management and administrative services to the Fund. More particularly, the Manager's duties include administering or managing the investments of the Fund; maintaining all of the books and records of the

Fund; dealing with all aspects of the relationship between the Fund and the Limited Partners, including responding to any inquiries by a Limited Partner relating to the Fund; being responsible for, arranging and monitoring compliance with all applicable regulatory requirements; providing the administrative support services which are required to be provided to the Fund by the General Partner; establishing the operating budgets of the Fund and authorizing the payment of the operating expenses incurred by the Fund; providing the Limited Partners with the reports, statements and information required to file their income tax returns; preparing bi-yearly and annual financial information for the reports that are to be issued by the Fund to the Limited Partners; and preparing the reports that are required to be filed with regulatory authorities. The Manager may, at its own expense, periodically hire the services of any consultant, agent or sub-contractor to perform functions that its employees are not able to perform.

The Investment Management Agreement is intended to be consistent with the Limited Partnership Agreement. In the event of any inconsistency between the two, the Investment Management Agreement is subordinate to the Limited Partnership Agreement.

The fees due to the Manager are as set out in the Partnership Agreement. See *Fees*. The Manager shall pay all of the expenses of the Manager as set out in the Partnership Agreement.

The Manager is required to comply with applicable securities laws and regulations and policy statements of securities administrators insofar as such relate to its position, role and function as manager of the Fund including, without limitation, obtaining and maintaining any licenses or qualifications.

The Investment Management Agreement provides that the Manager shall not be liable for any loss, liability, expense, cost or damage suffered or incurred by the Fund which arises out of any act, omission or error of judgment by the Manager in conducting the affairs of the Fund or otherwise acting in respect of and within the scope of the Investment Management Agreement. However, the Manager will be liable if the Manager has acted in a manner which involves fraud, willful misconduct, willful violation of the law or willful violation of its obligations under the Investment Management Agreement or the gross negligence of the Manager in performing its obligations under the Investment Management Agreement. So long as the Manager has met this standard of conduct, the Fund shall indemnify the Manager and its directors, officers and employees from and against all liabilities and reasonably incurred in connection with any claim, action, suit or proceeding in which the Manager may subsequently be impleaded by reason of being or having been the Manager with respect to any criminal activity.

The Investment Management Agreement also provides that the Manager shall indemnify the Limited Partners from and against all losses, claims, damages or liabilities that may be incurred related to or arising from any misrepresentation contained in any information developed and provided by the Manager in connection with the Fund. Subject to applicable law (see *Purchasers' Rights*) the Manager's indemnification of the Limited Partners is limited to an amount not to exceed, in the aggregate for all claims, the total amount of compensation paid to the Manager.

The Investment Management Agreement may be terminated by the Fund in the following events: the dismissal of the General Partner; the bankruptcy, insolvency, dissolution or liquidation of the Manager or upon the institution of any action or proceeding to that effect that is not contested by the Manager in good faith or upon the appointment of a trustee in bankruptcy, receiver or receiver manager to administer the affairs of the Manager; or if the Manager commits a material act of default regarding the performance of its obligations pursuant to the Investment Management Agreement and such default is not remedied within sixty days from the date of receipt of a notice of default indicating in sufficient detail the material act of default committed and the intention of the Fund to terminate this Agreement if the default is not remedied. In such a case, the Investment Management Agreement terminates on the date upon which a new general partner of the Fund is appointed or on the date an Extraordinary Resolution (as that term is defined in the Limited Partnership Agreement) to terminate the Investment Management Agreement is adopted by the Fund.

The Manager shall only be entitled to (but is not obligated to) terminate the Investment Management Agreement in the event of a voluntary withdrawal by the General Partner from the Fund in the manner set forth in the Limited Partnership Agreement.

Custodian

NBCN Inc. is the Custodian of the assets of the Fund pursuant to a custodial services agreement dated June 29, 2012. The Custodian is also the prime broker for the Fund. As Custodian, it is responsible for the safekeeping of the assets of the Fund. The Custodian receives various fees from the Fund for its services as Custodian and Prime Broker.

Registrar and Transfer Agent

SGGG Fund Services Inc. (“**SGGG FSI**”) acts as the registrar and transfer agent for the Fund, and also provides certain other administrative services to the Fund pursuant to an administrative services agreement dated August the 1st 2016. As registrar, it keeps track of who owns Units of the Fund, maintains a record of all purchases and redemptions of Units, and issues investor account statements, trade confirmations and issues annual tax reporting information. SGGG FSI is also responsible for providing administrative services to the Fund, including fund valuation, NAV calculation, performance fee calculation and financial reporting services. SGGG FSI receives a fee from the Fund for its services as registrar and transfer agent and we negotiate the amount of this fee on behalf of the Fund.

Auditors

The auditors of the Fund are PricewaterhouseCoopers LLP, 1250 Boul. Rene-Levesque West, Suite 2500, Montreal, Québec, H3B 20A.

Legal Advisors

The legal advisors to the Fund are Fasken Martineau DuMoulin LLP, 800 Square Victoria, Suite 3700 P.O. Box 242 Montreal, Québec H4Z 1E9.

MANAGEMENT OF THE FUND

We are responsible for managing the business and affairs of the Fund, including providing the Fund with all necessary administrative and portfolio advisory services. We may also be considered to be a “promoter” of the Fund within the meaning of applicable securities laws because we took the initiative in organizing the Fund. A summary of our duties and responsibilities are set out in the section above called *The Limited Partnership Agreement*.

The Manager

PMI is the portfolio manager and the investment fund manager of the Fund. The Manager is a corporation that was established under the laws of Québec on June 20, 2001. The Manager is a wholly-owned subsidiary of Palos Capital Corporation. The Manager acts as the manager of other investment vehicles, including those discussed under “*The Manager – Other Investment Vehicles*” below.

Officers and Directors of the Manager

The name, municipality of residence, position with the Manager and principal occupation of each of the officers and directors of the Manager are as follows:

Name and Municipality of Residence	Position with the Manager	Principal Occupation
Robert Boisjoli Montreal, Québec	Director	Managing Director, Atwater Financial Group (financial advisory firm)
Alain Lizotte Laval, Québec	Chief Financial Officer and Chief Compliance Officer	Chief Financial Officer and Chief Compliance Officer, Palos Management Inc.
Peter J. Malouf Montreal, Québec	Director	President, P.J. Malouf & Co. Inc. (family holding company)
Charles Marleau Beaconsfield, Québec	President, Senior Portfolio Manager, Director and Ultimate Designated Person	President, Senior Portfolio Manager, Director and Ultimate Designated Person, Palos Management Inc.

Robert Boisjoli acts as managing director of Atwater Financial Group, a company specializing in financial advisory work including mergers and acquisitions, and a partner at Robert Boisjoli & Associates S.E.C., a consulting firm specializing mainly in business valuations. Robert has been the co-founder of three operating companies where he has acted as both Chief Financial Officer and Chief Executive Officer, one of which has been sold to a London based publicly listed company. Robert is a Fellow Chartered Accountant (FCPA, FCA) and a Chartered Business Valuator (CBV). Robert sits on the board of directors of various private and public companies where he is also the audit committee chairman. He was previously an investment banker with various Canadian securities firms. Robert also is a Board Member of various not-for-profit organizations in the community and within the accounting profession.

Alain Lizotte acts as Chief Financial Officer and Chief Compliance Officer of the Manager. He is responsible for managing and overseeing all matters relating to financial reporting, financial controls, compliance and general administration of the firm and the investment funds it manages. Prior to Palos, Alain has held senior financial positions in large and medium-size Canadian companies. Alain is a member of the Comptables professionnels agréés du Québec.

Peter J. Malouf acts as President at P. J. Malouf & Co., a private investment company. He is also a director of several public and private companies both in Canada and the United States, including Chairman of Sonomax Technologies Inc. Peter is past Chairman of the Board of Directors of Marianopolis College and The Study School and currently is an active board member of various not-for-profit organizations, including the Montreal Fluency Center. Peter chairs the Malouf Family Fund an active philanthropic fund through the Foundation of Greater Montreal.

Charles Marleau acts as President, Senior Portfolio Manager and Ultimate Designated Person of the Manager. He is responsible for managing and trading on behalf of the investment funds and supervises administration, investor relations and compliance. Charles is a member of the Independent Review Committee of an investment fund of Goodman & Company, Investment Counsel Inc. He also serves on the Board of Directors of numerous private companies. Moreover, Charles is a member of the Entrepreneurs Organization. He graduated from McGill University with a Bachelor's degree in Economics and obtained the Chartered Investment Manager designation.

Other Investment Vehicles

The Manager also acts as the investment fund manager and portfolio advisor of several other investment vehicles, including: Palos Equity Income Fund, a prospectus-qualified mutual fund; Palos IOU High Yield Fund a privately-offered investment fund; Palos WP Growth Fund a privately-offered investment fund; and Palos Merchant Fund L.P., an investment partnership.

FEEES

Monthly Management Fee

The Manager is responsible for managing the ongoing business of the Fund and monitoring the Fund's Portfolio. In consideration for these and other services as described under "*Management of the Fund*" and pursuant to the terms of the Limited Partnership Agreement, an amount calculated monthly and payable in advance on the first day of the month at the rate set out below with respect to each Class. In the case of a Limited Partner who subscribes for Units of the Fund subsequent to the first day of a fiscal quarter or who redeems Units prior to the last day of a fiscal quarter, the Management Fee for such fiscal quarter shall be prorated to reflect the number of days during which such Limited Partner was a Limited Partner.

In consideration of the services provided by us, in our capacity as manager of the Fund, the Fund pays us a monthly Management Fee, based on the Net Asset Value of each Class of Units of the Fund (other than Class X for which the fee is calculated based on book value) calculated on the last business day of the preceding month. The Management Fee may vary from Class to Class and will be deducted as an expense of the Fund in the calculation of the Net Asset Value of the Fund. The Management Fee for each of the Class of Units offered for sale under this Offering Memorandum is as follows:

- Class A – 1.75% per annum of Class A Net Asset Value.
- Class F⁽¹⁾ – 0.75% per annum of Class F Net Asset Value.
- Class I – To be agreed with the Manager.
- Class O – To be agreed with the Manager.
- Class X⁽²⁾ – 1.0% per annum of Class X book value.

The Management Fee is calculated prior to, and without taking into account, the performance fee paid to us. The Management Fee is subject to applicable taxes, including GST, QST or HST.

Performance Fee

We will also receive the following performance fee payable each Period in which the Performance Change for the Period exceeds the Preferred Return for the applicable Series (plus applicable taxes, such as GST, QST or HST) for acting as portfolio advisor:

Class A – 20% of the amount, determined as of the close of each Period, by which the Performance Change with respect to Class A Units is greater than the Preferred Return for the Period. The Preferred Return for Class A Units is 1.25% per Period (5% annually).

⁽¹⁾ Class F Units are only available to investors who have a fee-based account with approved dealers. See *Description of Units – Class F Units*.

⁽²⁾ Class X Units are only available to current holders of Class X Units or to investors who enter into a discretionary management agreement with the Manager or its affiliates. See *Description of Units – Class X Units*.

Class F ⁽¹⁾ – 20% of the amount, determined as of the close of each Period, by which the Performance Change with respect to Class A Units is greater than the Preferred Return for the Period. The Preferred Return for Class A Units is 1.25% per Period (5% annually).

Class I – As agreed with the Manager

Class O – As agreed with the Manager

Class X ⁽²⁾ – 20% of the amount, determined as of the close of each Period, by which the Performance Change with respect to Class A Units is greater than the Preferred Return for the Period. The Preferred Return for Class A Units is 2.5% per Period (10% annually).

The Performance Fee is earned only when the Net Asset Value, plus the aggregate of all of the distributions declared since the last Period when a Performance Fee was earned is greater than the High-Water Mark.

The High-Water Mark is the Net Asset Value as of the last day of the Period in which a Performance Fee has last been earned.

The growth in the Net Asset Value each Period is measured as a percentage of growth called the Performance Change which is the result of:

- a) the pre-distribution Net Asset Value as of the end of the Period, plus
- b) the amount of the accrued Performance Fees for the current Period; less
- c) the Net Asset Value at the end of the prior Period;

divided by: the Net Asset Value at the end of the prior Period.

The performance fee is subject to applicable taxes, including GST, QST or HST.

DISTRIBUTIONS

The Fund will endeavour to provide holders of its Units with quarterly distributions on or about the last business day of each quarter. The Fund's current target for quarterly distributions on Class A and Class F Units is an amount per Unit equal to up to 1.25% (5% annually) of the Net Asset Value per Unit of the Class. The amount applicable to other Classes will be as agreed from time to time with the Manager. The actual amount of each quarterly distribution and any year-end distribution for each Class is determined by the Manager. The Manager may also declare a special distribution at any time when it determines to do so. The Manager does not currently have any intention of revising the amount of the targeted quarterly distribution; however, the Manager may reassess the level of distribution from time to time. If the Portfolio earns more income and capital gains in a year than the amount distributed, the excess remains in the Fund. If the Portfolio earns less than the amount distributed, the difference is a return of capital to Unitholders and will reduce accordingly the Net Asset Value per Unit. All distributions are automatically reinvested in additional Units of the Class you hold of the Fund unless you ask in writing to have them paid out or invested in another Class or fund offered by us. See *Automatic Reinvestment Plan*. For more information about distributions, see *Canadian Federal Income Tax Considerations*.

⁽¹⁾ Class F Units are only available to investors who have a fee-based account with approved dealers. See *Description of Units – Class F Units*.

⁽²⁾ Class X Units are only available to current holders of Class X Units or to investors who enter into a discretionary management agreement with the Manager. See *Description of Units – Class X Units*.

AUTOMATIC REINVESTMENT PLAN

Pursuant to the terms of the Fund's automatic reinvestment plan (the "**Plan**") all distributions will be automatically reinvested on behalf of the Unitholders. Distributions payable to Unitholders will be applied to purchase Units from the Fund through the issue of new Units at a price per Unit equal to the Net Asset Value Per Unit on the date on which all Unitholders are entitled to receive a distribution (the "**Record Date**"). Units issued pursuant to the Plan will be issued effective immediately prior to the opening of business on the first business day following the Record Date.

The Units purchased from the Fund pursuant to such reinvestment, including fractional Units, will be issued to the Unitholders in proportion to their share of the distribution. No certificates representing Units issued pursuant to the Plan will be issued. Any amount automatically reinvested in connection with a distribution will discharge the Fund from all liability to the Unitholder in respect of the amount of such distribution.

REDEMPTION OF UNITS

Subject to the Fund's right to defer a redemption of Units and to suspend redemptions (both as described below) Units (other than Class X) may be surrendered as of the last business day of each week (each a "**Redemption Date**") by giving the Manager not less than seven days' written notice for redemption on such Redemption Date. Units so surrendered for redemption by the holder thereof to the Manager will be redeemed on such Redemption Date for a redemption price equal to the applicable Net Asset Value per Unit for the relevant Class on such Redemption Date and the holder will receive payment of such redemption price on or before the 30th day following such Redemption Date (the "Redemption Payment Date"). For details about the rights of redemption attaching to each Class see the section called *Description of Units – Redemptions*.

The redemption right may be exercised by causing written notice to be given within the notice period described herein to the Manager, if the Unitholder originally subscribed for Units directly from the Fund, or to the holder's investment advisor or broker who is a FundSERV Participant, if the holder originally subscribed for Units through a FundSERV Participant. A holder who has purchased Units through a FundSERV Participant should obtain further information from his investment advisor or broker to determine the timing and other procedural requirements of such investment advisor or broker in connection with the redemptions of Units.

In the event where the aggregate amount that the Limited Partners have requested to withdraw during any fiscal quarter, calculated as of the end of any such fiscal quarter, represents more than 25% of the Net Asset Value of the Fund as of such date, then the Manager may, in its discretion, limit the withdrawals requested by each such Limited Partner so that no more than 25% of the Net Asset Value of the Fund is withdrawn in such fiscal quarter. Such limitation on withdrawals shall be calculated on a pro rata basis between each of the Limited Partners based on the value of each Limited Partner's Capital Account as of such date. Any amount which a Limited Partner shall not be permitted to withdraw as at the end of any fiscal quarter shall be carried forward and withdrawn as of the end of the immediately following fiscal quarter, subject to the same 25% limitation, provided however, that the limitation on withdrawals shall in no event delay the withdrawal of any amount subject to a withdrawal notice for a period of more than twelve months after the effective date of withdrawal provided for in the notice of withdrawal. The limitation on withdrawal may be waived or increased by the Manager in its sole discretion, provided that any such waiver or increase shall apply equally to all Limited Partners.

Upon receipt by the Manager of a Limited Partner's notice of intention to withdraw assets from the Fund, the Manager shall have the discretion to manage the Fund's assets in a manner which would provide for cash being available to satisfy such Limited Partner's request for withdrawal. The Manager shall not be obligated to sell assets of the Fund if the Manager believes that such transactions might be detrimental to

the interest of the other Limited Partners or that such transactions are not reasonably practicable. In the event that on the Redemption Date the withdrawal cannot be fully funded with cash, the Manager may transfer certain fund property to the Limited Partner, the fair market value of which, along with any cash distributed, would satisfy the Limited Partner's request for withdrawal. The right of any Limited Partner to withdraw or of any Limited Partner to have distributed an amount from its Capital Account is subject to the provision by the General Partner for all Fund liabilities, including fees payable to the Manager, and for reserves for contingencies. A withdrawing Limited Partner shall not share in the income, gains and losses of the Fund or have any other rights as a Limited Partner after the effective Redemption Date.

The Manager may, by ten days' notice to a Limited Partner, require the Limited Partner's interest to be withdrawn in its entirety from the Fund, effective on any date chosen by the Manager. The amount due to any such Partner required to withdraw from the Fund shall be equal to the value of such Partner's Fund Interest (as defined in the Limited Partnership Agreement) as of the effective date of the withdrawal.

The right of any Limited Partner to redeem Units, or to receive a distribution from the Fund, may be suspended or restricted for a period of up to 12 months: (i) when any such withdrawal would result in a violation by the Fund or the Manager of the securities or commodity laws of Canada or any other relevant jurisdiction or the rules of any self-regulatory organization applicable to the Fund or the Manager; (ii) when any securities exchange or organized interdealer market on which a significant portion of the Fund's Portfolio securities is regularly traded or quoted is closed (otherwise than for holidays) or trading thereon has been restricted or suspended; (iii) whenever the Manager determines that disposal of any assets of the Fund or other transactions involving the sale, transfer or delivery of funds, securities or other assets in the ordinary course of the Fund's business is not reasonably practicable without being detrimental to the interests of the withdrawing or remaining Limited Partners; (iv) if, for any reason, it is not reasonably practicable to make an accurate and timely determination of the Net Asset Value of the Fund; or (v) if any event has occurred which may result in the termination of the Fund. In such a case, the Manager will promptly notify each Limited Partner who has submitted a withdrawal request and to whom payment in full of the amount being withdrawn has not yet been remitted of any suspension of withdrawal or distribution rights. The Manager may allow any such Limited Partners to rescind their withdrawal request to the extent of any portion thereof for which withdrawal proceeds have not yet been remitted. The Manager may in its sole discretion complete any withdrawals or distributions as of a date after the cause of any such suspension has ceased to exist to be specified by the Manager as the effective date of withdrawal.

The Performance Fee, if any, payable to the Manager will be accrued on a daily basis as a liability of the Fund, reducing the Net Asset Value per Unit of the relevant Class of the Fund. The redemption price received by an investor whose Units are redeemed will reflect such accrual for the Performance Fee, based on any increase in Net Asset Value per Unit from the beginning of the relevant Period through the Redemption Date. However, the accrual of the Performance Fee may subsequently be reversed if the Fund's performance declines. No adjustment to a redemption price will be made after it has been fixed.

Redemptions of the Units will tend to reduce the number of outstanding Units and, depending upon the Fund's investment performance, its net assets. A reduction in the Fund's net assets will tend to increase the Fund's expense ratio.

A redemption of Units by the Fund may be a taxable event to Unitholders. See *Canadian Federal Income Tax Considerations*.

VALUATION PRINCIPLES

In determining the Net Asset Value, the Manager will employ the following valuation principles and guidelines:

1. **Investments in Private Securities**

- (a) Equity securities held in a company for which there does not exist a published market are initially valued at cost and the values are subsequently adjusted to reflect events that fall into one of the following categories:
 - (i) If the investee company has raised subsequent significant capital from a third party to such investee company, the most recent financing will be used to establish value.
 - (ii) If the investment held is convertible into securities for which a published market exists, the investment will be valued at the greater of face value or the value as if it had been converted.
 - (iii) If the investee company has experienced a material adverse business development, the General Partner may decide to decrease the value of the investment at a point in time to reflect this.
 - (iv) If the investee company's securities are quoted by a dealer on an over-the-counter market, the securities will be valued at the mid-point of the "bid" and "ask" price quoted by the dealer.
- (b) Warrants and other securities entitling their holders to acquire securities at a future date ("Warrants") held to acquire securities for which no published market exists are generally valued at cost.
- (c) Fixed Income securities, including corporate bonds that trade over-the-counter and not on a listed exchange, are valued at the mid-point of "bid" and "ask" prices quoted by dealers in the securities.

2. **Investments in Public Securities**

- (a) Securities that trade on a recognized exchange or over-the-counter market will be valued at the quoted closing market price on the day of valuation. Securities that trade on a recognized exchange or over-the-counter market but are subject to restrictions on transfer will be valued at such discounts to the prevailing market price as the General Partner, in its absolute discretion, considers reasonable.
- (b) Warrants and options held to acquire securities for which a published market exists will be valued at the amount by which the value of the underlying securities (the "**Premium**") exceeds the exercise price of such Warrants; the amount of the Premium shall be determined by valuing the underlying securities in the manner set forth under paragraph 2(a), unless such Warrants are listed on a published market, in which case they, themselves, will be valued at their market price in the manner set forth under paragraph 2(a).
- (c) If the value of any security or property cannot be determined in accordance with the above principles, in the opinion of the General Partner, the value of such security or property shall be the fair value thereof determined in good faith in such manner as the General Partner adopts from time to time.

3. **Investments Denominated in Foreign Currencies**

Investments denominated in currencies other than Canadian dollars are valued using the exchange rate in effect at the valuation date.

4. **Final Determination of Value**

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ materially from values that would have been used had a published market existed for the investments.

Where it is not possible, using the above guidelines, to determine the value of the whole or any part of the Fund assets in the manner provided in the foregoing, the General Partner of the Fund may, at its sole and absolute discretion, determine the realization value, at a given date, of such Fund assets and the decision of the General Partner in this regard shall be final and binding upon all parties concerned.

5. **Liabilities**

Liabilities of the Fund (including accrued and contingent liabilities) to be deducted in determining the Net Asset Value are to be determined in accordance with GAAP.

LIMITATION ON NON-RESIDENT OWNERSHIP

Because the Fund is a limited partnership, it may not be an appropriate investment for non-residents of Canada. Investors should consult with a qualified tax advisor prior to making an investment.

STATEMENT OF POLICIES

As a portfolio manager, exempt market dealer and investment fund manager, the Manager may occasionally face conflicts between its own interests and those of its clients, or between the interests of one client and the interests of another. The Manager has adopted certain policies to minimize the occurrence of such conflicts or to deal fairly where those conflicts cannot be avoided. In no case will the Manager put its own interests ahead of those of its clients.

Conflicts of Interest

The Manager may engage in activities as a portfolio manager, investment fund manager and exempt market dealer in respect of securities of related issuers and connected issuers but will do so only in compliance with applicable securities legislation. The securities laws of the provinces and territories of Canada require securities dealers and advisers, when they trade in or advise with respect to their own securities or securities of certain other issuers to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. These rules require dealers and advisers, prior to trading with or advising their customers or clients, to inform them of the relevant relationships and connections with the issuer of the securities. Clients and customers should refer to the applicable provisions of these securities laws for the particulars of these rules and their rights or consult with a legal adviser. The definition of the terms “related issuer” and “connected issuer” can be found in National Instrument 33-105, Underwriting Conflicts, of the Canadian Securities Administrators.

The Manager acts as a portfolio manager, investment fund manager and exempt market dealer. As a result, potential conflicts of interest could arise in connection with the Manager acting in multiple capacities. When Palos, or its affiliates, acts as portfolio manager for clients under a discretionary management contract it may invest such client money in the Fund and will receive the service fee otherwise payable to dealers with respect to such investments. Like all service fees, this fee comes out of the Management Fees payable to Palos by the Fund.

As an exempt market dealer, the Manager sells interests in a related limited partnership and other related pooled funds organized by the Manager and may or may not be remunerated by the related limited partnership or other funds for acting in that capacity. The Manager also sells or seeks investors for securities of unrelated issuers for which it may be remunerated.

Fairness Policy

As a portfolio manager, the Manager and its employees shall conduct themselves with integrity and honesty and act in an ethical manner in all of their dealings with its clients (including the Fund). The Manager shall not knowingly participate or assist in the violation of any statute or regulation governing securities and investment matters. The responsible persons shall exercise reasonable supervision over subordinate employees subject to their control to prevent any violation by such persons of applicable statutes or regulations. The Manager shall exercise diligence and thoroughness on taking an investment action on behalf of each client and shall have a reasonable and adequate basis for such actions, supported by appropriate research and investigations. Before initiating an investment transaction for a client, the Manager will consider its appropriateness and suitability. The Manager will manage each account within the guidelines established between the Manager and the client. The Manager shall ensure that each client account is supervised separately and distinctly from other clients' accounts. The Manager owes a duty to each client and, therefore, has an obligation to treat each client fairly.

Palos shall ensure fairness in allocating investment opportunities among its clients and/or funds, as the case may be. It may be determined, however, that the purchase or sale of a particular security is appropriate for more than one client account. Therefore, where appropriate, it is the Manager's policy to treat all clients fairly and to achieve an equitable distribution of a given security. In order to ensure fairness in the allocation of investment opportunities among its clients, the Manager will allocate investment opportunities with consideration to the prime determinants of market exposure, cash availability and industry sector exposure and with regard to the suitability of such investments to each client. In determining the suitability of each investment opportunity to a client's portfolio, consideration will be given to a number of factors, the most important being the client's investment objectives and strategies, existing Portfolio composition and cash levels. Where an investment opportunity is suitable for two or more clients or funds, the Manager will allocate such investment opportunity equitably in order to ensure that clients have equal access to the same quality and quantity of investment opportunities. Transactions for clients shall have priority over personal transactions so that the Manager's personal transactions do not act adversely to a client's interest. The Manager will at all times preserve confidentiality of information communicated by a client concerning matters within the scope of a confidential relationship.

The above sets out in general terms the standards of fairness that the Manager and its employees will exercise in its dealings with all of its clients.

Referral Arrangements

The Manager may enter into referral arrangements whereby it pays a fee for the referral of a client to the Manager or to the Fund. No such payments will be made unless the referred investors are advised of the arrangement and all applicable securities laws are complied with.

Soft Dollar Arrangements

Soft dollar arrangements occur when brokers have agreed to provide other services (relating to research and trade execution) at no cost to the Manager in exchange for brokerage business from the Manager's managed accounts and investment funds, including the Fund. The Manager's policy is to ensure that transactions are not more costly to its clients as a result of soft dollar agreements. Any potential soft dollar benefits received by Manager are directed only to the provision of goods and services related to order execution, or related to research, and the Manager ensures that any potential benefits received from dealers are used only to benefit clients, either by reducing the Management Fees paid by them or by obtaining relevant financial information in order to achieve better returns for their Portfolios. The Manager makes a good faith determination that the client is receiving reasonable benefit considering both the use of goods and services and the amount of brokerage commissions paid. In all circumstances, the

Manager complies with the requirements set out in National Instrument 23-102, Use of Client Brokerage Commissions as Payment for Order Execution Services or Research Services. Currently, the Manager received Bloomberg Terminals as part of a soft dollar arrangement with a dealer. The Manager is of the view that the dealer providing the Bloomberg Terminals provides best execution at a competitive rate, and the value of Bloomberg Terminals exceeds any incremental commission costs charged by the dealer, if any. The Manager makes periodic disclosure to clients of the services it receives, and their value, under soft dollar arrangements, and any such further disclosure as may be required by applicable law.

Statement of Related Registrants

Palos Wealth Management Inc. (“**PWM**”), a portfolio manager duly registered in all the provinces of Canada as well as in the Yukon, is an affiliate of the manager. PWM is also registered in the category of derivatives portfolio manager in the province of Quebec. PWM acts portfolio manager for its clients.

UNITHOLDINGS OF MANAGEMENT AND OTHERS

The table below outlines certain information regarding the Manager, each director and officer of the Manager, and each person who as at April 30, 2017 directly or indirectly, beneficially owned or controlled 10% or more of the Units of the Fund.

Name and Municipality of Principal Residence	Position Held / Date of Obtaining that Position	Compensation paid by Fund in the year ended Dec. 31, 2016	Anticipated Compensation for the year ended Dec. 31, 2017	Number / % of Units held as at April 30, 2017
PALOS MANAGEMENT INC. ⁽¹⁾ Montreal, QC	Promoter and Manager / June 21, 2001	\$1,828,131 ⁽²⁾	\$1,047,269 ⁽³⁾	Nil
CHARLES MARLEAU Beaconsfield, Québec	President, Senior Portfolio Manager Director, and Ultimate Designated Person June 21, 2001	Nil ⁽⁵⁾	Nil	34,328 / 0.33% ⁽⁶⁾
ROBERT BOISJOLI Montreal, Québec	Director December 17, 2010	Nil	Nil	10,437 / 0.1% ⁽⁴⁾
PETER J. MALOUF Montreal, Québec	Director July 25, 2011	Nil	Nil	Nil
ALAIN LIZOTTE Laval, Québec	Chief Financial Officer and Chief Compliance Officer November 28, 2011	Nil	Nil	130 / 0% ⁽⁶⁾

⁽¹⁾ The voting shares of the Manager are owned by Palos Capital Corporation.

⁽²⁾ This compensation was comprised of the Management Fee and performance referred to in the section above called *The Limited Partnership Agreement – Fees*.

⁽³⁾ The compensation paid to us for the year ended December 31, 2017 will vary based on the net assets of the Fund during that period and the investment return of the Fund's assets during that period, and will be comprised of the fees described in the sections above called *The Limited Partnership Agreement – Fees*.

Includes Estate of Boisjoli.

⁽⁵⁾ Charles Marleau does not receive any compensation from the Fund. However, he indirectly beneficially owns or controls 0.33% of our shares. We receive a Management Fee and a performance fee from the Fund. See the section above called *The Limited Partnership Agreement – Fees*.

⁽⁶⁾ All of the Units owned or controlled by such person are Class X Units.

⁽⁷⁾ Such person may acquire additional Units under this Offering Memorandum; however, the number of Units, if any, which may be acquired by him is not known.

Penalties, Sanctions and Bankruptcies

On November 23, 2011, the Manager reached a settlement with the Autorité des marchés financiers whereby the Manager agreed to pay a monetary administrative penalty of \$26,500 for a failure by the Manager to include certain components of certain financial statements that were filed for the periods ending June 30, 2009, December 31, 2009 and June 30, 2010. The settlement relates to investment funds managed by the Manager and offered under statutory prospectus exemptions and another investment vehicle.

Except as set out above, no director, executive officer or control person of the Manager is, as at the date hereof, or has been within the ten years before the date hereof, a director, executive officer or control person of any company (including the Manager) that, while that person was acting in that capacity, or

within a year of that person ceasing to act in that capacity, became or declared bankrupt, made a voluntary assignment or proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- is, as at the date hereof, or has been within the ten years before the date hereof, a director, executive officer or control person of any company (including the Manager) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became or declared bankrupt, made a voluntary assignment or proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- has, within the ten years before the date hereof, become or declared bankrupt, made a voluntary assignment or proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director, executive officer or control person of the Manager has been subject to:

- any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- any other penalties or sanctions.

Loans

The Funds have no outstanding amount due under any loan or debenture to or from any of the directors or officers of the Manager, any Unitholder or the Manager.

CAPITAL STRUCTURE

Outstanding Securities of the Fund

The table below describes the outstanding securities of the Fund as at April 30, 2017.

Description of Security⁽¹⁾	Number Authorized to be Issued	Number of Units Outstanding as at April 30, 2017	Number of Units Outstanding after Offering⁽²⁾
Class A Units	Unlimited	Nil	Unknown
Class F Units	Unlimited	116,017	Unknown
Class I Units	Unlimited	Nil	Unknown
Class O Units	Unlimited	44,132	Unknown
Class X Units	Unlimited	10,133,901	Unknown

⁽¹⁾ The Fund may offer additional Classes of Units in the future.

⁽²⁾ There is no minimum or maximum number of Units to be issued as part of this Offering. The Fund will continue to issue additional Class A, Class F and Class I, Class O and Class X Units on an on-going basis.

Prior Sales

The table below discloses information regarding the Units that were issued during the last 12 months.

Date of Issuance	Class F		
	Number of Units Issued⁽¹⁾	Price per Unit	Total Funds Received
May 31, 2016	549	9.10	\$5,000
June 30, 2016	2,374	8.97	\$21,300
July 31, 2016			
August 31, 2016			
September 30, 2016	2,358	9.23	
October 31, 2016			
November 30, 2016			
December 31, 2016	2,358	9.44	\$22,247
January 31, 2017			
February 28, 2017			
March 31, 2017	2,424	9.37	\$22,719
April 30, 2017			

Date of Issuance	Class O		
	Number of Units Issued⁽¹⁾	Price per Unit	Total Funds Received
May 31, 2016	3,022	10.93	\$33,025
June 30, 2016	24,264	11.05	\$268,125
July 31, 2016			
August 31, 2016			
September 30, 2016	1,701	11.78	\$20,050
October 31, 2016			
November 30, 2016			
December 31, 2016			
January 31, 2017			
February 28, 2017			
March 31, 2017			
April 30, 2017			

Class X			
Date of Issuance	Number of Units Issued⁽¹⁾	Price per Unit	Total Funds Received
May 31, 2016	0	0	\$0
June 30, 2016	3,839	9.12	\$35,025
July 31, 2016	31,434	9.19	\$288,750
August 31, 2016	4,192	9.55	\$40,050
September 30, 2016	91,332	9.53	\$870,211
October 31, 2016	11,127	9.48	\$105,460
November 30, 2016	9,452	9.51	\$89,875
December 31, 2016	122,474	9.79	\$1,198,617
January 31, 2017	113,809	9.80	\$1,115,455
February 28, 2017	0	0	\$0
March 31, 2017	41,554	9.94	\$413,101
April 30, 2017	61,407	9.81	\$602,379

⁽¹⁾ This amount includes Units issued on reinvestment of distributions.

During the same period (i.e., the last 12 months), a total of 1,009,901 Units were redeemed at price ranging from \$9.19 per Unit to \$10.04 per Unit for a total amount of \$9,695,013 for the Class X. A total of 31,437 Units were redeemed at price ranging from \$11.25 per Unit to \$13.03 per Unit for a total amount of \$402,183 for the Class O. Also, a total of 2,118 Units were redeemed at price of \$8.97 for a total amount of \$18,994 for the Class F.

DESCRIPTION OF UNITS

The beneficial interest in the Fund is divided into different Classes of Units. Each Class of Units is intended for different types of investors. A Unit of any Classes represents an equal undivided interest in the net assets of the Fund represented by that Class. However, the assets of all Classes of the Fund are combined in a single pool to create one Portfolio for investment purposes.

Generally, except for the Management Fees, performance fees, expenses and distributions in respect of each Class of Units, the rights and attributes of each Class will be identical. A holder of any Class of Units is entitled to one vote for each whole Unit on matters for which separate approval of the Class is sought at any meeting of the Unitholders and one vote for each whole Unit held on matters for which approval is sought from all Unitholders, voting together as a group, at any meeting of the Unitholders. Gains and losses of the Fund will be allocated to each Class of Units in proportion to the Net Asset Value of the Class relative to the other Class. See the section called *The Limited Partnership Agreement – Determination of Net Asset Value*. Units are not transferable, except in very limited circumstances. If the Fund is terminated, a holder of Units of any Class on the termination date will be entitled to a proportionate share of the net assets of the Fund attributable to that Class of Units.

The General Partner shall be entitled to receive from the Fund such Management Fees and Performance Fees payable with respect to each Class (other than Class X which will continue to be governed by and pay the Management Fees and Performance Fees set out in the Limited Partnership Agreement) in such

amounts and at such intervals as the General Partner may from time to time specify, provided such fees are fully disclosed to the purchaser of Units affected thereby at the time of purchase. The applicable Management Fees and Performance Fees may be greater in respect of one Class of Units than for another Class of Units and in such regard shall be calculated and deducted from the Net Asset Value of each respective Class. The General Partner must give to the Limited Partners holding Units of the relevant Class not less than 60 days' notice of any proposed change to the amount or method of calculation of such fees, if, as a result of such change, such fees will be paid more frequently or could result in increased fees being paid by the Class. Such Management Fees and Performance Fees shall be calculated in accordance with the other terms and conditions of the Limited Partnership Agreement.

When Palos , or its affiliate PWM, acts a portfolio manager for clients under a discretionary management contract it may invest such client money in the Fund and will receive the service fee otherwise payable to dealers with respect to such investments. This does not increase the fees paid to Palos since, like all service fees, this fee comes out of the Management Fees payable to Palos by the Fund. Any service fee is paid by the Manager and not the Fund.

Class A Units

Class A Units are available to all investors. The management and performance fees paid to us with respect to Class A Units are described in the section called *Management of the Fund – Fees*. You will not be charged a commission or fee by us when you acquire your Class A Units, but your dealer may charge a commission or fee to you. We also pay a service fee to dealers who sell Class A Units of 1.0% of Net Asset Value of Units held. This fee is paid by the Manager and not the Fund.

Class A Units may be redesignated at any time at your option as Class F, provided that you make appropriate arrangements with your dealer and deliver any additional documentation or information required by us.

Class F Units

Class F Units are available to investors who have fee-based accounts with their dealer, provided the dealer has signed a Class F agreement with us. Typically a fee-based account is an account in which a dealer manages an investor's portfolio for a flat quarterly or annual fee, which covers all administrative, commission, and management expenses. Thus, instead of paying sales charges to their dealer, investors in Class F Units pay a quarterly or annual fee to their dealer for investment advice and other services. We do not pay a service fee to a dealer who sells Class F Units which means that we can charge a lower Management Fee to holders of Class F Units. The management and performance fees paid to us with respect to Class F Units are described in the section called *Management of the Fund – Fees*.

Class F Units may be redesignated at any time at your option as Class A, provided that you make appropriate arrangements with your dealer and deliver any additional documentation or information required by us.

Class I Units

Class I Units are available to large institutional investors who are approved by the Manager, or its affiliate PWM, to invest in Class I Units because of the significance of the amount of their investment. Class I Units are available only directly from the Manager, or PWM, and consequently no sales charges or commission will apply and we will not pay any service fees to dealers with respect to these Units. The management and performance fees paid to us with respect to Class I Units are negotiated directly between the Manager, or PWM, and each investor.

Class O Units

Class O Units are available to investors who purchase their Units through a dealer that represents various investors who are approved by the Manager to invest in Class O Units because of the significance of the amount of the aggregate investment made by the investors represented by such dealer. You will not be charged a commission or fee by us when you acquire your Class O Units, but your dealer may charge a commission or fee to you or may have a fee-based account with you. The management and performance fees paid to us with respect to Class O Units are negotiated directly between the Manager, the dealer and each investor.

Class X Units

Class X Units are only available to investors who currently hold Class X Units or investors who enter into a discretionary management agreement with the Manager, or its affiliate PWM. Such Units may only be purchased directly from us, or from PWM, and cannot be purchased through a dealer, except at our discretion. All Units issued by the Fund prior to May 30, 2014 were renamed Class X Units. The management and performance fees paid to us with respect to Class X Units are described in the section called *Management of the Fund – Fees*. We also pay a service fee to dealers who sell or have sold Class X Units of 0.25% of the Net Asset Value of such Units.

Class X Units may be redesignated quarterly at your option with 30 days prior notice as Class A or Class F Units, provided that you make appropriate arrangements with your dealer and deliver any additional documentation or information required by the Manager.

Redemptions

Units of any Class other than Class X may be surrendered to the Manager for redemption at any time provided they have been held for a minimum of 120 days. Redemptions of Units held for a shorter period will be subject to a 5% redemption fee which will be kept by the Fund. Otherwise, such Units will be redeemed as of the Redemption Date at the Class Net Asset Value per Unit as of the Redemption Date provided the Manager has received a notice of redemption in respect of such Units prior to 4:00 p.m. (Eastern time) on the date which is one week prior to the Valuation Date, otherwise such Units will be redeemed on the next Valuation Date. Requests for redemption made to the Manager must be made in writing with the signature guaranteed by a dealer, Canadian chartered bank, trust company, a member of a recognized stock exchange in Canada or otherwise guaranteed to the satisfaction of the Manager. If Units are registered in the name of an intermediary such as a dealer, clearing agency or its nominee, redemption orders must be made through such intermediary. Requests for redemption will be accepted in the order in which they are received. Class X Units are redeemable quarterly upon 30 days prior notice. Any request for redemption of Class X Units on shorter notice will be subject to a 1% redemption fee which is paid to and kept by the Fund.

Where the Units which are the subject of the notice of redemption were purchased through FundSERV, a request for redemption may also be entered through the FundSERV system at least one week prior to the Redemption Date, and payment of the redemption proceeds will be made through FundSERV. Where the Units which are the subject of the notice of redemption were purchased through the Manager, payment of the redemption proceeds will generally be made by cheque, bank draft or wire transfer. Subject to applicable law, redemption proceeds may be made in kind if in the Manager's discretion circumstances do not permit a payment in cash. The Manager shall within three Business Days following the determination of the Class Net Asset Value per Unit for the applicable Redemption Date distribute an amount equal to the Class Net Asset Value per Unit determined as of the relevant Redemption Date. See *The Limited Partnership Agreement – Determination of Net Asset Value*. Any payment referred to above, unless such payment is not honoured, will discharge the Fund, the Manager and their agents from all liability to the redeeming Unitholder in respect of the payment and the Units redeemed.

We also have the right, exercisable at any time at our discretion, to require you to redeem your Units. We will provide you with written notice of our decision to require you to redeem your Units at least 10 days prior to the date on when the redemption will occur. The redemption price of your Units will be the value of your Partnership Interest determined as at the close of business on the effective day of the redemption.

Short Term Trading Deduction

In order to protect the interest of the majority of investors in the Fund and to discourage short-term trading in the Fund, investors in Units of any class other than Class X may be subject to a short-term trading deduction. If an investor redeems Units of a Fund within 120 days of purchasing such Units, the Fund may deduct and retain, for the benefit of the Fund, five percent (5%) of the Net Asset Value of the Units being redeemed.

Distributions

Any distribution received by you as a Unitholder will be automatically reinvested in additional Units of the same Class at the Class A, Class F, Class I, Class O or Class X Net Asset Value, as the case may be, on the date of the distribution, unless you request in writing distributions in cash.

Conversion of Units

The General Partner may in its discretion from time to time convert Units (other than Class X Units) of any one or more Class into Units of another Class, provided that:

- (a) the conversion rate is based on the respective Net Asset Values of each such Class such that the aggregate Net Asset Value on the date of conversion of Units received on conversion is equal to the aggregate Net Asset Value of the Units held immediately prior to such conversion;
- (b) the Management Fees and Performance Fees payable in respect of Units received on conversion are the same or lower than those payable on the Units held prior to such conversion;
- (c) any benchmark, high water mark, loss carry forward calculation or other criteria for determining fees payable are equivalent (relative to the respective Net Asset Values per Unit of each series) or more advantageous to the Limited Partners so affected;
- (d) all securities or tax regulatory filings necessary to be made in respect thereof are made in a timely fashion and within any statutory deadlines; and
- (e) no Limited Partner is otherwise adversely affected thereby.

Transfer of Units

Units are transferable only in very limited circumstances. You may only transfer your Units with our prior written approval, or as required by law in connection with a bankruptcy or insolvency or upon death, and then only to your legal representatives. Generally, the Manager will approve transfers between accounts owned or controlled by the same person, family or corporate group. Normally the Manager will only approve transfers on a quarterly basis with 30 days prior notice. With respect to securities laws restricting transfers, see the section below called *Resale Restrictions*.

WHO SHOULD INVEST

The Fund is designed for sophisticated investors seeking income and capital gains while assuming a moderate level of risk. As the Fund is subject to various risks as outlined under “Risk Factors,” it is

recommended that an investment in the Fund should not constitute the major portion of an individual's portfolio.

The following persons may not invest in this Fund:

- (a) "non-Canadians" within the meaning of the *Investment Canada Act* (Canada);
- (b) "non-residents," "tax shelters," "tax shelter investments," or any entities an investment in which would be a "tax shelter investment" or in which a "tax shelter investment" has an interest, within the meaning of the *Income Tax Act* (Canada); and
- (c) funds which do not prohibit investments by the foregoing persons.

Any Limited Partner whose status changes with respect to the foregoing or who fails to provide evidence satisfactory to the Manager of such status when requested to do so, from time to time, shall be removed as a Limited Partner by the redemption of his Units at the end of the week in which such status changes. In addition, any Limited Partner that is or becomes a "financial institution" within the meaning of section 142.2 of the *Income Tax Act* (Canada) (as same may be amended or replaced from time to time) shall disclose such status to the Manager at the time of subscription (or when such status changes) and the Manager may restrict the participation of any such Limited Partner or require any such Limited Partner to redeem all or some of such Limited Partner's Units.

INVESTING IN UNITS

Class A, Class F, Class I, Class O and Class X Units of the Fund are offered for sale in reliance on exemptions from the prospectus requirements of applicable securities laws. You will only be permitted to purchase Units if your purchase qualifies for one of these exemptions. Investors may be admitted to the Fund or may acquire additional Units any Business Day. The Class A Units are being offered through the mutual fund order entry system FundSERV. Subscription for Units may be made directly through the Manager (in jurisdictions where it is registered to sell the securities) or through FundSERV under the Manufacturer Code for PMI and the order code "PAL110" for Series A Units and the order code "PAL111" for Series F Units. Funds in respect of any subscription through FundServ will be payable by investors at the time of the subscription. For subscriptions of Units other than Class A Units or Class F Units through FundServ, you must pay the full purchase price for the Units by certified cheque (or other means acceptable to us) at the time of your purchase. Units of the Fund are sold on a continuous basis. However, we may close the Fund to new investors from time to time.

You may invest in the Fund by purchasing Units directly from us in certain circumstances. See the section below called *Information for Investors Purchasing Units Through Palos Management Inc.* We rely on the representations you make in your subscription agreement to ensure that your purchase qualifies for these exemptions and to ensure that you are otherwise eligible to purchase Units. The Manager, acting as portfolio manager of clients pursuant to discretionary management agreements, may invest in Units of the Fund on behalf of such clients, subject to applicable securities legislation.

Units are issued at the Net Asset Value per Unit of the relevant class as at the relevant purchase date. Investors who wish to subscribe for Units (other than Class X) may do so by delivering a subscription agreement (substantially in the form of the subscription agreement accompanying the Offering Memorandum or such other form of subscription agreement as the Manager may approve) to the Manager, either directly (in jurisdictions where it is registered to sell the securities) or through dealers or other persons permitted by applicable securities laws to sell Units, accompanied by a cheque, bank draft or, in the discretion of the Manager, wire transferred funds, in an amount equal to the purchase price on any Business Day of the week (a "**Purchase Date**"). Units will be offered at the Class Net Asset Value per Unit calculated as of the applicable Purchase Date. The Class Net Asset Value per Unit for

subscriptions which are received and accepted by the Manager prior to 4:00 p.m. (Eastern time) on any Business Day will be calculated as of that day. Subscriptions which are received and accepted by the Manager after 4:00 p.m. (Eastern time) on any Business Day will be calculated as of the next Business Day. All subscriptions for Units are to be forwarded by dealers, without charge, the same day that they are received, to the Manager.

A book-based system of registration is maintained for the Funds. Unit certificates will not be issued. The register for the Units is kept at the office of the Transfer Agent.

Subscriptions must be accompanied with the following documents by no later than 4:00 p.m. (Eastern time) on the Purchase Date:

- (a) a signed and completed subscription agreement in the form attached as Error! Reference source not found. to this Offering Memorandum (or such other form as we approve from time to time);
- (b) a signed and completed client information form in the form attached as **Error! Reference source not found.**A to the subscription agreement (or as otherwise provided by us from time to time);
- (c) **for investors who wish to subscribe under the “offering memorandum” exemption and are resident in British Columbia and Newfoundland and Labrador**, a signed and completed risk acknowledgement form in the form attached at page 13 to the subscription agreement (or as otherwise provided by us from time to time);
- (d) **for investors who qualify as “accredited investors”** (as described below), a signed and completed accredited investor certificate in the form attached at page 7 of the subscription agreement (or as otherwise provided by us from time to time);
- (e) a good quality photocopy of photo identification (front and back) which we use to confirm your identity;
- (f) your payment of the purchase price by certified cheque or other means acceptable to us (in an amount not less than the minimum required investment);
- (g) if your payment of the purchase price is not made by a certified personalized cheque, you must also provide us with a good quality photocopy of your driver’s license (front and back), passport, birth certificate, record of landing or permanent resident card, properly attested by a commissioner of oaths or guarantor. For more information, please see the subscription instructions described in Error! Reference source not found. to this Offering Memorandum (or as otherwise provided by us from time to time); and
- (h) any additional documentation or information required by us.

By applying to invest in the Fund, you are indicating your consent to our collection, use and disclosure of your personal information in the manner described in our Privacy Policy attached to this Offering Memorandum as Error! Reference source not found..

We may in our discretion, refuse to accept your subscription to purchase Units even if you provide us with the documentation and information prior to the deadlines listed above. For example, we may refuse your subscription if we do not believe an investment in the Fund is appropriate for you. We may also close the Fund to new investors from time to time. If we have decided not to accept your subscription we will notify you of our decision within five business days of receiving the required documentation and information from you.

The purchase price of the Units will be based on the Class A, Class F, Class I, Class O or Class X Net Asset Value, as the case may be, determined as at the close of business on the Purchase Date on which we accept your order. See the section above called *The Limited Partnership Agreement – Determination of Net Asset Value*.

We have established minimum investment amounts for initial investments and additional investments. The terms of the prospectus exemptions which we rely upon to issue Units to you may require a higher minimum investment depending on the jurisdiction where you live. These minimum amounts may vary depending on whether you qualify as an “accredited investor” within the meaning of applicable laws or if you are an individual. The definition of accredited investor is explained in the subscription agreement attached as Error! Reference source not found.. As at the date of this Offering Memorandum, the applicable minimum investment amounts are set out in the table below. We may in our discretion waive the minimum investment amounts established by us, accept investments in other minimum amounts permitted under applicable securities laws, or require higher minimum investments than those set out below.

Jurisdiction Where Investor Resides	Minimum Investment							
	Accredited Investors				Other Investors			
	Initial Investment			Additional Investment	Initial Investment ⁽²⁾			Additional Investment
	Series A	Series F	Series X	All series	Series A	Series F	Series X	All series
British Columbia	\$5,000	\$5,000	N/A	\$1,000	\$5,000	\$25,000	N/A	\$1,000
Alberta	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Saskatchewan	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Manitoba	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Ontario	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Québec	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
New Brunswick	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Nova Scotia	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Prince Edward Is.	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
Nfld and Labrador	\$5,000	\$5,000	N/A	\$1,000	\$5,000	\$25,000	N/A	\$1,000
Yukon Territory	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000
Nunavut	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾
N.W.T.	\$5,000	\$5,000	N/A	\$1,000	\$150,000	\$150,000	N/A	\$1,000 ⁽¹⁾

⁽¹⁾ You may only make additional investments in this minimum amount if: (a) you previously acquired Units for an aggregate purchase price of not less than \$150,000, and (b) at the time you make your additional investment, your existing investment has a Net Asset Value of not less than \$150,000. If you do not meet both of these conditions, your minimum additional investment will be \$150,000.

⁽²⁾ Except in the provinces of British Columbia and Newfoundland and Labrador, the initial investment amount only applies to investors that are no individuals.

Any subscription funds received by us will be held in the Fund’s general bank account until the Units subscribed for will be issued (if we have accepted your subscription). These funds will not be

segregated for your account. You will not be entitled to any interest on any subscription funds delivered to us. Any interest earned on such funds will belong to the Fund.

You will become a Unitholder after we accept your subscription agreement and the Fund has received the purchase price for your Units. For purchasers relying on the “offering memorandum” prospectus exemption, we will hold your subscription monies in trust for you until the later of: (i) midnight on the second business day after you sign your agreement to purchase Units, and (ii) the day you become a Unitholder.

You and your professional advisors should review all subscription documents before you purchase Units.

PROCEEDS OF CRIME (MONEY LAUNDERING) LEGISLATION

In order to comply with Canadian legislation aimed at the prevention of money laundering, the Manager may require additional information concerning investors. If, as a result of any information or other matter which comes to the Manager’s attention, any director, officer or employee of the Manager, or its professional advisors, knows or suspects that an investor is engaged in money laundering, such person is required to report such information or other matter to the Financial Transactions and Reports Analysis Centre of Canada and such report shall not be treated as a breach of any restriction upon the disclosure of information imposed by law or otherwise.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Fund and the Manager, the following is a fair summary of the principal Canadian federal income tax considerations, as of the date hereof, with respect to the acquisition, ownership and disposition of Units generally applicable to an individual Unitholder, other than a trust, who for purposes of the *Income Tax Act* (Canada) (defined above as the Tax Act), is resident in Canada and holds Units as capital property.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the “**Regulations**”), proposals for specific amendments to the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date of this Offering Memorandum, and counsel’s understanding of the current administrative practices and policies of the Canada Revenue Agency. This summary does not take into account or anticipate any changes in law, whether by legislative, regulatory, administrative or judicial action, or take into account provincial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to constitute advice to any particular investor. You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you.

Taxation of the Fund

The following is a general summary of certain Canadian federal income tax considerations applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires the Units pursuant to this Offering Memorandum and who, for the purposes of the Tax Act, is a Canadian resident individual (other than a trust), deals at arm’s length and is not affiliated with the Fund and holds the Units as capital property. Units will generally be capital property to a Unitholder if the Unitholder acquires Units for the purpose of earning income and the Unitholder does not hold Units in the course of carrying on a business, with a primary or secondary intention of selling Units, or otherwise in the course of an adventure in the nature of trade. Unitholders should consult with their own tax advisors to determine whether Units will be capital property based on their particular circumstances.

This summary does not apply to a Unitholder who holds Units on income account or to a Unitholder that is a “financial institution” for purposes of the “mark-to-market” rules contained in the Tax Act and assumes that the Fund itself will not be a “financial institution” for such purpose. This summary assumes that no interest in the Fund and no securities in the Portfolio of the Fund will be a “tax shelter investment” within the meaning of section 143.2 of the Tax Act and that the Fund will, at all material times, be a “Canadian partnership” for purposes of the Tax Act.

Computation of Income or Loss of the Fund

The Fund is not subject to tax under the Tax Act unless it is a “SIFT partnership”. Generally, a partnership is a SIFT partnership if it meets the following criteria: (i) the partnership is a Canadian resident partnership; (ii) “investments” (as defined in the Tax Act) in the partnership are listed or traded on a stock exchange or other public market; and (iii) the partnership holds one or more “non-portfolio properties”. It is not intended that any “investment” in the Fund will be listed on a stock exchange or other public market and, accordingly, the Fund is not expected to be a SIFT partnership. However, the Fund will be required to calculate its income or loss in accordance with the Tax Act for each fiscal year of the Fund as if it were a separate person resident in Canada. The Fund’s fiscal year-end is December 31.

The Tax Act contains anti-avoidance provisions aimed broadly at preventing Canadian taxpayers from avoiding or deferring taxation by investing funds in low-tax jurisdictions through entities not subject to the foreign affiliate rules. Briefly, the provisions apply where a taxpayer holds an interest in property that is an interest in or a debt of a non-resident entity, which includes, for example, a corporation not resident in Canada, a partnership, organization, fund or other entity not resident or is not situated in Canada.

Generally, if the Fund invests in such entities, it will have an income inclusion computed as a prescribed rate of interest applied to the specific cost of the property. Accordingly, the Fund may be required to include in computing its income amounts that the Fund has not earned or received and Unitholders will be taxable on their share of such amounts.

The Fund will be required to include in computing its income for each taxation year all interest that accrues to it to the end of the year or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. The Fund will generally also be required to include in income any other income earned on its investments.

The Fund will acquire currency hedging and/or investment instruments under which it may receive or be required to pay amounts that are not denominated in Canadian dollars. Income receipts and payments, the costs and proceeds of disposition of securities and financial instruments, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate prevailing at the time of the transactions. Accordingly, the Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars. The timing and characterization of gains and losses on currency hedging transactions may not match that of the losses and gains realized on the underlying investment to which the hedge relates.

In computing incomes for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income. The Fund may deduct the reasonable costs and expenses incurred by it and not reimbursed in connection with the Offering of Units at a rate of 20% per year, pro-rated where the Fund’s taxation year is less than 365 days.

Taxation of Unitholders

Each person who is a Unitholder during a fiscal year of the Fund will be required to include in computing its income, for the taxation year in which the fiscal year ends, its share of the Fund’s income or, subject to

the “at-risk” rules described below, will generally be permitted to deduct in computing its income for that taxation year its share of the Fund’s losses for the fiscal year, regardless of whether the Unitholder has received or will receive any distributions from the Fund and regardless of whether it held its Units throughout the fiscal year. In general, a Unitholder’s share of the Fund’s income or loss from any source or from sources in a particular place will be treated as if it were the income or loss of the Unitholder from that source or from sources in that particular place, and any provisions of the Tax Act applicable to that type of income or loss will generally apply to the Unitholder in respect of such income or loss.

Generally, any distribution from the Fund to a Unitholder of the Fund’s income or capital will reduce the adjusted cost base of the Unit held by such Unitholder. The reduced adjusted cost base can increase the gain (or decrease the loss) resulting from the disposition of a Unit (see section below entitled *Disposition and Redemption of Units*).

A reduction of a unit’s adjusted cost base will also decrease a Unitholder’s “At-Risk” amount (see section below entitled *The “At-Risk” Rules*).

The income or loss of the Fund for a fiscal year will be allocated to Unitholders in accordance with the provisions of the Limited Partnership Agreement. The Fund will furnish information to each Unitholder to assist the Unitholder in reporting its share of the Fund’s income or loss for the fiscal year. However, the responsibility for filing any required tax returns reporting the Unitholder’s share of the income or loss of the Fund for a fiscal year falls solely upon each Unitholder.

The “At-Risk” Rules

The Tax Act provides that, notwithstanding the income or loss allocation provisions of the Limited Partnership Agreement, any losses of the Fund from a business or property allocated to a Unitholder will be deductible by such Unitholder in computing its income for a taxation year only to the extent that the Unitholder’s share of the loss does not exceed the Unitholder’s “at-risk amount” in respect of the Fund at the end of the year. In general terms, the “at-risk amount” of a Unitholder in respect of the Fund at the end of a fiscal year of the Fund is: (i) the adjusted cost base of the Unitholder’s Units at that time, plus (ii) its share of the income of the Fund for the fiscal year, less the aggregate of (iii) all amounts owing by the Unitholder to the Fund or to a person with whom the Fund does not deal at arm’s length, and (iv) subject to certain exceptions, any amount or benefit to which the Unitholder is entitled to receive where the amount or benefit is intended to protect the Unitholder from any loss it may sustain by virtue of being a member of the Fund or holding or disposing of Units.

A Unitholder’s share of any Fund loss that is not deductible by the Unitholder in the year because of the “at-risk rules” is considered to be its “limited partnership loss” in respect of the Fund for that year. Such limited partnership loss may be deducted by the Unitholder in any subsequent taxation year against any income for that year to the extent that the Unitholder’s “at-risk amount” at the end of the Fund’s fiscal year ending in that year exceeds its share of any loss of the Fund for that fiscal year.

Disposition and Redemption of Units

On the actual or deemed disposition of a Unit (including on the redemption of a unit) a Unitholder will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition of the unit, net of any reasonable costs of disposition, exceed (or are exceeded by) the Unitholder’s adjusted cost base of the unit. One-half of any such capital gain (a “taxable capital gain”) must be included in computing income and one-half of any such capital loss (an “allowable capital loss”) may be deducted from taxable capital gains in accordance with the rules in the Tax Act.

In general, the adjusted cost base of Units to a Unitholder at a particular time is the amount paid by the Unitholder to acquire the Units, plus the aggregate of the Unitholder’s share of any income and the non-

taxable portion of capital gains of the Fund for fiscal periods of the Fund ending before that time, less the aggregate of the Unitholder's share of the losses of the Fund (other than any portion of such losses not deducted by reason of the application of the "at-risk rules") and the non-allowable portion of capital losses of the Fund for fiscal periods of the Fund ending before that time and any distributions made to the Unitholder by the Fund before that time. The adjusted cost base of the Units of a Unitholder who ceased to be a partner in a fiscal year of the Fund would generally be increased (decreased) by the income (loss) allocated to the Unitholder for the fiscal year for purposes of computing any gain or loss on the disposition of Units. In addition, the adjusted cost base of a Unitholder's Units will be reduced by the unpaid principal amount of any indebtedness of the Unitholder for which recourse is limited to the extent that such indebtedness can reasonably be considered to have been used to acquire the Units.

If at any time the Fund redeems all of a Unitholder's Units but retains a holdback of the redemption proceeds, the Unitholder will generally be deemed not to have disposed of the Units until the later of the end of the fiscal year in which the Units were redeemed and the date at which payment of the holdback is satisfied.

If a Unitholder's adjusted cost base of Units held as capital property is negative at the end of a fiscal year of the Fund, the amount by which it is negative will be deemed to be a capital gain realized by the Unitholder at that time and the Unitholder's adjusted cost base of its Units will be increased thereafter by the amount of such deemed capital gain. If the adjusted cost base of the Units is positive at the end of a subsequent fiscal year of the Fund, the Unitholder may generally elect to treat such positive amount as a capital loss to the extent it does not exceed the previous deemed capital gain, and the adjusted cost base of Units would be reduced by such elected amount. Unitholders are responsible to track and calculate their own adjusted cost base for tax purposes.

Alternative Minimum Tax

Alternative minimum tax is payable by individuals on their "adjusted taxable income". In general, "adjusted taxable income" is computed by revising the ordinary income determination by adding back certain deductions otherwise permitted under the Tax Act. A Unitholder's "adjusted taxable income" for a taxation year will generally be increased by losses of the Fund allocated to and deducted by the Unitholder and by the amount that any interest deducted by the Unitholder in respect of the acquisition of Units exceeds the Unitholder's share of the Fund's net income for fiscal periods that end in the year. Capital gains and dividends from taxable Canadian corporations allocated to a Unitholder, and any capital gain realized by the Unitholder on the disposition of a Unit may give rise to an increased liability for alternative minimum tax.

Tax and Information Returns

Each Unitholder is responsible for filing its own tax return reporting its share of the income or loss of the Fund in its taxation year. The Manager will provide Unitholders with all information with respect to their investment in Units of the Fund necessary to enable the Unitholders to complete their tax returns.

Unitholders will also be required to file an annual information return reporting, among other things, the income or loss of the Fund for the fiscal period and the names and shares of such income or loss of all of the partners. The filing of the annual information return by the Manager on behalf of the Unitholder will satisfy this requirement and, the Manager will file the annual information return.

Eligibility for Investment

A Unit will not be a "qualified investment" under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans or tax-free savings account.

COMPENSATION PAID TO SELLERS AND FINDERS

No selling commissions or fees will be paid by the Fund or us in connection with the sale of Units under this Offering Memorandum. However, if you acquire your Class A or Class X Units through an approved salesperson of a qualified dealer, we will pay a service fee to that salesperson (or to the dealer for that salesperson) for ongoing advice and service provided to you. We will pay this service fee for as long as you continue to hold such Class A or Class X Units through the qualified dealer. Service Fees will be calculated and payable by the Manager on a quarterly basis to qualified dealers for salespersons of the qualified dealer with client assets invested in the Fund having an aggregate Net Asset Value of not less than \$100,000. Service Fees will be based on the aggregate value of the clients' investments in the Fund at the end of each month and be equal to 1/12 of the relevant percentage of the Net Asset Value of the Class A or Class X Units held by the clients on the last business day of that month. No Service Fees are paid for Class F Units. Service Fees may be modified or discontinued by the Investment Manager at any time.

Your dealer may charge you an up-front fee when you purchase your Units. This fee is negotiated between you and your dealer. Units issued on a reinvestment of distributions as described under "Distributions" will not be subject to a sales commission. No commissions or fees are payable in connection with the redemption of your Units, except for early redemptions. See *Redemption of Units*.

In addition, the Manager may from time to time elect to share up to 10% of its Performance Fee with approved dealers in respect of Class A or Class F Units of the Fund held by clients of certain approved salespersons. This portion of the Performance Fee would be paid annually or quarterly, at the discretion of the Manager, on or before the end of the month following the year or quarter-end, as applicable, in respect of the aggregate value of such clients' investments in the Fund as of the last Valuation Date of the preceding calendar year or quarter, as applicable. The Manager may vary or discontinue the amount or payment of service fees or sharing of the performance fee at any time.

RISK FACTORS

The purchase of Units involves a number of significant risk factors. In addition to the factors set forth elsewhere in this Offering Memorandum, you should consider the following:

Reliance on the Manager

The Fund will be dependent on the knowledge and expertise of the Manager for advisory and portfolio management services. The Manager will depend to a great extent on the services of Charles Marleau and the loss of the services of Mr. Marleau for any reason could impair the ability of the Manager to provide advisory and portfolio management services to the Fund. The Manager may not be able to find a qualified replacement or may require an extended period of time to do so, which may prevent the Fund from achieving its investment objective.

No Assurance of Achieving Investment Objective

There can be no assurance that the Fund will meet its investment objective or that an investment in Units will earn any positive return. An investment in Units is speculative and appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. An investment in the Fund is not intended as a complete investment program. The Fund's investment strategies utilize such investment techniques and instruments such as futures and option transactions, margin transactions and short sales which practices can, in certain circumstances, increase any losses. Investors should review closely the investment objective and investment strategies to be utilized by the Fund as outlined herein to familiarize themselves with the risks associated with an investment in the Fund.

Performance and Marketability of Underlying Securities

The Net Asset Value per Unit will vary in accordance with the value of the securities held by the Fund. The value of securities owned by the Fund will be affected by factors beyond the control of the Manager or the Fund. There is no market for the Units and their resale, transfer and repurchase are subject to restrictions imposed by the Limited Partnership Agreement, including consent by the General Partner, and applicable securities legislation. See *Resale Restrictions*. Consequently, holders of Units may not be able to liquidate their investment in a timely manner and the Units may not be readily accepted as collateral for a loan.

Risks of Short Sales

As one of its investment strategies, the Fund may engage in short selling securities. A short sale of a security may expose the Fund to losses if the price of the security sold short increases because the Fund may be required to purchase such securities in order to cover its short position at a higher price than the price at which such securities were sold short. The potential loss on the short sale of securities is unlimited. In addition, a short sale entails the borrowing of the security in order that the short sale may be transacted. There is no assurance that the lender of the security will not require the security to be repaid before the Fund wishes to do so, thereby requiring the Fund to borrow the security elsewhere or purchase the security in the market at an unattractive price. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that a borrowing fee will not increase during the borrowing period, adding to the expense of the short sale strategy. In addition, there is no assurance that the security sold short can be repurchased due to supply and demand constraints in the marketplace.

Capital May be Eroded by Distributions

The Fund intends to make quarterly distributions to Unitholders. The Manager expects that quarterly distributions will be derived primarily from net realized capital gains and income from the Portfolio. However, quarterly distributions may include a return of Unitholder capital if net realized capital gains and income in the Portfolio are insufficient. This would result in a reduction the NAV of the Fund and can have taxation implications for Unitholders. Over the long term, return of capital could eventually deplete the Fund of its assets.

Counterparty Risk

To the extent that any counterparty with or through which the Fund engages in trading and maintains accounts does not segregate the Fund's assets, the Fund will be subject to a risk of loss in the event of the insolvency of such person. Even where the Fund's assets are segregated, there is no guarantee that in the event of such as insolvency, the Fund will be able to recover all of its assets. In purchasing call or put options or entering into forward or future contracts, the Fund is subject to the credit risk that the counterparties (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet their respective obligations and that the Fund may incur losses as a result.

Hedge Risks

Although hedging reduces risk, it does not eliminate it entirely. Losses can still result in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) anticipated transactions which are altered or aborted; (ii) the inability to hedge off risk, due to the difficulty of borrowing the offsetting security; (iii) a cease trade order being issued in respect of the underlying security; (iv) the inability to maintain a short position, due to the repurchase or redemption of shares by the issuing company; and (v) lack of liquidity during market panics. To protect the Fund's capital against the occurrence of such events, the Manager will attempt to maintain a well-diversified Portfolio.

Use of Short-Term Margin Borrowings

The Fund's anticipated use of short-term margin borrowings results in certain risks to the Fund. Trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The level of interest rates generally, and the rates at which the Fund can borrow also may adversely affect the return of the Portfolio. Trading on margin and other leveraging strategies can increase the profit potential of a securities Portfolio, but concurrently increase the risk of loss.

High Volume of Trades

The Fund may, from time to time, engage in trading which results in a high Portfolio turnover rate (such as a rate greater than 70%). The higher the Fund's Portfolio turnover rate in a year, the greater the chance that a Unitholder will receive a capital gains distribution. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

Debt Securities

The Portfolio may include corporate and government debt securities, including debt securities which have low ratings from credit rating agencies or are unrated. Such debt securities may be regarded as speculative with respect to the issuer's ability to meet principal and interest payment obligations. They may also be more susceptible to adverse economic and competitive industry conditions than more highly rated securities and be less liquid than such securities. An analysis of the credit-worthiness of issuers of such debt may be more complex than for issuers of higher-quality debt obligations.

Leverage

The Fund may incur indebtedness in the form of margin debt. In providing margin to the Fund, the Fund's prime broker will be subject to capital margin requirements of the Investment Industry Regulatory Organization of Canada. Such indebtedness may be secured by the Portfolio. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns (both annual distributions and capital). If the securities in the Portfolio suffer a substantive decrease in value, the leverage component will cause a decrease in Net Asset Value in excess of that which would otherwise be experienced. In the event that any loan is called by the lender, the Fund may be required to liquidate the Portfolio to repay the indebtedness at a time when the market for the securities in the Portfolio may be depressed, thereby forcing the Fund to incur losses.

Currency risk

The Fund's assets and liabilities are valued in Canadian dollars. If the Fund buys foreign securities, however, they are purchased with foreign currency. The U.S. dollar, for example, fluctuates in value against the Canadian dollar. While the Fund can benefit from changes in exchange rates, an unfavourable move may reduce, or even eliminate, any return on a U.S. investment. The Fund's ability to make distributions or process redemptions assumes the continuing free exchange of the currencies in which the Fund is invested. However, certain foreign governments sometimes restrict the ability to exchange currencies.

Tax Liability Risk

The Net Asset Value or Class Net Asset Value per Unit of the Fund will be calculated on the basis of both realized gains and losses and accrued, but unrealized, gains and losses. In computing each Limited Partner's share of income or loss for purposes of the Tax Act, generally only realized gains and other recognized amounts will be taken into account. Therefore, the change in Net Asset Value or Class Net Asset Value of a Limited Partner's Units may differ from such Limited Partner's share of income and loss

for tax purposes. Furthermore, investors may be allocated income for tax purposes and not receive any cash distributions from the Fund, particularly those Limited Partners participating in the Automatic Reinvestment Plan. In addition, with the combination of the following factors: (1) the principal source of revenue for the Fund is in the form of income and generally less than all income is distributed before the last month of the fiscal year, (2) all undistributed income is distributed at the fiscal year end, consequently, Unitholders acquiring Units during or near the end of a fiscal year may receive a higher proportion of income distributions and the consequent tax exposure, than other Unitholders. Potential investors are cautioned that they should obtain tax advice from a qualified tax advisor before investing in Units.

U.S. & Foreign Investment Risk

Pursuant to the Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-U.S. Tax Convention entered into between Canada and the U.S. on February 5, 2014 (the “**IGA**”), and related Canadian legislation, the Fund and/or the registered dealers are required to report certain information with respect to Unitholders who are U.S. residents and U.S. citizens (including U.S. citizens who are residents or citizens of Canada), and certain other “U.S. Persons” as defined under the IGA (excluding registered plans such as RRSPs), to the Canada Revenue Agency (the “**CRA**”). It is expected that the CRA will then exchange the information with the U.S. Internal Revenue Service. In addition, to meet the objectives of the Organization for Economic Co-operation and Development Common Reporting Standard (the “**CRS**”), the Fund and/or the registered dealers are required, starting July 1st, 2017, under Canadian legislation to identify and report to the CRA details and certain financial information relating to Unitholders in the Fund (excluding registered plans such as RRSPs) who are residents in a country outside of Canada and the U.S. which has adopted the CRS. The CRA is expected to provide that information to the tax authorities of the relevant jurisdiction that has adopted the CRS.

Performance Fee

The payment of the performance fee to the Manager may create an incentive for it to cause the Fund to make investments that are riskier or more speculative than if there were no performance fee. Since the performance fee is calculated on a basis that includes unrealized appreciation of the Fund’s assets, the fee may be greater than if it were based solely on realized gains. In addition, the ordinary income of the Fund (including dividends and interest received) is included in the calculation of the fee.

Where the NAV in respect of a particular Class falls below the High Water Mark, this deficit is effectively carried forward in the Performance Fee calculation for subsequent Periods, since no Performance Fee can be earned until the High Water Mark has been passed and then only in the amount by which the Performance Change is greater than the relevant Preferred Return. This notional deficit is carried forward for the benefit of all investors in that Class. New subscribers to that Class who purchase at a NAV which is below the High Water Mark during the subsequent Periods benefit from the larger margin between the NAV at the time of their purchase and the point at which a Performance Fee is earned. See the section above called *Fees*.

Possible Loss of Limited Liability

Under applicable law, the General Partner has unlimited liability for the debts, liabilities, obligations and losses of the Fund to the extent that they exceed the assets of the Fund. Generally, the liability of each Limited Partner for the debts, liabilities, obligations and losses of the Fund is limited to the value of money or other property the Limited Partner has contributed or agreed to contribute to the Fund. However, the limitation of liability of a Limited Partner may be lost if a Limited Partner takes part in the control of the business of the Fund.

Illiquid Assets

The Fund may invest in illiquid assets and there can be no assurance that the Fund will be able to dispose of such investments. If the Manager is unable or determines that it is inappropriate to dispose of some or all of the Portfolio securities if and when the Fund is terminated, Unitholders may, subject to applicable laws, receive distributions of securities in specie, for which there may be an illiquid market or which may be subject to resale restrictions of indefinite duration. A considerable period of time may elapse between the time a decision is made to sell such assets and the time the Fund is able to do so, and the value of such assets could decline during such period.

Not a Public Mutual Fund

The Fund is not subject to the restrictions placed on public mutual funds to ensure diversification and liquidity of the Fund's Portfolio. The Fund is also not subject to National Instrument 81-107 which requires public investment funds to appoint an independent review committee to review and provide input on conflicts of interest between funds and their managers.

Changes in Legislation

There can be no assurance that income tax or securities laws, or the interpretation or application thereof, will not be changed in a manner that adversely affects the Fund or the Unitholders.

Conflicts of Interest

The Manager, its affiliates and their respective directors and officers may provide investment advisory and portfolio management services to other investment funds or other clients, such as the other investment vehicles discussed in this Offering Memorandum. See the section called *Management of the Fund* –

Robert Boisjoli acts as managing director of Atwater Financial Group, a company specializing in financial advisory work including mergers and acquisitions, and a partner at Robert Boisjoli & Associates S.E.C., a consulting firm specializing mainly in business valuations. Robert has been the co-founder of three operating companies where he has acted as both Chief Financial Officer and Chief Executive Officer, one of which has been sold to a London based publicly listed company. Robert is a Fellow Chartered Accountant (FCPA, FCA) and a Chartered Business Valuator (CBV). Robert sits on the board of directors of various private and public companies where he is also the audit committee chairman. He was previously an investment banker with various Canadian securities firms. Robert also is a Board Member of various not-for-profit organizations in the community and within the accounting profession.

Alain Lizotte acts as Chief Financial Officer and Chief Compliance Officer of the Manager. He is responsible for managing and overseeing all matters relating to financial reporting, financial controls, compliance and general administration of the firm and the investment funds it manages. Prior to Palos, Alain has held senior financial positions in large and medium-size Canadian companies. Alain is a member of the Comptables professionnels agréés du Québec.

Peter J. Malouf acts as President at P. J. Malouf & Co., a private investment company. He is also a director of several public and private companies both in Canada and the United States, including Chairman of Sonomax Technologies Inc. Peter is past Chairman of the Board of Directors of Marianopolis College and The Study School and currently is an active board member of various not-for-profit organizations, including the Montreal Fluency Center. Peter chairs the Malouf Family Fund an active philanthropic fund through the Foundation of Greater Montreal.

Charles Marleau acts as President, Senior Portfolio Manager and Ultimate Designated Person of the Manager. He is responsible for managing and trading on behalf of the investment funds and supervises administration, investor relations and compliance. Charles is a member of the Independent Review

Committee of an investment fund of Goodman & Company, Investment Counsel Inc. He also serves on the Board of Directors of numerous private companies. Moreover, Charles is a member of the Entrepreneurs Organization. He graduated from McGill University with a Bachelor's degree in Economics and obtained the Chartered Investment Manager designation.

Other Investment Vehicles. None of the directors or officers of the Manager will devote his full time to the business and affairs of the Fund.

Redemptions of Units

Substantial redemptions of Units may require the Fund to sell assets it would not otherwise sell and at less than optimal prices in order to raise the necessary cash to fund redemptions. Substantial redemptions may also require the Fund to sell assets to rebalance the Portfolio to reflect a smaller asset base. A smaller asset base could limit the investment opportunities available to the Fund and increase its expense ratio. Such factors could adversely affect the value of the Units redeemed and of the Units remaining outstanding. The estimated Performance Fee, if any, payable to the Manager will be accrued as a liability of the Fund, reducing the Net Asset Value per Unit of the Fund. The redemption price received by an investor whose Units are redeemed will reflect an accrual for the Performance Fee, based on any increase in Net Asset Value per Unit from the beginning of the fiscal year through the date of redemption. However, the accrual of the Performance Fee may subsequently be reversed if the Fund's performance declines, and no adjustment to a redemption price will be made after it has been fixed. See *Redemption of Units*.

Potential Indemnification Obligations

Under certain circumstances, the Fund might be subject to significant indemnification obligations in respect of the Manager or certain parties related to it. The Fund will not carry any insurance to cover such potential obligations and none of the foregoing parties will be insured for losses for which the Fund has agreed to indemnify them. Any indemnification paid by the Fund would reduce the Fund's Net Asset Value and, by extension, the value of the Units.

No Involvement of an Underwriter

No underwriter has been involved in establishing the terms of this Offering or the structure of the Fund or in reviewing and investigating the background of the Manager.

Valuation of the Fund's Investments

The Net Asset Value of the Units will vary directly with the market value and return of the investment Portfolio of the Fund. While the Fund is independently audited by the auditors on an annual basis in order to ensure as fair and accurate a pricing as possible, valuation of the Portfolio securities and other investments may involve uncertainties and judgmental determinations and, if such valuations should prove to be incorrect, the Net Asset Value of the Fund and its Units could be adversely affected. Independent pricing information may not at times be available regarding certain of the Fund's securities and other investments. Valuation determinations will be made in good faith in accordance with the valuation principles set out herein as they may be amended from time to time. See the section above called *Valuation Principles*.

Although the Fund generally will invest in exchange-traded and liquid over-the-counter securities, the Fund may from time to time have some of its assets in investments that by their very nature may be extremely difficult to value accurately. To the extent that the value assigned by the Fund to any such investment differs from the actual value, the Net Asset Value per Unit may be understated or overstated, as the case may be. In light of the foregoing, there is a risk that if you redeem all or part of your Units while the Fund holds such investments, you will be paid an amount less than you might have been paid if the actual value of such investments is higher than the value designated by the Fund. Similarly, there is a risk that an investor might, in effect, be overpaid if the actual value of the investor's investments is lower than the value designated by the Fund in respect of a redemption. In addition, there is risk that an investment in the Fund by a new investor (or an additional investment by an existing Unitholder) could

dilute the value of your investment if the actual value of such investments is higher than the value designated by the Fund. Further, there is risk that a new Unitholder (or an existing Unitholder that makes an additional investment) could pay more than it might otherwise if the actual value of such investments is lower than the value designated by the Fund. We do not intend to adjust the Net Asset Value of the Fund retroactively.

Class Risk

The Fund has different Classes of Units. If the Fund cannot pay the fees and expenses attributable to one Class of Units using the proportionate share of the Fund's assets attributable to that Class, the Fund will be required to pay those fees and expenses out of one or more of the other proportionate shares of the Fund's assets attributable to another Class. This may reduce the value of your investment in the Fund.

Derivatives

The Fund will invest in and use derivative instruments for hedging and non-hedging purposes to the extent considered appropriate by us, as Manager of the Fund. Derivatives are types of investments the value of which is based on, or derived from, the value or performance of another investment, such as a security, a currency, a commodity or a market index. There are many types of derivatives, including options, futures and forward contracts.

Investment funds often invest in derivatives to reduce the risks associated with other investments or to help offset losses on other investments. The use of derivatives in this way is referred to as "hedging". Investment funds may also use derivatives for other reasons, including helping to achieve their investment objectives, increasing returns, reducing the transaction costs associated with direct investments and positioning the funds to profit from declining markets. Although the use of derivatives for hedging or other purposes can be effective, derivatives also have certain risks.

Here are some of the most common risks:

- There is no guarantee that the use of derivatives for hedging will be effective.
- Hedging does not prevent changes in the market value of the investments in a Fund's Portfolio or prevent losses if the market value of the investments falls.
- Hedging can prevent the Fund from making a gain if the value of the underlying security, currency, commodity or market index rises, or if interest rates fall.
- The Fund might not be able to place a hedge if other investors are expecting the same change.
- There is no guarantee that the Fund will be able to buy or sell a derivative to make a profit or limit a loss.
- There is no guarantee that the other party to a derivative contract will meet its obligations.
- Derivatives traded on foreign markets may be less liquid and have greater credit risk than similar derivatives traded on North American markets.
- Exchanges set daily trading limits on options and futures contracts, and these limits could prevent the Fund from completing a contract.
- The cost of a particular derivatives contract may increase.
- The price of a derivative may not accurately reflect the value of the underlying security or index.

- The Tax Act, or its interpretation, may change in respect of the tax treatment of derivatives.
- A large percentage of the assets of the Fund may be placed on deposit with one or more counterparties which would expose the Fund to the credit risk of those counterparties.

Foreign Investment Risks

The Fund intends to invest a portion of its capital in foreign securities. As a result, income or losses may be affected by fluctuations in the rates of exchange between the Canadian dollar and the foreign currencies of the countries in which the Fund holds investments. We may or may not hedge the currency risks for significant investment transactions denominated in currencies other than Canadian dollars.

The values of foreign investments are affected by changes in currency rates or exchange control regulations, application of foreign tax laws, including withholding taxes, changes in governmental administration or economic or monetary policy (in Canada or abroad) or changed circumstances in dealings between nations. Costs are incurred in connection with conversions between various currencies. In addition, foreign brokerage commissions are generally higher than in Canada, and foreign securities markets may be less liquid, more volatile and less subject to governmental supervision than in Canada. Investments in foreign countries could be affected by other factors not present in Canada, including expropriation, confiscatory taxation, lack of uniform accounting and auditing standards, and potential difficulties in enforcing contractual obligations, and could be subject to extended settlement periods. Furthermore, the value of securities that are issued by a company in a developing market may be lower, as they may be less liquid and more volatile than those issued by similar companies in North America. In general, investments in more developed markets, such as Western Europe, have lower foreign market risk, whereas investments in emerging markets, such as Southeast Asia or Latin America, have higher foreign market risk.

Credit Risk

The Fund may, from time to time, invest a portion of its assets in debt securities. When the Fund invests in debt securities, such as bonds, it is essentially making a loan to the company or the government issuing the security. The financial condition of an issuer of a debt security may cause it to default or become unable to pay interest or principal due on the security. If an issuer defaults, the affected security could lose all of its value, be renegotiated at a lower interest rate or principal amount, or become illiquid. Furthermore, debt securities are often rated by organizations such as Standard & Poor's, and if a security's rating is downgraded because the rating service feels the issuer may not be able to pay investors back, the value of that investment may fall. Higher yielding debt securities of lower credit quality have greater credit risk than lower yielding securities with higher credit quality.

Equity Risk

The Fund invests in equity securities. The value of equity securities are affected by specific company developments, by stock market conditions and by general economic and financial conditions in those countries where the investments are listed for trading. Investment funds which invest in equities generally tend to be more volatile than fixed income investment funds, and the value of their Units may vary more widely than fixed income investment funds.

Interest Rate Risk

The Fund invests in securities with fixed interest rates. The value of fixed rate securities are affected by changes in market interest rates. Additionally, the Fund holds a limited amount of cash subject to variable interest rates which exposes the Fund to cash flow interest rate risk.

Political Risk

Political risk is the risk that a certain industry or company within that industry may be negatively impacted by legislative change. Relevant risk factors include the imposition of new taxes, regulatory or legal obligations or industry related restrictions.

Allocation of Investment Opportunities

The size and mandate of the various funds that the Manager and Charles Marleau advise differ and the portfolios are not identical. As a consequence, we may purchase or sell a security for one account prior to other accounts. This could occur, for example, as a result of the specific investment objectives of the account, different cash resources arising from contributions or withdrawals, or the purchase of a small position to assess the overall investment desirability of a security. If the availability of any particular security is limited and that security is appropriate for the investment objective of one or more other accounts, any purchase of that security will be allocated on an equitable basis in accordance with our Trade Allocation Policy. You may request a copy of this policy by contacting us at the address, numbers or e-mail address set out above in the section called *The Fund*.

Absence of Regulatory Oversight

As the Fund currently only offers Units by way of private placement, its activities are not governed by National Instrument 81-102 of the Canadian Securities Administrators, which regulates the activities of mutual funds which have offered securities to the public pursuant to a prospectus.

Net Asset Value

The Net Asset Value of the Fund will fluctuate with changes in the market value of the Fund's investments. These changes in market value may occur as the result of various factors, including general economic and market conditions, international currency fluctuations and international developments. Accordingly, the Net Asset Value per Unit at any Valuation Date may be more or less than your original purchase price.

No Independent Management

The Fund does not have independent management and will be relying on us, in our capacity as manager of the Fund, for the day-to-day management and operations of the Fund, and to advise on the purchase and sale of securities for the Fund. We will have conflicts of interest in allocating management time, services and functions among the Fund and any other funds and portfolios which we organize, or provide management services to, as well as other business ventures in which we are or may become involved. Further, the officers and directors of the Manager will devote only such time to the affairs of the Fund as they, within their sole discretion, exercised in good faith, determine to be necessary to carry out their obligations to the Fund. Charles Marleau will allocate his time between the Fund and other clients as he sees appropriate.

Personal Trading

The Manager and Charles Marleau may personally invest in the same securities as those invested in by the Fund. If this occurs, there may be a conflict between the Manager's and Charles Marleau's interests and the interests of the Fund in terms of the timing of trades and the availability of investments. If such situations arise, the Manager and Charles Marleau will be governed by our Personal Trading Policy. You may request a copy of this policy by contacting us at the address, numbers or e-mail address set out above in the section called *The Fund*.

Shareholder Activism

From time to time, we identify issuers with features that we believe depress the fundamental value of the issuer and its securities. In those circumstances, we will take a position in that issuer, sometimes a material position, and may initiate or work with other key shareholders in initiating corporate change. Although we will act prudently and in accordance with applicable laws, such shareholder activism opens us, and possibly the Fund and other funds and managed accounts on whose behalf we are acting, to certain risks, including the risk of litigation by existing management or other shareholders, the risk that trading in such issuers' securities may become suspended, and the risk that the Fund's investment in such issuers will be treated as part of a larger control block and subject to statutory restrictions on liquidity.

Selection of Dealers

We have pre-existing relationships with certain dealers. It is possible that we may be biased in our selection of dealers based on these past relationships, or by certain incentives offered by some dealers. This may result in the commissions paid by the Fund being somewhat higher than those that might be charged by different dealers. However, we will endeavour to select dealers to execute trades on behalf of the Fund based on their ability to execute trades, and will do so in accordance with our Best Execution Policy. You may request a copy of this policy by contacting us at the address, numbers or e-mail address set out above in the section called *The Fund*.

Income Fund Risk

The Fund may, from time to time, invest in income trusts. Income trusts commonly hold debt or equity securities in, or are entitled to receive royalties or distributions from, an underlying active business. Income trusts generally fall into four sectors: business trusts, utility trusts, resource trusts and real estate investment trusts. Investments in income trusts are subject to the same risks as other equity investments. Many of these risks are described above.

Investments in income trusts will have varying degrees of risk depending on the sector and the underlying assets. They will also be subject to general risks associated with business cycles, commodity prices, interest rates and other economic factors.

Returns on income trusts are neither fixed nor guaranteed. Typically income trusts and other securities that are expected to distribute income are more volatile than fixed-income securities and preferred shares. The value of income trust Units may decline significantly if they are unable to meet their distribution targets. To the extent that claims against an income trust are not satisfied by the trust, investors in the income trust (which include a trust that invests in the income trust), could be held responsible for such obligations. Some, but not all, jurisdictions have enacted legislation to protect investors from some of this liability.

Lack of Separate Counsel

Legal counsel for the Fund in connection with this Offering is also counsel to the Manager. Neither the Unitholders, as a group, nor the holders of any Class of Units have been represented by separate counsel, and counsel for the Fund and the Manager does not purport to have acted for the Unitholders or the holders of any Class of Units or to have conducted any investigation or review on their behalf.

Suspension of Redemptions

We have the authority to suspend your right to redeem Units or your right to payment for Units previously tendered for redemption if we determine that conditions exist that render impractical the sale of any of the Fund's assets, or impair the ability to determine the value of any of the assets of the Fund. See *Redemption of Units* above for more information.

REPORTING OBLIGATIONS TO UNITHOLDERS

Reports to Unitholders

At least once per year, we will send to you an annual report that sets out the assets and Portfolio securities owned by the Fund.

Delivery of Financial Statements

As the Fund is not a “reporting issuer” under applicable securities laws, the continuous reporting requirements under those laws do not apply to the Fund. The Fund sends annual audited financial statements to Unitholders within 140 days of the end of each fiscal year. The Fund’s fiscal year end is currently December 31. The Fund also sends semi-annual unaudited financial reports to Unitholders on or before August 29 of each year. You may request a copy of the financial statements by contacting us at the address, numbers or email address set out on the front cover.

Income Tax Statements

On or before March 31 of each year, we will provide you with the information you require regarding distributions and allocations to your Units during the previous year in order to complete your income tax return for that year.

INFORMATION FOR INVESTORS PURCHASING UNITS THROUGH PALOS MANAGEMENT INC.

This section contains information for investors who purchase Units of the Fund directly from PMI. When you purchase Units of the Fund from PMI directly, you are considered to have an “account” with us as your dealer. This account is a non-discretionary trading account and we only process trades in the Units of the Fund upon your instructions and authorization. When you purchase Units of the Fund from PMI directly, we will provide you with written trade confirmations regarding your transactions in the Fund and, at least quarterly, we will provide you with an account statement describing, among other things, any transactions made in your account during that period and the balance and value of your account.

The Manager, acting as portfolio manager of clients pursuant to discretionary management agreements, may invest in Units of the Fund on behalf of such clients, subject to applicable securities legislation. No fees are charged by the Manager under such discretionary management agreements with respect to investments in Units of the Fund in order to avoid any duplication of fees paid by the Fund. When Palos acts a portfolio manager for clients under a discretionary management contract it may invest such client money in the Fund and will receive the service fee otherwise payable to dealers with respect to such investments. Like all service fees, this fee comes out of the Management Fees payable to Palos by the Fund.

Information Required to Comply with “Know Your Client” Obligations

When you open your account with us, we are generally required by securities laws to take reasonable steps to: (1) establish your identity, (2) establish whether you are an insider of any reporting issuer or issuer whose securities are publicly traded, and (3) ensure that we have sufficient information regarding your personal circumstances, investment needs and objectives, financial circumstances and level of risk tolerance, to enable us to meet our obligation under applicable securities laws to ensure that the purchases and sales of Units of the Fund are suitable for you before we execute a transaction on your behalf. Generally, this information will include your age, annual income, net worth, investment knowledge and experience, investment objectives, investment timeframe and tolerance for risk. In addition, in certain circumstances, we may also be required to make enquiries as to your reputation. This information is requested from you upon account opening and we will request updated information from you periodically.

Charges Associated With Your Account with PMI

When you purchase Units of the Fund through PMI, we do not charge any operating charges or transaction charges in respect of your account with us.

PMI receives Management Fees, and performance fees, as applicable, from the Fund in relation to your investment in the Fund. These fees are described above under *Management of the Fund – Fees*.

Dispute Resolution Services

With respect to any client complaint arising from a client resident in Québec, the Manager complies with sections 168.1.1 to 168.1.3 of the *Securities Act* (Québec). The Manager will provide an equitable resolution of complaints filed with it and will proceed with:

- (a) the examination of complaints and claims filed by persons having an interest in a product or service the Manager has provided; and
- (b) the resolution of disputes pertaining to a product or service the Manager has provided.

Where requested by a complainant, the Manager shall forward a copy of the complaint file to the *Autorité des marchés financiers*.

For residents outside of Québec, the Manager complies with the obligations set forth in National Instrument 31-103, Registration Requirements, Exemptions and Ongoing Registrant Obligations we have made available to you, at our expense, an independent dispute resolution with the Ombudsman for Banking Services and Investments, so as to mediate any dispute that might arise between you and the Manager in connection with your account or the services provided to you by us in connection with your account.

Your relationship with us

It is important that you actively participate in our relationship. In particular, we encourage you to:

- Keep us fully and accurately informed regarding your personal circumstances, and promptly advise us of any change to information that could reasonably result in a change to the types of investments appropriate for you, such as a change to your income, investment objectives, risk tolerance, time horizon or net worth.
- Review the documentation and other information we provide to you regarding your account holdings, performance and transactions conducted on your behalf.
- Ask questions of and request information from us to address any questions you have about your account, transactions conducted on your behalf or the holdings in your portfolio, or your relationship with us or anyone acting on our behalf.

Risks of Investing

You should carefully consider whether any investment is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. You should understand the nature of the investment and the extent of your exposure to risk. Depending on the nature of your investment, the type of investment risk will vary. We have set out certain risks associated with an investment in the Fund above under “*Risk Factors*”. We encourage you to read and consider this section carefully.

Using Borrowed Money to Purchase Units of the Fund

When you use borrowed money to purchase a security or make other investments, that investment is subject to certain additional risks. You may purchase securities using available cash, or a combination of available cash and borrowed money. If you use available cash to pay for the securities in full, the percentage gain or loss will equal the percentage increase or decrease in the value of the securities. Using borrowed money to purchase securities can magnify the gain or loss on the cash invested. The effect of this is called “leveraging”.

If you are considering borrowing money to purchase Units of the Fund, you should be aware that a leveraged purchase involves greater risk than a purchase using available cash resources only. To what extent a leveraged purchase involves undue risk is a decision that needs to be made by you and will vary depending on your personal circumstances. In particular, you should be aware of the terms of any loan that is secured by Units of the Fund. The lender may require that the amount outstanding on the loan does not rise above an agreed percentage of the market value of the Units of the Fund. Should this occur, you may be required to pay down the loan or sell the Units of the Fund so as to return the loan to the agreed percentage relationship. Money is also required to pay interest on the loan. Under these circumstances, investors who leverage their investments are advised to have adequate financial resources available both to pay interest and also to reduce the loan if borrowing arrangements require such a payment.

RESALE RESTRICTIONS

Under applicable securities laws and regulations, Units are subject to a number of resale restrictions, and, until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus requirements under securities legislation. However, we note that securities legislation in Canada does contain exemptions that will permit you to redeem your Units. See the sections above called *Description of Units – Redemptions* and *Redemption of Units*.

Unless permitted under securities legislation, you cannot trade Units before the date that is four months and a day after the date that the Fund becomes a reporting issuer in any province or territory of Canada. For trades in Manitoba, unless permitted under securities legislation, you must not trade in the securities without the prior written consent of the regulator in Manitoba unless: (a) the Fund has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (b) you have held the securities for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest. Again, we note that securities legislation will permit you to redeem your Units. See the section above called *Description of Units – Redemptions* and *Redemption of Units*.

PURCHASERS’ RIGHTS

In certain circumstances, purchasers resident in the jurisdictions in which Units of the Fund are offered, are provided with a remedy for rescission or damages, or both, in addition to any other right they may have at law, where an offering memorandum and any amendment to it contains a misrepresentation. A “misrepresentation” generally refers to an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in the light of the circumstances in which it was made. These remedies, or notice with respect thereto, must be exercised, or delivered, as the case may be, by the purchaser within the time limit prescribed by the applicable securities laws and are subject to the terms, conditions and defences contained in the applicable securities laws. **Each purchaser should refer to the provisions of the applicable securities laws for the particulars of these rights and consult with a legal advisor.**

The rights discussed below are in addition to and without derogation from any other right or remedy which purchasers may have at law and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein. The following summaries are subject to the express provisions of the applicable securities statutes in the below-referenced provinces and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions.

Alberta

Securities legislation in Alberta provides that every purchaser of Units of the Fund pursuant to this Offering Memorandum or any amendment thereto shall have, in addition to any other rights they may have at law, a right of action for damages or rescission, against the purchased Fund and certain other persons if this Offering Memorandum or any amendment thereto contains a misrepresentation (as defined in the *Securities Act* (Alberta) (the “**Alberta Act**”). However, such rights must be exercised within prescribed time limits. Purchasers should refer to the applicable provisions of the Alberta securities legislation for particulars of those rights or consult with a lawyer. In particular, Section 204 of the Alberta Act provides that if this Offering Memorandum or any amendment thereto contains a misrepresentation, a purchaser who purchases Units of a Fund offered under this Offering Memorandum or any amendment will be deemed to have relied upon the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against that Fund and every person or company who signed this Offering Memorandum or, alternatively, for rescission against the purchased Fund, provided that if the purchaser exercises its right of rescission against that Fund, the purchaser will not have a right of action for damages against that Fund or against any aforementioned person or company.

No action can be commenced to enforce the rights of action described above more than:

- (a) in the case of an action for rescission, 180 days from the date of the transaction that gave rise to the cause of action, or
- (b) in the case of any action, other than an action for rescission, the earlier of:
 - (i) 180 days from the date that the purchaser first had knowledge of the facts giving rise to the cause of action, or
 - (ii) three years from the date of the transaction that gave rise to the cause of action.

No person or company referred to above is liable if the person or company proves that the purchaser had knowledge of the misrepresentation. In addition, no person or company will be liable in an action pursuant to section 204 of the Alberta Act if the person or company proves that:

- (a) this Offering Memorandum or any amendment thereto was sent to the purchaser without the person’s or company’s knowledge or consent and that, on becoming aware of it being sent, the person or company promptly gave reasonable notice to the Funds that it was sent without the knowledge and consent of the person or company;
- (b) on becoming aware of the misrepresentation in this Offering Memorandum, the person or company withdrew its consent to this Offering Memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it; or
- (c) if, with respect to any part of this Offering Memorandum or any amendment thereto purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company proves had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the relevant part of this Offering Memorandum or any amendment thereto did not fairly represent the report, opinion or

statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

In addition, no person or company is liable with respect to any part of this Offering Memorandum or any amendment thereto not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company: (i) failed to conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed that there had been a misrepresentation.

In an action for damages, the defendant will not be liable for all or any part of the damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation relied upon. The amount recoverable under this right of action will not exceed the price at which the Units were offered under this Offering Memorandum or any amendment thereto. The rights of action for rescission or damages are in addition to and without derogation from any other right the purchaser may have at law.

Saskatchewan

Section 138 of *The Securities Act, 1988* (Saskatchewan), as amended (the “**Saskatchewan Act**”) provides that where an offering memorandum (such as this Offering Memorandum) or any amendment thereto is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a Unit of the Fund covered by this Offering Memorandum or any amendment thereto has, without regard to whether the purchase relied on their misrepresentation, a right of action for rescission against the Fund or has a right of action for damages against:

- (a) the purchased Fund;
- (b) every promoter of the purchased Fund at the time this Offering Memorandum or any amendment thereto was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed this Offering Memorandum or any amendment thereto; and
- (e) every person who or company that sells Units of that Fund on behalf of that Fund under this Offering Memorandum or amendment thereto.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the purchased Fund, it shall have no right of action for damages against it;
- (b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the Units resulting from the misrepresentation relied on;
- (c) no person or company, other than the purchased Fund, will be liable for any part of this Offering Memorandum or any amendment thereto not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;

- (d) in no case shall the amount recoverable exceed the price at which the Units were offered; and
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

In addition, no person or company, other than the purchased Fund, will be liable in an action pursuant to section 138 of the Saskatchewan Act if the person or company proves that:

- (a) this Offering Memorandum or any amendment thereto was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or
- (b) with respect to any part of this Offering Memorandum or any amendment thereto purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of this Offering Memorandum or any amendment thereto did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

In addition, no person or company will be liable in an action pursuant to section 138 of the Saskatchewan Act if that person or company proves that in respect of a misrepresentation in forward looking information (as defined in the Saskatchewan Act), such person or company proves that with respect to the document containing the forward looking information, proximate to that information, there is contained reasonable cautionary language identifying the forward looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward looking information; and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward looking information; and, the person or company had a reasonable basis for drawing the conclusions or making the forecast and projections set out in the forward looking information.

Not all defenses upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission or cancellation, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any other action, other than an action for rescission or cancellation, the earlier of:
 - (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
 - (ii) six years after the date of the transaction that gave rise to the cause of action.

Section 80.1 of the Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act, a right to withdraw from the agreement to purchase securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

Manitoba

If the purchaser is resident in Manitoba and if this Offering Memorandum, together with any amendment thereto, or any advertising or sales literature relating to the Units contains a misrepresentation, each purchaser in Manitoba, or otherwise subject to the applicable securities laws of Manitoba, to whom the Offering Memorandum has been sent or delivered and who purchases Units of the Fund, will be deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase, and the purchaser has a right of action for damages against the Fund, and, subject to certain additional defenses, against the directors of the Fund who were directors at the date of the Offering Memorandum, and against any person or company who signed the Offering Memorandum and any amendment thereto, or alternatively, while still an owner of the Units, may elect instead to exercise a right of rescission against the Fund, in which case the purchaser will have no right of action for damages against the Fund or the directors of the Fund or any other person or company who signed this Offering Memorandum, provided that, among other limitations:

- (a) in an action for rescission or damages, no person or company will be liable if it proves that the purchaser purchased the Units with knowledge of the misrepresentation;
- (b) in an action for damages, no person or company will be held liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation relied upon; and
- (c) in no case will the amount recoverable under the right of action described above exceed the price at which the Units were offered under the Offering Memorandum.

All persons or companies referred to above that are found to be liable or that accept liability are jointly and severally liable. A person or company that is found liable to pay a sum in damages may recover a contribution, in whole or in part, from a person that is jointly and severally liable to make the same payment in the same cause of action unless, in all the circumstances of the case, the course is satisfied that it would not be just and equitable.

In addition, no person or company, other than the Fund, is liable if the person or company proves that:

- (a) this Offering Memorandum or any amendment thereto was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of this Offering Memorandum or any amendment thereto and before the purchase of the Units by the purchaser, on becoming aware of any misrepresentation in this Offering Memorandum, or any amendment thereto, the person or company withdrew the person's or company's consent to the Offering Memorandum, or any amendment thereto, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of this Offering Memorandum or any amendment thereto purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that: (i) there had been a misrepresentation, or (ii) the relevant part of this Offering Memorandum or any amendment thereto (A) did not fairly represent the report, opinion or statement of the expert, or (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

In addition, no person or company, other than the purchased Fund, is liable with respect to any part of this Offering Memorandum or any amendment thereto not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company: (i) failed to conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed that there had been a misrepresentation.

In addition, no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any action, other than an action for rescission, the earlier of: (i) 180 days after the date on which the purchaser first had knowledge of the facts giving rise to the cause of action or (ii) 2 years after the date of the transaction that gave rise to the cause of action.

In addition, if a misrepresentation is contained in a record incorporated by reference in, or is deemed to be incorporated into the Offering Memorandum or any amendment thereof, the misrepresentation is deemed to be contained in the Offering Memorandum or any amendment thereto.

The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law and are intended to correspond to the provisions of The Securities Act (Manitoba) and are subject to the defenses contained therein.

Ontario

A purchaser of Units of the Fund who is resident in Ontario and to whom this Offering Memorandum was delivered may, if the amount of the purchase does not exceed the sum of \$50,000, rescind the contract to purchase such Units by sending written notice to the Fund within 48 hours from the time the purchaser received the confirmation for the purchase of the Units. The amount the purchaser is entitled to recover on exercise of the right to rescind may not exceed the net asset value of the Units purchased at the time the right to rescind is exercised, but will be entitled to reimbursement from every registered dealer through whom such Units were purchased (if any) for the amount of sales charges and fees relevant to the

investment of the purchaser in the purchased Fund in respect of the Units for which the notice of rescission was given.

In the event that this Offering Memorandum or any amendment thereto contains a misrepresentation, a purchaser resident in Ontario who purchases Units of the Fund offered by this Offering Memorandum during the period of distribution has, without regard to whether the purchaser relied upon the misrepresentation, a right of action for damages against the purchased Fund or, alternatively, while still the owner of the Units, for rescission against that Fund provided that:

- (a) the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against that Fund;
- (b) a Fund will not be liable if it proves that the purchaser purchased the Units with knowledge of the misrepresentation;
- (c) in the case of an action for damages, a Fund will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the Units were offered.

No action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days after the date the purchaser purchased the Units; or
- (b) in the case of an action for damages, the earlier of:
 - (i) 180 days after the date that the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - (ii) three years after the date the purchaser purchased the Units.

The rights of action for rescission or damages conferred by section 130.1 of the Securities Act (Ontario) is in addition to and without derogation from any other right the purchaser may have at law.

Not all defences upon which the Funds or others may rely are described herein. Please refer to the full text of the Securities Act (Ontario) for a complete listing.

This Offering Memorandum is being delivered in connection with a distribution made in Ontario in reliance on the exemption from the prospectus requirements contained under section 2.3 of NI 45-106 (the “accredited investor exemption”). The rights referred to above do not apply if this Offering Memorandum is delivered to a prospective purchaser in Ontario in connection with a distribution made in Ontario in reliance on the accredited investor exemption if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank (each as defined in OSC Rule 45 501 Ontario Prospectus and Registration Exemptions);
- (b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (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.

New Brunswick

The *Securities Act* (New Brunswick) (the “**New Brunswick Act**”) provides that, subject to certain limitations, where this Offering Memorandum or any amendment thereto, which is provided to a purchaser of the Units of the Fund contains an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made (a “**misrepresentation**”), a purchaser who purchases those Units shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and the purchaser has, subject to certain defenses, a right of action for damages against the purchased Fund or may elect to exercise a right of rescission against the seller, in which case he shall have no right of action for damages, provided that:

- (a) in an action for rescission or damages, the defendant will not be liable if it proves that the purchaser purchased the security with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the security was offered.

The right of action for rescission or damages described herein is conferred by section 150 of the New Brunswick Act and is in addition to and without derogation from any right the purchaser may have at law.

Pursuant to section 161 of the New Brunswick Act, no action shall be commenced to enforce a right of rescission unless such action is commenced not later than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action, other than an action for rescission, such action shall be commenced before the earlier of: (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of the transaction that gave rise to the cause of action.

Nova Scotia

The *Securities Act* (Nova Scotia) provides that, subject to certain limitations, where this Offering Memorandum, together with any amendment thereto, or any advertising or sales literature (as such terms are defined in the *Securities Act* (Nova Scotia)) disseminated in connection with the offering, contains an untrue statement of material fact or omits to state a material fact that is necessary to prevent a statement in this Offering Memorandum, any amendment thereto or advertising or sales literature from being misleading in light of the circumstances in which the statement was made (each, a “**Misrepresentation**”), that was a **Misrepresentation** at the time of purchase, a purchaser who purchases Units in the Fund has a right of action for damages against the Fund and, subject to certain additional defenses, every seller (other than that Fund) of Units, directors of the seller and persons who have signed this Offering Memorandum.

Alternatively, the purchaser may elect to exercise a right of rescission against the seller in which case the purchaser shall have no right of action for damages against the seller, directors of the seller or persons who have signed the Offering Memorandum.

The foregoing rights are subject to, among other limitations, the following:

- (a) no action shall be commenced to enforce any of the foregoing rights more than 120 days after the date on which the initial payment was made for the Units;

- (b) no person will be liable if it proves that the purchaser purchased the Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, no person will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the Units were offered under this Offering Memorandum or amendment thereto.

In addition, no person or company other than the purchased Fund is liable if the person or company proves that:

- (a) this Offering Memorandum or any amendment thereto was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of this Offering Memorandum or any amendment thereto and before the purchase of the Units by the purchaser, on becoming aware of any Misrepresentation in this Offering Memorandum, or amendment thereto, the person or company withdrew the person's or company's consent to this Offering Memorandum, or amendment thereto, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part this Offering Memorandum or any amendment thereto purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or that the part of this Offering Memorandum or amendment thereto (i) did not fairly represent the report, opinion or statement of the expert, or (ii) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore, no person or company other than the purchased Fund is liable with respect to any part of this Offering Memorandum or any amendment thereto not purporting to be made on the authority of an expert; and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation; or (ii) believed that there had been a Misrepresentation.

If a Misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, this Offering Memorandum or amendment thereto, the Misrepresentation is deemed to be contained in this Offering Memorandum or in any amendment thereto.

The rights of action for rescission or damages are in addition to and without derogation from any other right the purchaser may have at law.

Prince Edward Island

The right of action for rescission or damages described under this heading is conferred by section 112 of the Securities Act (Prince Edward Island). Section 112 provides, that in the event that this Offering Memorandum contains a "misrepresentation", a purchaser who purchased the Units of the Fund during the period of distribution, without regard to whether the purchaser relied upon such misrepresentation, has a statutory right of action for damages against the Fund, every person who signed the Offering Memorandum. Alternatively, the purchaser who purchases the Units during the period of distribution may

elect to exercise a statutory right of action for rescission against the Fund. For the purposes of section 112, “misrepresentation” means an untrue statement of material fact, or an omission to state a material fact that is required to be stated by the Securities Act (Prince Edward Island), or an omission to state a material fact that needs to be stated so that a statement is not false or misleading in light of the circumstances in which it is made.

Statutory rights of action for rescission or damages by a purchaser are subject to the following limitations:

- (a) no action may be commenced to enforce the rights of action described above more than:
 - (i) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - (ii) in the case of any action other than an action for rescission:
 - (1) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - (2) three years after the date of the transaction that gave rise to the cause of action;

whichever period first expires;

- (a) no person will be liable if the person proves that the purchaser purchased the Units with knowledge of the misrepresentation;
- (b) no person, other than the purchaser, will be liable if the person proves that:
 - (i) the Offering Memorandum was sent to the purchaser without the person’s knowledge or consent and that, on becoming aware of it being sent, the person had promptly given reasonable notice to the Funds that it had been sent without the knowledge and consent of the person;
 - (ii) the person, on becoming aware of the misrepresentation in the Offering Memorandum, had withdrawn the person’s consent to the Offering Memorandum and had given reasonable notice to the issuer of the withdrawal and the reason for it; or
 - (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe, and did not believe that:
 - (1) there had been a misrepresentation; or
 - (2) the relevant part of the Offering Memorandum:
 - a. did not fairly represent the report, statement or opinion of the expert; or
 - b. was not a fair copy of, or an extract from, the report, statement or opinion of the expert.

If the purchaser elects to exercise a right of action for rescission, the purchaser will have no right of action for damages.

In no case will the amount recoverable in any action exceed the price at which the Units were offered to and purchased by the purchaser.

In an action for damages, the defendant will not be liable for any damages that the defendant proves do not represent the depreciation in value of the Units as a result of the misrepresentation.

The foregoing statutory rights of action for rescission or damages conferred by section 112 are in addition to and without derogation from any other right the purchaser may have at law.

This summary is subject to the express conditions of the Securities Act (Prince Edward Island) and the regulations and rules made under it, and prospective investors should refer to the complete text of those provisions.

Rights for Purchasers in British Columbia (when not relying on the Offering Memorandum Exemption) and Newfoundland and Labrador

Investors in British Columbia (when not relying on the Offering Memorandum Exemption) and Newfoundland and Labrador are granted the same rights of action for damages or rescission as residents of Ontario who purchase Units.

Rights for Purchasers in British Columbia (when relying on the Offering Memorandum Exemption)

According to NI 45-106, you can cancel your agreement to purchase the securities (the “Cancellation Right”). To do so, you must send a notice to us by midnight on the second business day after you sign the agreement to buy the securities.

In addition to the Cancellation Right and to any other rights or remedies available at law, the Securities Act (British Columbia) (the “BC Securities Act”) provides Unitholders with the rights, in certain circumstances, to seek damages or to cancel their agreement to purchase Units. These rights are available if this Offering Memorandum contains a misrepresentation or if the Manager fails to deliver the Offering Memorandum within the prescribed time. Pursuant to the BC Securities Act, a “misrepresentation” means an untrue statement about a material fact or an omission to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made.

Certain of the rights granted to Unitholders under the BC Securities Act are summarized below. For more complete information about such rights, Unitholders should seek legal advice.

More specifically, the BC Securities Act provides that if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Fund to cancel your agreement to buy the securities; or
- (b) for damages against the Fund and for damages against the Manager, every person who was a director of the Manager at the date of this Offering Memorandum and any other person who signed this Offering Memorandum.

This statutory right to sue is available to you whether or not they relied on the misrepresentation. If you choose to rescind their purchase, they cannot then sue for damages. In addition, in an action for damages, the defendant will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation. Furthermore, the amount recoverable in an action for damages will not exceed the price at which the Units were offered. However,

there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

Moreover, under the BC Securities Act, the defendant will not be liable for a misrepresentation in forward-looking information if the Fund proves that:

- (a) this Offering Memorandum contains reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the Fund has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

Finally, if you intend to rely on the rights described above in paragraphs (a) or (b), you do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities. You must commence your action for damages within the earlier of: (i) 180 days after learning of the misrepresentation, or (ii) three years after you signed the agreement to purchase the securities.

The rights summarized above are in addition to and without derogation from any other rights or remedy which investors may have at law.

Yukon

Section 112 of the *Securities Act* (Yukon) provides that where an offering memorandum is delivered to a purchaser resident in the Yukon and it contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution is deemed to have relied on the misrepresentation, and has a right of action for damages against the issuer, the selling security holder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. In addition, such a purchaser also has a right of rescission against the issuer or the selling security holder on whose behalf the distribution is made.

These rights are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or the selling security holder on whose behalf the distribution is made, it shall have no right of action for damages against that party;
- (b) a person or company will not be liable if the person or company proves that the purchaser purchased the securities with the knowledge of the misrepresentation; and
- (c) a person or company (other than the issuer or selling security holder on whose behalf the distribution is made) will not be liable if:
 - (i) the offering memorandum was sent to the purchaser without the person or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of that person or company;

- (ii) the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it; or
- (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:
 - (A) there had been a misrepresentation; or
 - (B) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert or was not a fair copy of, or an extract from, the report, statement or opinion of the expert;
- (iv) for any part of an offering memorandum that is not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person or company:
 - (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
 - (B) believed that there had been a misrepresentation.

In addition, no person or company will be liable if:

- (a) the offering memorandum containing the forward-looking information contained, proximate to the forward-looking information,
 - (i) reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
 - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

In an action for damages, a defendant will not be liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the security resulting from the misrepresentation.

The amount recoverable by the purchaser in an action for damages must not exceed the price at which the securities purchased by the purchaser were offered.

No action may be commenced to enforce a right of action more than the earlier of:

- (a) in the case of an action for rescission, 180 days after the date of the purchase; or
- (b) in the case of an action for damages, (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase.

Northwest Territories

Section 112 of the *Securities Act* (Northwest Territories) provides that where an offering memorandum is delivered to a purchaser resident in the Northwest Territories and it contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution is deemed to have relied on the misrepresentation, and has a right of action for damages against the issuer, the selling security holder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. In addition, such a purchaser also has a right of rescission against the issuer or the selling security holder on whose behalf the distribution is made.

These rights are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or the selling security holder on whose behalf the distribution is made, it shall have no right of action for damages against that party;
- (b) a person or company will not be liable if the person or company proves that the purchaser purchased the securities with the knowledge of the misrepresentation; and
- (c) a person or company (other than the issuer or selling security holder on whose behalf the distribution is made) will not be liable if:
 - (i) the offering memorandum was sent to the purchaser without the person or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of that person or company;
 - (ii) the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it; or
 - (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:
 - (A) there had been a misrepresentation; or
 - (B) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert or was not a fair copy of, or an extract from, the report, statement or opinion of the expert;
 - (iv) for any part of an offering memorandum that is not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person or company:
 - (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
 - (B) believed that there had been a misrepresentation.

In addition, no person or company will be liable if:

- (a) the offering memorandum containing the forward-looking information contained, proximate to the forward-looking information,
 - (i) reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
 - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

In an action for damages, a defendant will not be liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the security resulting from the misrepresentation.

The amount recoverable by the purchaser in an action for damages must not exceed the price at which the securities purchased by the purchaser were offered.

No action may be commenced to enforce a right of action more than the earlier of:

- (a) in the case of an action for rescission, 180 days after the date of the purchase; or
- (b) in the case of an action for damages, (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase.

Nunavut

Section 112 of the *Securities Act* (Nunavut) provides that where an offering memorandum is delivered to a purchaser resident in Nunavut and it contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution is deemed to have relied on the misrepresentation, and has a right of action for damages against the issuer, the selling security holder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. In addition, such a purchaser also has a right of rescission against the issuer or the selling security holder on whose behalf the distribution is made.

These rights are subject to certain limitations, including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or the selling security holder on whose behalf the distribution is made, it shall have no right of action for damages against that party;
- (b) a person or company will not be liable if the person or company proves that the purchaser purchased the securities with the knowledge of the misrepresentation; and

- (c) a person or company (other than the issuer or selling security holder on whose behalf the distribution is made) will not be liable if:
- (i) the offering memorandum was sent to the purchaser without the person or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of that person or company;
 - (ii) the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it; or
 - (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:
 - (A) there had been a misrepresentation; or
 - (B) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert or was not a fair copy of, or an extract from, the report, statement or opinion of the expert; or
 - (iv) for any part of an offering memorandum that is not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person or company:
 - (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
 - (B) believed that there had been a misrepresentation.

In addition, no person or company will be liable if:

- (a) the offering memorandum containing the forward-looking information contained, proximate to the forward-looking information,
 - (i) reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
 - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

In an action for damages, a defendant will not be liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the security resulting from the misrepresentation.

The amount recoverable by the purchaser in an action for damages must not exceed the price at which the securities purchased by the purchaser were offered.

No action may be commenced to enforce a right of action more than the earlier of:

- (a) in the case of an action for rescission, 180 days after the date of the purchase; or
- (b) in the case of an action for damages, (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase.

Rights for Purchasers in Québec

In addition to any other right or remedy available to the purchasers of Units residing in Québec under ordinary civil liability rules, purchasers are granted the same rights of action for damages or rescission as purchasers in Ontario.

SCHEDULE "A"
AUDITED FINANCIAL STATEMENTS

(See attached)

Palos Income Fund L.P.

Financial Statements
December 31, 2016 and 2015
(expressed in Canadian dollars)



March 31, 2017

Independent Auditor's Report

To the Partners of Palos Income Fund L.P.

We have audited the accompanying financial statements of Palos Income Fund L.P. (the "Partnership"), which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502*



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A125840

Palos Income Fund L.P.
Statements of Financial Position
As at December 31, 2016 and 2015

(expressed in Canadian dollars)

	2016	2015
	\$	\$
Assets		
Current assets		
Investments	99,506,223	104,814,891
Cash and cash equivalents	7,463,772	346
Subscriptions receivable	360,025	10,025
Receivable for investments sold	-	71,750
Income receivable	232,542	218,522
	<u>107,562,562</u>	<u>105,115,534</u>
Liabilities		
Current liabilities		
Securities sold short	4,835,606	4,937,559
Bank indebtedness	-	5,279,840
Redemptions payable	498,745	200,360
Distributions payable	1,147,907	1,156,559
Accrued liabilities	20,632	28,369
Management fees payable	777	603
Performance fees payable	594,790	-
	<u>7,098,457</u>	<u>11,603,290</u>
Net assets attributable to holders of redeemable units	<u>100,464,105</u>	<u>93,512,244</u>
Net assets attributable to holders of redeemable units per series		
Series X	97,183,070	92,714,113
Series F	1,071,780	798,131
Series O	2,209,255	-
	<u>100,464,105</u>	<u>93,512,244</u>
Net assets attributable to holders of redeemable units per series per unit		
Series X	9.76	8.85
Series F	9.44	8.63
Series O	12.67	-
	<u>12.67</u>	<u>-</u>

Approved by the Manager, Palos Management Inc.

(s) Charles Marleau

(s) Peter Malouf

Director

Director

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Statements of Comprehensive Income (Loss)

For the years ended December 31, 2016 and 2015

(expressed in Canadian dollars)

	Note	2016 \$	2015 \$
Income			
Dividend income		2,626,433	2,673,635
Interest income for distribution purposes		94,212	395,223
Other income		39,451	12,559
Other changes in fair value of investments			
Net realized gain on sales of investments		6,082,775	550,340
Net change in unrealized appreciation (depreciation) of investments		12,448,890	(2,094,941)
Total income, net		21,291,761	1,536,816
Expenses			
Management fees	9	1,253,373	1,258,281
Performance fees	9	847,860	-
Dividend expense on securities sold short		97,147	176,136
Administration and other professional fees		126,276	115,367
Audit fees		30,275	24,535
Bank charges and interest		138,317	67,982
Transaction costs		664,575	753,457
Withholding tax expense		28,124	46,980
Total expenses, net		3,185,947	2,442,738
Increase (decrease) in net assets attributable to holders of redeemable units		18,105,814	(905,922)
Increase (decrease) in net assets attributable to holders of redeemable units per series			
Series X		17,524,992	(859,658)
Series F		177,643	(46,264)
Series O		403,179	-
Increase (decrease) in net assets attributable to holders of redeemable units per series per unit	11		
Series X		1.71	(0.08)
Series F		1.67	(0.62)
Series O		2.62	-

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units For the years ended December 31, 2016 and 2015

(expressed in Canadian dollars)

	Series X		Series F*	Series O**
	2016 \$	2015 \$	2016 \$	2015 \$
Net assets attributable to holders of redeemable units – Beginning of year	92,714,113	98,948,715	798,131	-
Increase (decrease) in net assets attributable to holders of redeemable units	17,524,992	(859,658)	177,643	(46,264)
Total distributions to holders of redeemable units	(8,127,472)	(8,227,001)	(86,236)	(47,856)
Redeemable unit transactions				
Proceeds from redeemable units issued	1,667,791	4,474,887	115,000	849,581
Reinvestment of distributions to holders of redeemable units	3,289,262	3,354,632	86,236	47,856
Redemption of redeemable units	(9,885,616)	(4,977,462)	(18,994)	(5,186)
Net increase (decrease) from redeemable unit transactions	(4,928,563)	2,852,057	182,242	892,251
Net increase (decrease) in net assets attributable to holders of redeemable units	4,468,957	(6,234,602)	273,649	798,131
Net assets attributable to holders of redeemable units – End of year	97,183,070	92,714,113	1,071,780	2,209,255

* Series F was created on May 30, 2014. During 2014, all units were redeemed. It restarted its operations on May 29, 2015.

** Series O started its operations on February 1, 2016.

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(expressed in Canadian dollars)

	2016 \$	2015 \$
Cash flows from operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	18,105,814	(905,922)
Adjustments for		
Foreign exchange loss (gain)	12,925	(456,118)
Net realized gain on sale of investments	(6,082,775)	(550,340)
Net change in unrealized depreciation (appreciation) of investments	(12,448,890)	2,094,941
Proceeds from sale and maturity of investments	234,011,113	233,243,910
Purchases of investments	(210,200,983)	(230,283,776)
Income receivable	(14,020)	(13,874)
Management fees payable	174	603
Performance fees payable	594,790	-
Accrued liabilities	(7,737)	(7,140)
Net cash from operating activities	<u>23,970,411</u>	<u>3,122,284</u>
Cash flows from financing activities		
Distributions paid to holders of redeemable units, net of reinvested distributions	(4,846,862)	(4,903,926)
Proceeds from issuance of redeemable units	3,357,942	5,494,418
Amount paid on redemption of redeemable units	(9,725,300)	(6,530,558)
Net cash used in financing activities	<u>(11,214,220)</u>	<u>(5,940,066)</u>
Foreign exchange loss on cash and cash equivalents	<u>(12,925)</u>	<u>(221,756)</u>
Net increase (decrease) in cash and cash equivalents during the year	12,743,266	(3,039,538)
Cash and cash equivalents – Beginning of year	<u>(5,279,494)</u>	<u>(2,239,956)</u>
Cash and cash equivalents – End of year	<u>7,463,772</u>	<u>(5,279,494)</u>
Cash and cash equivalents		
Cash	7,463,772	346
Bank indebtedness	-	(5,279,840)
	<u>7,463,772</u>	<u>(5,279,494)</u>
Supplementary information on cash flows from operating activities		
Interest received	91,325	171,584
Dividends received	2,615,300	2,707,264

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.
Schedule of Investment Portfolio
As at December 31, 2016

(expressed in Canadian dollars)

	Maturity date	Coupon or dividend rate	Number of shares or par value	Average cost \$	Fair value \$
Long positions					
Bonds					
Convertible bonds					
Northland Power Inc.	June 30, 2020	4.75%	600,000	704,016	684,000
Total convertible bonds				<u>704,016</u>	<u>684,000</u>
Common stock					
Consumer discretionary					
Cineplex Inc.			20,000	799,577	1,024,400
DHX Media Ltd.			200,000	1,552,236	1,410,000
Dollarama Inc.			14,000	1,103,500	1,377,320
Enercare Inc.			111,300	1,778,910	1,985,592
Gildan Activewear Inc.			29,000	1,022,757	988,610
Imvescor Restaurant Group Inc.			207,400	550,641	725,900
Linamar Corp.			22,000	1,168,160	1,269,180
Magna International Inc.			7,600	399,203	443,080
Park Lawn Corp.			18,600	297,600	292,578
Restaurant Brands International			16,000	777,556	1,023,200
Spin Master Corp.			40,000	859,138	1,287,600
Stingray Digital Group Inc.			178,980	1,320,401	1,558,916
Total consumer discretionary				<u>11,629,679</u>	<u>13,386,376</u>
Consumer staples					
Alimentation Couche-Tard, Class B			25,000	1,279,110	1,522,000
Maple Leaf Foods Inc.			34,000	730,282	956,080
Total consumer staples				<u>2,009,392</u>	<u>2,478,080</u>

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Schedule of Investment Portfolio ... *continued*

As at December 31, 2016

(expressed in Canadian dollars)

	Number of shares or par value	Average cost \$	Fair value \$
Energy			
ARC Resources Ltd.	80,000	1,414,712	1,848,800
Canadian Energy Services & Technologies	297,000	1,578,151	2,275,020
Canyon Services Group Inc.	150,000	745,138	1,054,500
Cenovus Energy Inc.	48,000	923,861	974,400
Crescent Point Energy Trust	175,000	2,896,505	3,193,750
Keyera Corp.	72,300	2,628,901	2,925,258
Parkland Fuel Corp.	12,000	289,464	289,464
Pembina Pipeline Corp.	45,200	1,411,353	1,896,592
Raging River Exploration Inc.	100,000	1,026,933	1,056,000
Tamarack Valley Energy Ltd.	700,000	2,504,991	2,422,000
Tidewater Midstream and Infrastructure Ltd.	917,900	1,275,474	1,459,461
Veresen Inc.	64,000	799,680	839,040
Vermillion Energy Inc.	37,000	1,736,502	2,090,130
Whitecap Resources Inc.	165,000	1,443,285	2,006,400
Total energy		<u>20,674,950</u>	<u>24,330,815</u>
Financials			
Bank of Montreal	17,000	1,468,341	1,641,690
ECN Capital Corp.	120,000	402,000	396,000
Element Fleet Management Corp.	80,000	1,060,000	996,800
Intact Financial Corp.	18,300	1,682,230	1,758,630
National Bank of Canada	40,000	1,551,609	2,181,200
Royal Bank of Canada	45,000	3,399,579	4,089,150
Sun Life Financial Inc.	75,000	2,915,893	3,866,250
The Bank of Nova Scotia	45,000	2,895,714	3,364,200
The Toronto-Dominion Bank Corp.	62,940	2,495,488	4,167,887
The Goldman Sachs Group Inc.	6,500	1,302,608	2,089,812
Total financials		<u>19,173,462</u>	<u>24,551,619</u>
Health care			
Knight Therapeutics Inc.	150,000	1,264,000	1,611,000
Sienna Senior Living Inc.	90,000	1,523,596	1,467,000
Total health care		<u>2,787,596</u>	<u>3,078,000</u>

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Schedule of Investment Portfolio ... *continued*

As at December 31, 2016

(expressed in Canadian dollars)

	Number of shares or par value	Average cost \$	Fair value \$
Industrials			
Badger Daylighting Ltd.	48,000	1,281,450	1,540,800
H2O Innovations Inc.	250,000	300,000	437,500
Heroux-Devtek Inc.	49,000	616,134	720,300
Morneau Shepell Inc.	50,068	493,310	960,805
New Flyer Industries Inc.	22,900	926,860	935,236
People Corp.	180,000	688,940	792,000
Savaria Corp.	32,000	362,880	347,840
Waste Connections Inc.	15,000	1,251,807	1,580,100
WSP Global Inc.	34,000	1,376,683	1,519,460
Total industrials		7,298,064	8,834,041
Information technology			
Blackberry Ltd.	20,000	216,200	184,800
CGI Group Inc. – Class A	25,000	1,462,364	1,611,000
Kinaxis Inc.	15,750	1,010,409	984,375
Shopify Inc. – Class A	18,000	705,579	1,038,600
Total information technology		3,394,552	3,818,775
Materials			
Agnico Eagle Mines Ltd.	25,500	1,036,192	1,439,475
Agrium	8,000	870,827	1,079,680
B2Gold Corp.	300,000	1,118,480	957,000
CCL Industries Inc. – Class B	7,800	1,147,282	2,057,640
Franco-Nevada Corp.	23,000	1,657,670	1,846,440
Lundin Mining Corp.	355,000	1,660,249	2,272,000
Nevsun Resources Ltd.	260,000	1,051,320	1,079,000
Osisko Gold Royalties Ltd.	30,000	408,024	392,700
Total materials		8,950,044	11,123,935
Real estate			
American Hotel Income Properties – REIT	155,750	1,490,524	1,629,145
Automotive Properties Real Estate	40,000	413,828	427,200
Interrent REIT	103,000	717,503	768,380
Total real estate		2,621,855	2,824,725

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Schedule of Investment Portfolio ... *continued*

As at December 31, 2016

(expressed in Canadian dollars)

	Number of shares or par value	Average cost \$	Fair value \$
Utilities			
Algonquin Power & Utilities	160,000	1,719,139	1,822,400
Boralex Inc.	15,000	249,750	249,750
Crius Energy Trust	184,900	1,549,942	1,558,707
Superior Plus Corp.	60,000	682,789	765,000
Total utilities		4,201,620	4,395,857
Total common stock		82,741,214	98,822,223
Warrants			
Cordoba Minerals – \$1.50 / Feb. 7, 2017	50,000	-	-
Nobilis Health Corp. – \$11.50 / May 13, 2017	51,000	-	-
Total warrants		-	-
Total long positions		83,445,230	99,506,223
Short positions			
Energy			
iShares Canadian S&P/TSX Cap. Energy Index	(310,300)	(3,845,630)	(4,350,406)
iShares S&P/TSX Global Gold Index	(40,000)	(526,731)	(485,200)
Total energy		(4,372,361)	(4,835,606)
Total short positions		(4,372,361)	(4,835,606)
Total net investments		79,072,869	94,670,617
Other assets, less liabilities			5,793,488
Net assets attributable to holders of redeemable units			100,464,105

The accompanying notes are an integral part of these financial statements.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

1 General information

Palos Income Fund, L.P. (the “Partnership”) was formed on June 21, 2001 under the laws of the Province of Quebec to purchase, sell, invest and trade in income, royalty and real estate trusts, as well as non-trust investments, the securities of which are listed on a recognized stock exchange. The address of the Partnership’s registered office is 1 Place Ville-Marie, Suite 1670, Montréal, Quebec, H3B 2B6, Canada.

Series X opened on June 21, 2001, Series F on May 30, 2014 and Series O on February 1, 2016.

The General Partner and Manager of the Partnership is Palos Management Inc. Under the Limited Partnership Agreement, the General Partner has revenue participation of 0.001% of the profits and losses of the Partnership. The General Partner unit does not represent a significant amount; consequently, these notes will hereafter only refer to the Limited Partner units.

The Partnership acts as an investment holding unit trust for the benefit of unitholders by acquiring, investing in, holding, transferring, disposing of, or otherwise dealing with such investments as the Manager determines, at its discretion, in accordance with the investment objectives of the Partnership, which are to preserve capital, to provide an attractive and steady stream of income and to deliver trading-enhanced returns.

These financial statements have been authorized for issue by the Board of Directors of the Manager on March 30, 2017.

2 Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

3 Summary of significant accounting policies

Financial instruments

Recognition

Regular way purchases and sales of financial assets are recognized at their trade date. The Partnership's investment assets and liabilities are measured at fair value through profit or loss (FVTPL), including certain investments in debt securities which have been designated at FVTPL. The Partnership's non-derivative investments are designated at FVTPL upon initial recognition and all derivatives are classified in this category as held for trading. The Partnership's obligation for net assets attributable to holders of redeemable units is classified as a financial liability and is measured at amortized cost which corresponds to the redemption amount. The redemption amount is determined as the net difference between total assets and all other liabilities for which accounting policies are described herein. All other financial assets and financial liabilities are classified as loans and receivables and other financial liabilities, respectively, and are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Partnership's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders.

Income recognition

The interest income for distribution purposes shown on the statements of comprehensive income (loss) represents the contractual interest accounted for on an accrual basis. The Partnership does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds, which would be amortized on a straight-line basis. Dividend income is recorded on the ex-dividend date.

Realized gain (loss) on sale of investments and unrealized appreciation (depreciation) of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Partnership uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

The fair value of financial assets and financial liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Partnership uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Investment entities

The Partnership meets the definition in IFRS 10, Consolidated Financial Statements, for investment entities and accounts for its investments in underlying entities at FVTPL.

Structured entities

The Partnership may invest in other investment funds ("underlying funds") by holding redeemable shares of the underlying funds which entitle the holder to a proportionate share of the underlying funds' net assets. The Partnership does not invest in underlying funds for the purpose of exercising management or control. Such investments expose the Partnership to the risk that underlying funds may not perform as expected and indirectly to all of the risks applicable to investments in underlying funds.

The carrying value of investments in underlying funds is included in "Investments" in the statements of financial position and also represents the maximum exposure to losses. Changes in fair value of investments in underlying funds are included within "Net change in unrealized appreciation (depreciation)" in the statements of comprehensive income (loss).

Classification of redeemable units

The Partnership's outstanding redeemable units' entitlements include a contractual obligation to distribute any net income and net realized capital gains annually in cash (at the request of the unitholder), and therefore the ongoing redemption feature is not the units' only contractual obligation. Consequently, the Partnership's outstanding redeemable units are classified as financial liabilities in accordance with the requirements of International Accounting Standard (IAS) 32, Financial Instruments: Presentation.

Foreign currency translation

The Partnership's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash and to other financial assets and financial liabilities are presented as "Net realized gain on sale of investments" and "Net change in unrealized appreciation (depreciation) of investments" in the statements of comprehensive income (loss).

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset in the Partnership's statements of financial position when and only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Partnership has a legally enforceable right to offset a financial asset and financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Over-the-counter derivatives, securities lending, repurchase agreements and receivable for investments sold and payable for investments purchased are subject to master netting or similar agreements that do not meet the criteria for offsetting in the statements of financial position as they give a right to set-off that is enforceable only in the event of default, insolvency or bankruptcy.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with financial institutions and bank indebtedness.

Increase (decrease) in net assets attributable to holders of redeemable units per unit per series

The increase (decrease) in net assets attributable to holders of redeemable units per unit of each series is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units of each series by the weighted average number of units outstanding during the year.

Taxation

Under the present law, the Partnership is not subject to tax on income, profits or capital gains as its taxable income is taxed in the hands of its partners.

Accounting standard issued but not yet adopted relevant to the Partnership

IFRS 9, Financial Instruments

In July 2014, the IASB issued the complete and final version of IFRS 9, which will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes, among others, the requirements for the classification and measurement of financial assets and financial liabilities.

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should be classified at amortized cost, at FVTPL or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held. The valuation basis of financial assets, namely amortized cost or fair value, may need to be changed, as well as the recognition of unrealized gains and losses arising from changes in fair value. For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements under IAS 39.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

The Partnership will have to adopt IFRS 9 retrospectively for annual periods beginning on or after January 1, 2018. However, the restatement of comparative periods is not mandatory, as an exemption from applying the standard allows comparative periods to be presented in accordance with the previous GAAP under certain conditions. The Manager continues to assess the impact of adopting IFRS 9.

4 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Partnership has made in preparing the financial statements:

a) Fair value measurement of derivatives and securities not quoted in an active market

The Partnership may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Partnership may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Partnership considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

b) Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Partnership, the Manager is required to make significant judgments about whether or not the business of the Partnership is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39. The most significant judgments made include the determination that certain investments are held for trading and that the fair value option can be applied to those which are not.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

5 Risks associated with financial instruments

Risk factors

The Partnership's activities expose it to a variety of risks associated with financial instruments, as follows: credit risk, liquidity risk, market risk (including currency risk, interest rate risk and price risk) and concentration risk. The Partnership's overall risk management program seeks to maximize the returns derived for the level of risk and concentration risk to which the Partnership is exposed and seeks to minimize potential adverse effects on the Partnership's financial performance. All investments result in a risk of loss of capital. These risks are moderated through careful selection of securities and other financial instruments within the Partnership's investment guidelines. The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Partnership from reasonably possible changes in the relevant risk variables.

Credit risk

The Partnership is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Partnership is exposed arises from its investments in debt securities. In selecting fixed income securities for the Partnership, the Manager considers factors such as the debt security's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread and duration. As at December 31, 2016, 100% of the Partnership's debt portfolio was not rated as per Standard & Poor's (2015 – 100%).

All portfolio transactions in securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities are received by the broker. The trade will not settle if either party fails to meet its obligation. In addition, the Partnership lodges its cash with quality institutions which have credit ratings of A- or above. Credit risk with respect to accrued income receivable is limited as the receivables are derived from a portfolio of diversified investments.

The Partnership's maximum exposure to credit risk is equal to the carrying value of the assets presented on the statements of financial position. The Partnership does not anticipate any significant losses from the non-performance of counterparties.

The Partnership also engages in securities lending transactions. The credit risk related to securities lending transactions is limited by the fact that the value of cash or securities held as collateral by the Partnership in connection with these transactions is at least 100% of the fair value of the securities loaned. The collateral and loaned securities are marked to market on each business day. As at December 31, 2016, the aggregate dollar value of portfolio securities lent and collateral held under securities transactions was \$11,455,540 and \$11,807,073, respectively (2015 – \$7,296,407 and \$7,494,172).

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Liquidity risk

Liquidity risk is the risk that the Partnership will encounter difficulty in meeting obligations associated with financial liabilities. The Partnership is exposed to daily cash redemptions. Financial liabilities that potentially subject the Partnership to liquidity risk consist of securities sold short, bank indebtedness, performance fees payable, redemptions payable, distributions payable, accrued liabilities and management fees payable. The Partnership investment approach focuses on investing in highly liquid securities and moderately liquid securities, which are therefore readily saleable to meet liquidity needs.

The Partnership may invest in debt securities that are not traded in an active market. As a result, the Partnership may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Partnership's policy, the Manager monitors the Partnership's liquidity position on a daily basis. The tables below analyze the Partnership's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows.

	2016		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Securities sold short	-	4,835,606	4,835,606
Redemptions payable	-	498,745	498,745
Distributions payable	-	1,147,907	1,147,907
Accrued liabilities	-	20,631	20,631
Management fees payable	-	777	777
Performance fees payable	-	594,790	594,790
Redeemable units	100,464,105	-	100,464,105

	2015		
Financial liabilities	On demand	< 3 months	Total
	\$	\$	\$
Securities sold short	-	4,937,559	4,937,559
Bank indebtedness	5,279,840	-	5,279,840
Redemptions payable	-	200,360	200,360
Distributions payable	-	1,156,559	1,156,559
Accrued liabilities	-	28,369	28,369
Management fees payable	-	603	603
Redeemable units	93,512,244	-	93,512,244

Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Market risk

The Partnership's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. To monitor the risk, the Partnership's Manager uses stress testing to examine the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing is designed to identify key risks and ensure that the Partnership's capital can absorb potential losses from abnormal events.

The following include sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the difference could be material.

a) Currency risk

The Partnership invests in monetary assets denominated in currencies other than the Canadian dollar. These investments result in currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The tables below indicate the foreign currencies to which the Partnership had significant exposure as at December 31, 2016 and 2015 in Canadian dollars. The tables also illustrate the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant. The monetary exposure presents the impact on cash, and the non-monetary exposure presents the impact on the investments. Non-monetary items are investments in equity securities and are classified based on the currency in which they were purchased.

Currency	2016					
	Exposure			Impact on net assets attributable to holders of redeemable units and the increase (decrease) thereof		
	Monetary \$	Non- monetary \$	Total \$	Monetary \$	Non- monetary \$	Total \$
United States dollar	336,704	2,089,812	2,426,516	16,845	104,491	121,336
% of net assets attributable to holders of redeemable units	0.3%	2.1%	2.4%	0.0%	0.1%	0.1%

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Currency	Exposure			Impact on net assets attributable to holders of redeemable units and the increase (decrease) thereof		
	Monetary	Non-monetary	Total	Monetary	Non-monetary	Total
	\$	\$	\$	\$	\$	\$
United States dollar	(1,381,901)	6,941,916	5,560,015	(69,095)	347,096	278,001
% of net assets attributable to holders of redeemable units	(1.5)%	7.4%	5.9%	(0.1)%	0.4%	0.3%

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Partnership holds securities with fixed interest rates that expose the Partnership to fair value interest rate risk. The Partnership also holds a limited amount of cash subject to variable interest rates which exposes the Partnership to cash flow interest rate risk.

The Partnership mitigates interest rate risk by monitoring interest rates and the maturities of its portfolio of interest-bearing financial instruments. The following table summarizes the Partnership's exposure to interest rate risk. It includes the Partnership's interest-bearing financial assets at fair value, categorized by the earlier of contractual interest rate reset dates or maturity dates. The table also illustrates the potential impact on net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant.

Terms to maturity	Total exposure	
	2016 \$	2015 \$
Assets		
1-5 years	684,000	3,761,275
5-10 years	-	533,975
Total	684,000	4,295,250
Impact on net assets attributable to holders of redeemable units	15,527	166,699
Impact on net assets attributable to holders of redeemable units (%)	0.02%	0.18%

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

c) Price risk

Price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or by factors affecting all securities traded in the market. The Partnership is exposed to price risk through its equity investment portfolio, which includes a variety of common shares in a wide range of industries. Other assets and liabilities are monetary items that are short-term in nature, and as such are not subject to price risk.

As at December 31, 2016, the expected increase or decrease in net assets attributable to holders of redeemable units of the Partnership if the S&P/TSX composite index had increased or decreased by 5%, with all other variables held constant, would amount to \$4,721,813 and would represent 4.7% of the net assets attributable to holders of redeemable units of the Partnership (2015 – \$5,049,661 representing 5.40% of the net assets attributable to holders of redeemable units of the Partnership).

Concentration risk

Concentration risk arises as a result of the concentration of exposure within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Partnership's concentration risk by market segment over the total investment market value:

Market segment	2016 %	2015 %
Consumer discretionary	14.1	15.1
Consumer staples	2.6	3.1
Energy	20.6	18.3
Financials	25.9	27.2
Health care	3.3	2.8
Industrials	9.3	8.1
Information technology	4.0	2.3
Materials	11.8	10.1
Real estate	3.0	6.9
Utilities	5.4	6.1
Asset class weighting	2016 %	2015 %
Convertible bonds	0.7	4.6
Common stock	93.6	102.2
Other net assets	5.7	(6.8)

Fair value measurement

The carrying amounts of subscriptions receivable, receivable for investments sold, income receivable, redemptions payable, distributions payable, accrued liabilities and management and performance fees payable approximate their fair values due to the short-term nature of these financial instruments.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				2016
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equities, long	98,822,223	-	-	98,822,223
Fixed income, long	684,000	-	-	684,000
Securities sold short	(4,835,606)	-	-	(4,835,606)
				2015
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equities, long	100,519,550	-	-	100,519,550
Fixed income, long	4,295,250	-	-	4,295,250
Securities sold short	(4,937,559)	-	-	(4,937,559)
Warrants	91	-	-	91

All fair value measurements above are recurring. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, the instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

a) Equities, convertible bonds and options

The Partnership's equity, convertible bond and option positions are classified as Level 1 when the security is actively traded and a reliable price is observable. All equities, convertible bonds and options are classified as Level 1 investments.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

b) Bonds and short-term investments

Bonds include primarily government and corporate bonds, which are valued using models with inputs including interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable, and therefore the Partnership's bonds and short-term investments have been classified as Level 2.

There was no transfer between levels during the years ended December 31, 2016 and 2015.

6 Gains and losses on financial instruments by category

All of the Partnership's non-derivative financial assets were designated, at inception, financial assets at FVTPL. As at December 31, 2016, the total value of the non-derivative assets and liabilities was \$94,670,617 (2015 – \$99,877,332). All of the Partnership's derivative liabilities are classified as held for trading (HFT). As at December 31, 2016, the total value of the derivative liabilities was nil (2015 – nil). Furthermore, all of the Partnership's financial assets and financial liabilities other than its non-derivative financial assets and financial liabilities and its derivative liabilities were carried at amortized cost.

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2016 and 2015:

Category	Net gain (loss)	
	2016 \$	2015 \$
Financial assets at FVTPL designated at inception		
Unrealized gain (loss)	12,468,906	(2,094,941)
Realized gain	6,061,976	261,755
Total gain (loss) in financial assets at FVTPL designated at inception	18,530,882	(1,833,186)
Financial liabilities at FVTPL held for trading		
Unrealized gain	(20,016)	-
Realized gain	20,799	288,585
Total gain in financial liabilities at FVTPL held for trading	783	288,585
Total	18,531,665	(1,544,601)

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

7 Bank indebtedness

The Partnership has indebtedness in the form of margin debt. The maximum amount authorized by this lending arrangement is based on the securities held by the Partnership. The margin debt is guaranteed dollar for dollar by a security held by the Partnership. Any outstanding balance in the margin account accrues interest on a daily basis at a fixed rate of 0.65%. As at December 31, 2016, margin debt was nil (2015 – \$5,279,840).

8 Redeemable units

During the years ended December 31, 2016 and 2015, the number of units issued, redeemed and outstanding was as follows:

	2016			2015	
	Series X	Series F	Series O	Series X	Series F
Units outstanding – Beginning of year	10,471,952	92,490	-	10,161,644	-
Redeemable units issued	182,820	13,726	184,765	474,906	87,638
Redeemable units issued on reinvestments	352,596	9,496	-	361,021	5,429
Redeemable units redeemed	(1,049,098)	(2,119)	(10,445)	(525,619)	(577)
Units outstanding – End of year	9,958,270	113,593	174,320	10,471,952	92,490

Capital structure

Units issued and outstanding are considered to be the capital of the Partnership. The Partnership does not have any specific capital requirements.

The Partnership is authorized to issue an unlimited number of redeemable unit series, as well as an unlimited number of redeemable units within each series. Each series unit enables its bearer to participate equally in the allocations the Partnership completes for the given series. Unit fractions may also be issued.

The Partnership is composed of more than one redeemable unit series; each redeemable unit series may feature different structures regarding management fees, performance fees and brokerage. As a result, each redeemable unit entitles its holder to one vote and to participate equally in the allocations the Partnership completes and, in the case of Partnership liquidation, in the allocation of the redeemable unit series' net assets attributable to holders of redeemable units after all current liabilities have been paid.

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

9 Related party transactions

The Manager provides management and advisory services to the Partnership in accordance with a Limited Partnership Agreement. In return for these services, the Manager is paid a management fee and a performance fee. The management fee is calculated monthly and payable monthly at a rate equal to 1/12 of 1% of the book value of Series X. For Series F, the management fee is calculated monthly and payable monthly at a rate of 1/12 of 0.75% of the net asset value. The performance fee is calculated as 20% of the amount by which the Limited Partners' positive performance change in a quarterly performance exceeds a return of 2.5% per quarter for Series X and 1.25% for Series F.

The Series O units pay reduced management and performance fees, or no management and performance fees if an investor has already been charged through their individual managed accounts. These agreements are negotiated directly with each investor.

In addition to management fees and performance fees, the Partnership is responsible for payment of all expenses relating to operations.

The total management fees and performance fees for the year ended December 31, 2016 amounted to \$1,253,373 and \$847,860, respectively (2015 – \$1,258,281 and nil, respectively), with \$595,567 in outstanding fees due to the Manager as at December 31, 2016 (2015 – \$603).

During the year, the Manager sold all 39,898 of its units in the Partnership (2015 – the Manager held 39,022 units).

10 Brokerage commissions and soft dollars

The total commissions paid by the Partnership to brokers in connection with portfolio transactions for the years ended December 31, 2016 and 2015, together with other transaction charges, are disclosed in the statements of comprehensive income (loss) of the Partnership. Brokerage business is allocated to brokers based on the best net result for the Partnership. Subject to this criteria, preference may be given to brokerage firms which provide (or pay for) certain services (arrangements referred to as soft dollar), which may include investment research, analysis and reports, and databases or software in support of these services. The ascertainable soft dollar value received as a percentage of total brokerage commissions paid during the years ended December 31, 2016 and 2015 is disclosed below.

	2016	2015
Soft dollars	\$95,816	\$93,578
Percentage of total transaction costs	14%	12%

Palos Income Fund L.P.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

11 Increase (decrease) in net assets attributable to holders of redeemable units per series per unit

The increase (decrease) in net assets attributable to holders of redeemable units per series per unit for the years ended December 31, 2016 and 2015 is calculated as follows:

	2016			2015	
	Series X \$	Series F \$	Series O \$	Series X \$	Series F \$
Increase (decrease) in net assets attributable to holders of redeemable units per series	17,524,992	177,643	403,179	(859,658)	(46,264)
Weighted average units outstanding during the year	10,252,332	106,652	153,838	10,257,241	75,201
Increase (decrease) in net assets attributable to holders of redeemable units per series per unit	1.71	1.67	2.62	(0.08)	(0.62)

SCHEDULE "B"
CERTIFICATE

The following certificate is provided as required by the securities laws of British Columbia and Newfoundland and Labrador where an investor purchases Units in reliance on the exemption set forth in section 2.9 of NI 45-106.

DATED June 29, 2017

This Offering Memorandum does not contain a misrepresentation.

PALOS INCOME FUND, L.P.

By: (signed) Charles Marleau
CHARLES MARLEAU
President
Palos Income Fund, L.P.

By: (signed) Alain Lizotte
ALAIN LIZOTTE
Chief Financial Officer and
Chief Compliance Officer
Palos Income Fund, L.P.

**PALOS MANAGEMENT INC.,
General Partner of Palos Income Fund, L.P.**

By: (signed) Charles Marleau
CHARLES MARLEAU
President

By: (signed) Alain Lizotte
ALAIN LIZOTTE
Chief Financial Officer and
Chief Compliance Officer

By: (signed) Robert Boisjoli
ROBERT BOISJOLI
Director

By: (signed) Peter J. Malouf
PETER J. MALOUF
Director

SCHEDULE “C”
SUBSCRIPTION INSTRUCTIONS

1. **INVESTMENT IN RELIANCE ON PROSPECTUS EXEMPTIONS** - Units of the Fund are issued to investors in reliance on exemptions from the prospectus requirements of applicable securities laws. You will only be permitted to purchase Units if your purchase qualifies for one of these exemptions. **It is important that you understand that the Fund and its manager, Palos Management Inc., will rely on the representations contained in the attached Subscription Agreement to determine whether your purchase qualifies for one of these exemptions.**

2. **WHAT IS THE MINIMUM INVESTMENT?** - Each investor must invest an amount not less than the minimum amount described in the Offering Memorandum. Where Units of the Fund will be held in a joint account, each joint account holder under that account must invest the minimum amount. See the section in the Offering Memorandum entitled *Investing in Units*

3. **HOW DO I MAKE MY INVESTMENT?** Units are issued to investors on each business day of every week. You may acquire Units on a business day, if we receive your order for Units by no later than 4:00 p.m. (Eastern time) on that day and we receive the following documents by no later than 5:00 p.m. (Eastern time) on the day that is three business days after the business day on which you placed your order:
 - (1) A signed and completed copy of the attached Subscription Agreement.
 - (2) **For investors who qualify as “accredited investors”**, a signed and completed accredited investor certificate, in the form at page 7 of the Subscription Agreement.
 - (3) **For investors who wish to subscribe under the “offering memorandum” exemption and are resident in British Columbia or Newfoundland and Labrador** a signed and completed risk acknowledgement form, in the form attached at page 13 of the attached Subscription Agreement located in Schedule D.

Additional information for purchases made directly through Palos Management Inc.:

- (4) A signed and completed client information form, which we need to complete our “know your client” obligations, in the form attached as Schedule E to the attached Subscription Agreement. There is a different version of this form for “permitted clients” as defined under securities legislation. Ask for this form if it applies to you.
- (5) A certified cheque payable to “Palos Income Fund, L.P.” as payment of your purchase price (in an amount not less than the minimum required investment). If you wish to pay your purchase price other than by certified cheque, please contact us prior to submitting your Subscription Agreement.
- (6) For individual investors, if your certified cheque is not a personalized bank cheque, you must also provide us with a good quality photocopy of your driver’s license (front and back), passport, birth certificate, record of landing or permanent resident card. The photocopy must be signed by a commissioner of oaths or a guarantor attesting that they have seen the original of the identification document. The commissioner of oaths or guarantor must include on the photocopy (a) their signature, (b) their name, profession* and address, and (c) the type and number of the identifying document referred to.

* Please note that only individuals engaged in one of the following professions in Canada are eligible to act as guarantors: (a) a dentist, medical doctor or chiropractor; (b) a judge, magistrate or lawyer; (c) a notary (in Québec) or a notary public; (d) an optometrist or a pharmacist; (e) an accredited public accountant (APA), a chartered accountant (CA), a certified general accountant (CGA), a certified management accountant (CMA), a public accountant (PA) or a registered public accountant (RPA); (f) a professional engineer (P.Eng., in a province other than Québec) or engineer (Eng. in Québec); or (g) a veterinarian.

Applicable securities laws require us to obtain this information from you to establish your identity. We may also require additional documentation and information from you.

4. **WHERE DO I SEND THE REQUIRED DOCUMENTS?** - Please send one originally-signed copy of each of the documents referred to above, along with a certified cheque as payment of your purchase price, to

PALOS INCOME FUND, L.P.
c/o Palos Management Inc.
1 Place Ville Marie, Suite 1670
Montreal, Québec H3B 2B6

Please retain a copy of these documents for your records.

For further information, please contact our office by telephone at (514) 397-0188, by facsimile at (514) 397-0199 or by e-mail at info@palos.ca.

SCHEDULE "D"
SUBSCRIPTION AGREEMENT

Please see attached.

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 Investor Certificate.
4. Complete and sign a) the Risk Acknowledgment Form for Accredited Investors if you have selected paragraphs j, k, or l in the Accredited Investor Certificate, or b) the Risk Acknowledgment Form for certain investors of British Columbia and Newfoundland and Labrador if you are relying on the British Columbia and Newfoundland and Labrador Offering Memorandum exemption.

NAME OF PURCHASER: _____

2. INVESTMENT DETAILS

- PALOS INCOME FUND L.P. / FONDS DE REVENU PALOS, S.E.C.**
Series A _____ Series F _____ Series I _____ Series O _____ Series X _____
- PALOS WP GROWTH FUND / FONDS PALOS WP CROISSANCE**
Series A _____ Series B _____ Series F _____ Series O _____ Series W _____

(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, that they will be agreeing, upon the acceptance of this Subscription Agreement, to be 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 imposed therein upon Unitholders. Purchasers should review the instructions for completing this Subscription Agreement, in Part 1, 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 warranties that:

- a. it is purchasing the Units as principal for its own account, and not for the benefit of any other person or it is deemed to be purchasing as principal as it is acting on behalf of a fully managed account it has the right to manage;
- b. it is resident in the jurisdiction set out herein and that all applicable laws, regulations, national instruments, national policies and similar instruments ("**Applicable Law**") of that jurisdiction governs the Purchaser's subscription and that the address provided in Part 5 below, 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 acknowledges having been afforded an opportunity to request any additional information it may require, and such information, if any, has been provided in a manner that is fully satisfactory to the Purchaser;
- d. the information provided herein is true and correct;
- e. it is a resident of Canada for the purposes of the *Income Tax Act* (Canada) (the "**ITA**") and will continue to be at all times while it is a Unitholder;
- f. If it ceases to be a resident of Canada for the purposes of the ITA, the Purchaser shall notify Palos as soon as possible and, in any event, before becoming a non-resident of Canada, and the Purchaser shall redeem all units of the Fund immediately prior to becoming a non-resident. If the Purchaser fails to redeem Units immediately prior to becoming a non-resident, 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, that 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. The Purchaser further certifies that all necessary approvals, including those of directors, and shareholders have been given or otherwise obtained;
- h. is an individual, that they are of the full age of majority and are legally competent to execute this Subscription Agreement and take all action pursuant hereto;
- i. if the Purchaser relies on the Accredited Investor exemption, that 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. Should a change occur, the Purchaser must complete and deliver, a new Subscription Agreement to Palos, acting on behalf of the Fund;
- 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 the Purchaser's knowledge, 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. The Purchaser shall promptly notify Palos if the Purchaser discovers that any of such representations ceases to be true, and shall provide Palos with any relevant 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 or the offering or marketing documents in relation thereto;
- 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, 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 à cette entente ont exigé que cette entente soit rédigée 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: BY: X----- AUTHORIZED SIGNATURE		INDIVIDUAL PURCHASER SIGN HERE X-----	
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

1. 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.

INVESTOR CERTIFICATE

TO: **PALOS MANAGEMENT INC.**
AND TO:

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

Series A _____ Series F _____ Series I _____ Series O _____ Series X _____

PALOS WP GROWTH FUND / FONDS PALOS WP CROISSANCE

Series A _____ Series B _____ Series F _____ Series O _____ Series W _____

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

FOR ACCREDITED INVESTORS

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 or it is deemed to be purchasing as principal as it is acting on behalf of a fully managed account it has the right to manage;
- (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 Investor Certificate by the Purchaser, this Investor Certificate shall be incorporated into and form a part of the Subscription Agreement.

PLEASE CHECK THE BOX OF THE APPLICABLE CATEGORY:

- (a) except in Ontario, a Canadian financial institution, or a Schedule III bank;
- (b) except in Ontario, the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada);
- (c) except in Ontario, 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) except in Ontario, a person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer;
- (e) an individual registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in paragraph (d);
- (e.1) an individual formerly registered under the securities legislation of a jurisdiction of Canada, other than an individual formerly registered solely as a representative of a limited market dealer under one or both of the *Securities Act* (R.S.O., 1990, chapter S.5) of Ontario or the *Securities Act* (R.S.N.L., 1990, chapter S-13) of Newfoundland and Labrador,
- (f) except in Ontario, 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) except in Ontario, 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) except in Ontario, any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- (i) except in Ontario, 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;
- (j.1) an individual who beneficially owns financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$5 000 000;
- (k) an individual whose net income before taxes exceeded \$200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the 2 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*], or (iii) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 [*Investment fund reinvestment*];
- (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* (S.C. 1991, c. 45) 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;
- (r) a registered charity under the *Income Tax Act* (R.S.C. 1985, c. 1 (5th Supp.)) 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 an accredited investor;
- (w) a trust established by an accredited investor for the benefit of the accredited investor's family members of which a majority of the trustees are accredited investors and all of the beneficiaries are the accredited investor's spouse, a former spouse of the accredited investor or a parent, grandparent, brother, sister, child or grandchild of that accredited investor, of that accredited investor's spouse or of that accredited investor's former spouse;

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.

**FOR INVESTORS BENEFITING FROM THE BRITISH COLUMBIA AND NEWFOUNDLAND AND LABRADOR
OFFERING MEMORANDUM EXEMPTION
(INVESTORS OF THE PALOS WP GROWTH FUND AND THE PALOS INCOME FUND L.P. ONLY)**

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 the provinces of British Columbia or Newfoundland and Labrador;
- (b) the Purchaser is purchasing the Units as principal for its own account and not for the benefit of any other person; and
- (c) upon execution of this Investor Certificate by the Purchaser, this Investor Certificate shall be incorporated into and form a part of the Subscription Agreement.

The Purchaser hereby acknowledges having received from Palos, the Offering Memorandum dated _____ in relation to the Palos WP Growth Fund and/or the Palos Income Fund L.P., and _____
Initials has had the opportunity to review its contents, been afforded an opportunity to request any additional information if so required, and such information, if any, has been provided in a manner that is fully satisfactory to the Purchaser.

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.

Date

Signature of purchaser

Signature of 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

RISK ACKNOWLEDGEMENT FORM FOR ACCREDITED INVESTORS

FOR INDIVIDUAL ACCREDITED INVESTORS WHO SELECTED PARAGRAPH J, K OR L IN THE ACCREDITED INVESTOR CERTIFICATE

WARNING!

This investment is risky. Don't invest unless you can afford to lose all the money you pay for this investment.

SECTION 1 TO BE COMPLETED BY THE ISSUER OR SELLING SECURITY HOLDER	
1. About your investment	
Type of securities	Palos Income Fund LP: units in a limited partnership investment fund Palos WP Growth Fund: units in an unincorporated trust investment fund
Issuer	Palos Income Fund LP Palos WP Growth Fund
SECTION 2 TO 4 TO BE COMPLETED BY THE PURCHASER	
2. Risk acknowledgement	
This investment is risky. Initial that you understand that:	Your initials
Risk of loss – You could lose your entire investment of \$ _____ [Instruction: Insert the total dollar amount of the investment.]	
Liquidity risk – You may not be able to sell your investment quickly – or at all.	
Lack of information – You may receive little or no information about your investment.	
Lack of advice – You will not receive advice from the salesperson about whether this investment is suitable for you unless the salesperson is registered. The salesperson is the person who meets with, or provides information to, you about making this investment. To check whether the salesperson is registered, go to www.aretheyregistered.ca .	
3. Accredited Investor Status	
You must meet at least one of the following criteria to be able to make this investment. Initial the statement that applies to you. (You may initial more than one statement.) The person identified in section 6 is responsible for ensuring that you meet the definition of accredited investor. That person, or the salesperson identified in section 5, can help you if you have questions about whether you meet these criteria.	Your initials (at least one of the following)
a. Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in the current calendar year. (You can find your net income before taxes on your personal income tax return.)	
b. Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.	
c. Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.	
d. Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)	

4. Your name and signature	
By signing this form, you confirm that you have read this form and you understand the risks of making this investment as identified in this form.	
First and last name (please print):	
Signature:	Date:
SECTION 5 TO BE COMPLETED BY THE SALESPERSON	
5. Salesperson information	
<i>Instruction: The salesperson is the person who meets with, or provides information to, the purchaser with respect to making this investment. That could include a representative of the issuer or selling security holder, a registrant or a person who is exempt from the registration requirement.</i>	
First and last name of salesperson (please print):	
Telephone:	E-mail:
Name of firm (if registered):	
SECTION 6 TO BE COMPLETED BY THE ISSUER OR SECURITY HOLDER	
6: For more information about this investment	
Name of the Funds:	Palos Income Fund LP or Palos WP Growth Fund
Name of Investment Fund Manager:	Palos Management Inc.
Address:	1, Place Ville-Marie, Suite 1670 Montreal, Québec Canada H3B 2B6
Telephone:	(514) 397-0188 or toll-free within Canada: 1-(855) 725-6788
Email address:	info@palos.ca
For more information about prospectus exemptions, contact your local securities regulator. You can also find contact information at www.securities-administrators.ca .	

Form 45-106F9

RISK ACKNOWLEDGEMENT FORM
FOR CERTAIN INVESTORS FROM BRITISH COLUMBIA AND NEWFOUNDLAND AND LABRADOR

FOR INVESTORS IN BRITISH COLUMBIA AND NEWFOUNDLAND AND LABRADOR BENEFITING
FROM THE OFFERING MEMORANDUM EXEMPTION.
(INVESTORS OF THE PALOS WP GROWTH FUND AND THE PALOS INCOME FUND L.P. ONLY)

Risk Acknowledgement

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority or regulator has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- The person selling me these securities is not registered with a securities regulatory authority or regulator and has no duty to tell me whether this investment is suitable for me. *[Strike-out if sold by registrant]*
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- The securities are redeemable, but I may only be able to redeem them in limited circumstances.
- I could lose all the money I invest.

I am investing \$ _____ in total; this includes any amount I am obliged to pay in future. _____ [name of the Fund] will pay \$ _____ [amount of fee or commission] of this to _____ [name of person selling the securities] as a fee or commission.

I acknowledge that this is a risky investment and that I could lose all the money I invest.

Date

Signature of Purchaser

Print name of Purchaser

Sign 2 copies of this document. Keep one copy for your records.

WARNING

You have 2 business days to cancel your purchase

To do so, send a notice to _____ [name of the Fund] stating that you want to cancel your purchase. You must send the notice before midnight on the 2nd business day after you sign the agreement to purchase the securities. You can send the notice by fax or email or deliver it in person to _____ [name of the Fund] at its business address. Keep a copy of the notice for your records.

Fund's Name and Address _____,
1 Place Ville-Marie, Suite 1670
Montreal, Québec, H3B 2B6

Fax: 514-397-0199
E-mail: info@palos.ca

You are buying Exempt Market Securities

They are called *exempt market securities* because two parts of securities law do not apply to them. If an issuer wants to sell *exempt market securities* to you:

- the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections), and
- the securities do not have to be sold by an investment dealer registered with a securities regulatory authority or regulator.

There are restrictions on your ability to resell *exempt market securities*. *Exempt market securities* are more risky than other securities.

You will receive an offering memorandum Read the offering memorandum carefully because it has important information about the issuer and its securities. Keep the offering memorandum because you have rights based on it. Talk to a lawyer for details about these rights.

You will not receive advice [*Strike-out if sold by registrant*]

You will not get professional advice about whether the investment is suitable for you. But you can still seek that advice from a registered adviser or registered dealer.

The securities you are buying are not listed The securities you are buying are not listed on any stock exchange, and they may never be listed. You may never be able to sell these securities.

The issuer of your securities is a non-reporting issuer

A *non-reporting issuer* does not have to publish financial information or notify the public of changes in its business. You may not receive ongoing information about this issuer.

For more information on the exempt market, call your local securities regulatory authority or regulator.

British Columbia Securities Commission (BCSC)
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, BC V7Y 1L2
Website: <http://www.bcsc.bc.ca/>
Telephone: 604-899-6854

Office of the Superintendent of Securities
Service Newfoundland and Labrador
2nd Floor, West Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6

The purchaser must sign 2 copies of this form. The purchaser and the issuer must each receive a signed copy.

Form 45-106F4

SCHEDULE "E"
CLIENT INFORMATION FORM

NEW FORM <input type="checkbox"/> UPDATE <input type="checkbox"/> (check one)

Instructions:

- If the account-holder is an individual, please complete **Part A**. For joint accounts, each account-holder should complete a separate **Part A** and should sign where indicated.
- If the account-holder is a corporation, trust or partnership, please complete **Part B**.
- All account-holders should complete **Part C**.
- Individuals who own or control more than 10% of a corporation, partnership, trust or other entity should complete **Appendix I**.
- Authorized Signatories (who are not also account holders) should complete **Appendix II**.

Part A – For Individuals

Personal Information

SURNAME	GIVEN NAME	SOCIAL INSURANCE NUMBER
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DATE OF BIRTH (dd/mm/yy)	ARE YOU A CANADIAN CITIZEN (check one) <input type="checkbox"/> Yes <input type="checkbox"/> No
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ARE YOU ARE A RESIDENT OF ANY COUNTRY OTHER THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____	ARE YOU ARE A CITIZEN OF ANY COUNTRY OTHER THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____
--	---

ARE YOU SUBJECT TO THE TAX LAWS OF ANY OTHER COUNTRY THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____

STREET NUMBER	APARTMENT NUMBER	CITY
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PROVINCE	POSTAL CODE	EMAIL ADDRESS
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HOME TEL.	BUSINESS TEL.	MOBILE TEL.
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BANK	ADDRESS	ACCOUNT NUMBER
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<i>Please attach a clear copy of a piece of government-issued picture identification that shows your address and signature, such as the front and back of a driver's license.</i>

Part B – For Corporations, Trusts, Partnerships and Other Entities

PLEASE COMPLETE A SEPARATE APPENDIX I FOR EACH INDIVIDUAL WHO OWNS OR CONTROLS MORE THAN 10% OF THE CORPORATION, PARTNERSHIP, TRUST OR ENTITY.

Identifying Information

NAME OF ACCOUNT		TYPE (PARTNERSHIP, COMPANY, TRUST, ETC.)
PROVINCE OR COUNTRY OF INCORPORATION/FORMATION		
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS
BUSINESS TEL.		

UNDER APPLICABLE LEGISLATION, WE ARE OBLIGATED TO OBTAIN THE NAME, ADDRESS AND OCCUPATION OF ALL DIRECTORS OF CORPORATE ACCOUNTS.

Director # 1

SURNAME	GIVEN NAME	OCCUPATION
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS

Director # 2

SURNAME	GIVEN NAME	OCCUPATION
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS

Director # 3

SURNAME	GIVEN NAME	OCCUPATION
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS

Director # 4

SURNAME	GIVEN NAME	OCCUPATION
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS

Director # 5

SURNAME	GIVEN NAME	OCCUPATION
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS

USE AN ADDITIONAL FORM IF NECESSARY.

For each person authorized to give instructions, or who owns more than 10% of the corporation, partnership, trust or entity, please attach a clear copy of a piece of government-issued picture identification that shows the holder's address and signature, such as the front and back of a driver's license.

Part C – For All Account-Holders**Information Required by Regulatory Organizations**

EMPLOYMENT STATUS (check one) <input type="checkbox"/> Employed <input type="checkbox"/> Not Employed		NAME OF EMPLOYER			
EMPLOYER ADDRESS			EMPLOYER TEL.		
SECTOR OF ACTIVITY OF EMPLOYER		JOB TITLE/OCCUPATION		MOBILE TEL.	
IF YOU ARE SELF-EMPLOYED:					
NAME OF BUSINESS		TYPE OF BUSINESS		YEAR ESTABLISHED	
ANNUAL INCOME (CHECK ONE)	<input type="checkbox"/> UNDER \$25,000	<input type="checkbox"/> \$25,001 - \$50,000	<input type="checkbox"/> \$50,001 - \$100,000	<input type="checkbox"/> \$100,001 - \$150,000	<input type="checkbox"/> OVER \$150,001
NET WORTH (CHECK ONE)	<input type="checkbox"/> \$0 - \$100,000	<input type="checkbox"/> \$100,001 - \$200,000	<input type="checkbox"/> \$200,001 - \$500,000	<input type="checkbox"/> \$500,001 - \$1,000,000	<input type="checkbox"/> OVER \$1,000,000
CURRENT VALUE OF LIQUID ASSETS			DO YOU EXPECT TO TRANSACT MORE THAN FIVE TIMES PER MONTH IN THIS ACCOUNT?		
SOURCE OF FUNDS (e.g. savings, inheritance, etc.)			PURPOSE OF ACCOUNT (e.g. investment, etc.)		
INVESTMENT OBJECTIVES (MUST TOTAL 100%) INCOME (%) _____ CAPITAL GROWTH (%) _____					
DO YOU PLAN ON WITHDRAWING 20% OR MORE OF YOUR ACCOUNT IN THE NEXT TWO YEARS (check one)?		<input type="checkbox"/> Yes		<input type="checkbox"/> No	
INVESTMENT KNOWLEDGE (check one)	<input type="checkbox"/> None	<input type="checkbox"/> Limited	<input type="checkbox"/> Average	<input type="checkbox"/> Sophisticated	
I HAVE TRADED IN THE FOLLOWING SECURITIES (check all that apply)	<input type="checkbox"/> Stocks	<input type="checkbox"/> Bonds	<input type="checkbox"/> Rights or Warrants	<input type="checkbox"/> Short-Selling	
	<input type="checkbox"/> Preferred stocks	<input type="checkbox"/> Options	<input type="checkbox"/> Commodities		
RISK TOLERANCE (check one)	<input type="checkbox"/> Low	<input type="checkbox"/> Medium	<input type="checkbox"/> High		
IS ANYONE ELSE AUTHORIZED TO GIVE INSTRUCTIONS ON THE ACCOUNT?	<input type="checkbox"/> YES	<input type="checkbox"/> NO	If yes, please complete Appendix II.		
IF YOU WOULD LIKE TO DESIGNATE ANY BENEFICIARIES OR TRUSTEES FOR THIS ACCOUNT, PLEASE PROVIDE THEIR NAMES AND ADDRESSES (DOES NOT APPLY FOR QUÉBEC RESIDENTS)					

<p>POLITICALLY EXPOSED FOREIGN PERSONS</p>	<p>Under applicable law, Palos is required to determine whether you are a politically exposed foreign person. You are a politically exposed foreign person if you hold or you have ever held one of the following offices or positions in or on behalf of a foreign country:</p> <ul style="list-style-type: none"> - a head of state or government; - a member of the executive council of government or member of a legislature; - a deputy minister (or equivalent); - an ambassador or an ambassador's attaché or counsellor; - a military general (or higher rank); - a president of a state-owned company or bank; - a head of a government agency; - a judge; or - a leader or president of a political party in a legislature. <p>You are also considered a politically exposed foreign person if you are a family member of an individual described above. In this context, a family member means one of the following:</p> <ul style="list-style-type: none"> - mother or father; - child; - spouse or common-law partner; - spouse's or common-law partner's mother or father; and - brother, sister, half-brother or half-sister (that is, any other child of the individual's mother or father). <p>PLEASE CHECK ONE OF THE FOLLOWING STATEMENTS:</p> <p><input type="checkbox"/> I AM A POLITICALLY EXPOSED FOREIGN PERSON.</p> <p><input type="checkbox"/> I AM NOT A POLITICALLY EXPOSED FOREIGN PERSON.</p>
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<p>INSIDERS</p>	<p>Under applicable law, Palos is required to determine whether you are an insider of a public company. In this context, "Insider" means:</p> <ul style="list-style-type: none"> - every director or officer of a public company; - every director or officer of a subsidiary of a public company; - a person, or a director or officer of a person, that exercises control over more than 10% of the voting rights attached to all outstanding voting securities of a public company; - a public company that holds any of its securities; or - a person designated as an insider under applicable law. <p>PLEASE CHECK ONE OF THE FOLLOWING STATEMENTS:</p> <p><input type="checkbox"/> I AM AN INSIDER.</p> <p><input type="checkbox"/> I AM NOT AN INSIDER.</p>
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I certify that the above information is true:

Signature

Date

Signature (account-holder #2, if applicable)

Date

Appendix I – Corporation, Trust, Partnership or Other Entity

Note: PLEASE COMPLETE A SEPARATE APPENDIX I FOR EACH INDIVIDUAL THAT OWNS OR CONTROLS MORE THAN 10% OF THE CORPORATION, PARTNERSHIP, TRUST OR ENTITY. USE MULTIPLE COPIES OF THIS FORM IF NECESSARY.

SURNAME	GIVEN NAME	SOCIAL INSURANCE NUMBER
DATE OF BIRTH (dd/mm/yy)	ARE YOU A CANADIAN CITIZEN (check one) <input type="checkbox"/> Yes <input type="checkbox"/> No	
ARE YOU ARE A RESIDENT OF ANY COUNTRY OTHER THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____	ARE YOU ARE A CITIZEN OF ANY COUNTRY OTHER THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____	
ARE YOU SUBJECT TO THE TAX LAWS OF ANY OTHER COUNTRY THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____		
I AM AN INSIDER OF THESE PUBLIC COMPANIES	I AM A CONTROLLING SHAREHOLDER OF THESE PUBLIC COMPANIES	
<i>Please attach a clear copy of a piece of government-issued picture identification that shows your address and signature, such as the front and back of a driver's license.</i>		

I certify that the above information is true:

Signature

Date

Appendix II – Authorized Signatory

SURNAME	GIVEN NAME	SOCIAL INSURANCE NUMBER
DATE OF BIRTH (dd/mm/yy)	ARE YOU A CANADIAN CITIZEN (check one) <input type="checkbox"/> Yes <input type="checkbox"/> No	
ARE YOU ARE A RESIDENT OF ANY COUNTRY OTHER THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____		ARE YOU ARE A CITIZEN OF ANY COUNTRY OTHER THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____
ARE YOU SUBJECT TO THE TAX LAWS OF ANY OTHER COUNTRY THAN CANADA (check one) <input type="checkbox"/> Yes / <input type="checkbox"/> No (if yes, indicate which country) _____		
STREET NUMBER	APARTMENT NUMBER	CITY
PROVINCE	POSTAL CODE	EMAIL ADDRESS
HOME TEL.	BUSINESS TEL.	MOBILE TEL.
EMPLOYMENT STATUS (check one) <input type="checkbox"/> Employed <input type="checkbox"/> Not Employed		NAME OF EMPLOYER
EMPLOYER ADDRESS		EMPLOYER TEL.
SECTOR OF ACTIVITY OF EMPLOYER	JOB TITLE/OCCUPATION	MOBILE TEL.
<i>If you are self-employed:</i>		
NAME OF BUSINESS	TYPE OF BUSINESS	YEAR ESTABLISHED
I AM A POLITICALLY EXPOSED FOREIGN PERSON (SEE DEFINITION ABOVE)		<input type="checkbox"/> YES <input type="checkbox"/> NO
I AM AN INSIDER (SEE DEFINITION ABOVE)		<input type="checkbox"/> YES <input type="checkbox"/> NO
<i>Please attach a clear copy of a piece of government-issued picture identification that shows your address and signature, such as the front and back of a driver's license.</i>		

I certify that the above information is true:

Signature

Date

Palos Management Inc.
1 Place Ville Marie, Suite 1670
Montreal, QC, Canada, H3B 2B6
www.palos.ca
Main: 514-397-0188
Fax: 514-397-0199
info@palos.ca

**SCHEDULE “F”
DISCLOSURE STATEMENT**

Disclosure Statement

Firm: **Palos Management Inc.**

Palos Management Inc. (“Palos”) is an independent investment management company incorporated under the laws of the Province of Québec. Palos is a portfolio adviser which has established, manages and offers investment funds (the “Palos Funds”). Palos is required, under applicable securities legislation, to make certain disclosures to you, the client. If you have any questions regarding these disclosures, please feel free to contact us at (514) 397-0188 or toll-free at (855) 725-6788. This document was last updated on January 10, 2017.

Reporting

In accordance with applicable regulations, Palos, through its custodian, sends you a statement of account at least once per quarter. Generally, this statement contains information on your account, as well as a listing of each transaction executed during the period. The statement gives the value of the portfolio, how this value has varied over the period, and the rate of return earned. Details on the asset classes making up the portfolio are also given, including their value and weighting. Account details such as the name, quantity, cost and current value of each security held in the portfolio are also provided. The statement lists the nature of each transaction made during the period, the dates on which these transactions took place, and the names and quantities of the securities involved. Finally, the statement contains a summary of the income and capital gains generated by the securities held in the account.

Privacy

Palos respects your privacy. In accordance with provincial privacy legislation, please note that a file is being created that will contain certain identifying personal information. The file will be maintained at Palos’ office, and you may access the file during normal business hours and upon reasonable notice to Palos.

Suitability

Palos has an obligation to assess whether a purchase or sale of a security is suitable for you at all times. Palos will collect information about you for this purpose, including information about your income, net worth, experience with and knowledge about investing, and your future liquidity needs. Palos will discuss your personal financial circumstances with you and will obtain your concurrence with Palos’ intended investing allocation for your account. Palos will update this information occasionally, but at the very least, Palos will update this information every year.

Information on benchmarks

According to Canadian securities Administrators, a benchmark is a market or sector index against which the performance of the investment funds can be measured. For example, if a fund or a portfolio invests mainly in Canadian stocks, the benchmark might be the S&P/TSX Composite Index, which tracks companies trading on the Toronto Stock Exchange. By comparing a fund or a portfolio to an appropriate benchmark, you can see how the investments held by the fund or in your portfolio performed compared to the market or sector in general. For a portfolio composed of securities from several different asset classes, the appropriate benchmark would be a blend of indices weighted according to the portfolio’s asset mix.

For more information about comparing your portfolio’s return to a benchmark, please don’t hesitate to contact us.

Please Note

Investments made in a Palos Fund:

- a. are not insured by a government deposit insurer,
- b. are not guaranteed by the Canadian financial institution or Schedule III bank, and
- c. may fluctuate in value.

Insider Trading

Under the new requirements, Palos is obligated to explain what it means to be an “insider” and what it means to be “publicly traded”.

Being “publicly traded” means a company or an entity has issued securities that are traded, or offered for sale, on a stock exchange.

Under securities law, an “insider” is (1) every director or officer of a publicly traded company or entity, (2) every director or officer of a subsidiary of a publicly traded company or entity, (3) a person that exercises control over more than 10% of the voting rights attached to all outstanding voting securities of a publicly traded company or entity; and a publicly traded company or entity that holds its own securities.

“Insider trading” means using information that has not been disclosed to the public to gain an advantage in buying or selling a security or a derivative (such as an option) that derives its underlying value from that security. Insider trading is illegal and Palos has specific written policies to prevent insider trading.

Risk

All investing involves risk. While Palos takes measures to minimize risk, it is impossible for Palos to completely eliminate risk. The risk of your investments with Palos will vary depending on the type of investments made and may notably include the following risks:

Price Risk

Price risk is the danger of incurring a loss due to an unfavourable change in the market price of a security. With negative news, a security can lose value quickly and in extreme market conditions it is possible to lose one’s entire investment. Some examples of price risk are: the price of a security may be affected by the publication of disappointing financial performance, cessation of contracts vital to the company, departure of employees, issuance of additional shares and other events.

Market Risk

Market risk is the prospect of incurring a loss due to general price changes in the securities market or unfavourable price changes in a certain sector. Unfavourable price changes may be caused, for instance, by the poor financial performance of a country or sector of the economy, unstable economic environment, unstable securities markets, political upheaval, etc.

Currency Risk

Currency risk is the prospect of incurring a loss due to the price of securities being calculated in one foreign currency while purchases

and sales are in another, or due to an issuer operating in one country and generating revenue in another. For example, a loss can be incurred due to unfavourable changes in exchange rates between various currencies, devaluation, long-term depreciation, depegging of a pegged currency exchange rate, etc.

Liquidity Risk

Liquidity risk involves a reduction in or absence of liquidity in the securities market, causing the sale of securities at the desired time at the desired price to be impeded or impossible. In case of steep price drops, there may be few buyers in the market and the sale of a sizable position may exacerbate the drop and increase any losses.

Interest Rate Risk

Interest rate risk is the prospect of incurring a loss because of changes in interest rates in an unfavourable direction. Unfavourable market changes can generate a loss, for example, due to a change in the prevailing interest rates, a change in interest rate volatility, a change in the difference between interest rates (interest rate "spread"), repayment of debts before term, etc. For example, a rise in interest rates in the bond market will result in a drop in bond prices.

Issuer Risk

Issuer risk is the prospect of the value of a security declining due to an issuer's poor financial indicators, financial difficulties or incapacity to meet its obligations toward investors arising from the securities issued by it. For example, filing for bankruptcy protection almost inevitably results in a rapid drop in the price of a company's shares.

Country Risk

Country risk or political risk is the prospect of events in the country or region where the issuers of securities are active or registered that may affect the political or economic stability or future development of that country. Due to such events, an investor may lose in part or all of its investments in that country. Examples of country risks include: radical changes in the political system (such as revolution), in economic policy (nationalization, imposition of trade restrictions, changes in the tax system), and political crises (popular unrest, political confrontation).

Legal Risk

Legal risk is the prospect that legislation may be amended in a manner that has a negative impact on the investor.

Systems Risk

Systems risk is the prospect of incurring a loss due to a technical malfunction in the systems of depositories, custodians, stock exchanges and in settlements of securities transactions. As a result, transactions may fail to be effected, post-transaction transfers may be late, etc.

Custody Risk

Custody risk is the prospect of that in the event of the custodian's bankruptcy the client's securities may be commingled with the assets of the bankrupt, resulting in difficulty regaining possession of the securities or requiring Palos to make a claim in the bankruptcy legal process.

Leverage Risk

Palos will not lend you money. Furthermore, Palos does not initiate or promote the use of leverage in its client accounts. Certain funds managed by Palos may incorporate a limited amount of leverage in accordance with their constituting documents and in compliance with applicable law. If you borrow money from a third party and entrust that money to Palos to invest for you, your gains and losses will be magnified. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

Dispute Resolution

Palos has established a policy to review and resolve disputes. Palos seeks to resolve all conflicts on an informal basis, whenever possible. In the event that a dispute cannot be resolved informally, independent mediation services are available at Palos' expense. If you are a client

Palos and have a dispute with Palos, please contact Mr. Charles Marleau directly to discuss a solution.

As provided by applicable securities laws and regulations in Quebec, a client which is resident in Quebec may, if dissatisfied with our complaint examination process or with its outcome, request from Palos to forward a copy of the complaint file to the Autorité des marchés financiers (the "AMF"), which is our primary regulator. Pursuant applicable regulations, the AMF shall examine the complaint and may, if it considers it appropriate and if the parties agree, act as a mediator at Palos' cost.

For clients in the other provinces, an independent dispute resolution and mediation service, the Ombudsman for Banking Services and Investments, has been made available to clients at Palos' cost.

Identification of Material Conflicts of Interest

Under the new regulations, Palos is obligated to identify material conflicts of interest which would be expected to arise between Palos (including each individual acting on Palos' behalf) and its clients. Further, if a reasonable investor would expect to be informed of the nature and extent of an identified conflict of interest, Palos must do so. One of the central purposes of this Disclosure Statement is to provide Palos' clients with a description of the conflicts that Palos might encounter and the measures Palos has taken to prevent, avoid, and mitigate such conflicts.

Referral Arrangements with Affiliated Managers and Third Parties – Palos may pay a fee to brokers or advisors who place their clients' assets with Palos.

Investments in Related or Connected Issuers - A "related issuer" is a person or company that influences or is influenced by, through ownership or direction and control over voting securities, another person or company.

A person or company is a "connected issuer" to another person or company if, due to its relationships with such person, a prospective purchaser of securities of the person or company might question the other person or company's independence from the first person or company. Specifically, Palos is owned by Palos Capital Corporation and as such are related and connected issuers.

The principals of Palos may have also invested personally in the Palos Funds. Through their position at Palos, it is possible that the principals of Palos may have significant influence over the governance of the Palos Funds.

Finally, the principals of Palos may be directors, officers and/or significant investors in companies, the securities of which may be recommended by Palos for investment.

Investments in Certain Other Issuers – Certain executives of Palos are directors and/or shareholders of several companies, both public and private, the securities of which may also be held in the Palos Merchant Bank LP.

Principal Transactions and Cross Trading Securities – Palos will not engage in cross-trading. Cross-trading is defined as the purchase or sale of securities between any of (i) Palos, (ii) any directors, officers or associates of Palos, or (iii) any investment funds managed by them or (iv) any fully-managed account. For greater certainty, Palos will always trade through arm's length, independent brokers at the prevailing market price.

Best Execution and Soft dollars - When placing orders for and on behalf of clients' accounts or any of the funds, Palos will select those brokers and dealers from whom it reasonably expects to obtain the best execution and settlement services (after considering all transaction costs and research or other benefits). Palos takes steps to ensure that transactions are not more costly to its clients as a result of soft dollars agreements.

While Palos does receive benefits from brokers and dealers, Palos has taken steps to ensure that any potential benefits received are used

only to benefit its clients, either by reducing the commissions paid or by obtaining relevant financial information in order to achieve better returns for their portfolios.

Please refer to "Additional Soft Dollars Disclosure", below.

Marketing, Promotion and Sale of the Funds - Palos' services as advisor and vendor of units of the Funds are integrated and not separable from each other. Palos does not receive any separate compensation or commission for vending units of the Funds. Palos' interest is in the fees paid to it by the Funds its advisory and management services.

Fair Allocation Amongst Clients - Palos has adopted trading policies which are designed to ensure fair allocation of securities amongst client accounts.

Palos' policy in allocating investment opportunities is the following: In order to ensure fairness in the allocation of investment opportunities among its clients and/or funds, Palos will allocate investment opportunities with consideration to the prime determinants of market exposure, cash availability and industry sector exposure and with regard to the suitability of such investments to each person and/or fund. In determining the suitability of each investment opportunity to a person's or a fund's portfolio, consideration will be given to a number of factors, the most important being the person's or fund's investment objectives and strategies, existing portfolio composition and cash levels.

Where an investment opportunity is suitable for two or more clients or funds, Palos will allocate such investment opportunity equitably in order to ensure that clients and funds have equal access to the same quality and quantity of investment opportunities.

When Palos purchases a security, it often does so on behalf of one or more account. The prices paid for a given security are allocated to the accounts and each account therefore gets the security at the same average price.

Allocating Expenses in the Funds - As required by legislation, Palos Funds only pays the following fees: the management fee, audit fees, record keeping fees, independent review committee fees and legal fees.

Pricing and Account Errors - While errors are exceptionally rare, Palos may have a potential conflict of interest when determining when, and how, to deal with a pricing error or other type of unitholder account error, due to the time, processing cost and reimbursement of investors involved. Palos may use third party service providers to calculate net asset values of the Funds and to record unitholder transactions. Palos' Internal Control and Compliance Manual establishes standards for the correction of discrepancies in the calculation of net asset value in a consistent manner and in accordance with industry guidelines.

Proxy Voting and Other Corporate Actions - Palos usually has discretion in voting the portfolio securities purchased on behalf of its clients. A perceived conflict arises given the opportunity to vote securities in its own interest or agree to certain corporate actions. To minimize such conflicts, Palos has established a written set of Proxy Voting Policies and Procedures and maintains records of how it votes securities. Palos does not invest in securities of issuers for the purposes of exercising control over, or participating in management of, issuers.

Personal Trading - Palos has an Internal Control and Compliance Manual that sets forth standards of business conduct intended to prevent possible conflicts of interest, diversions of corporate opportunity or appearances of impropriety. Palos has established policies and procedures for monitoring personal trades of employees, officers and directors who have access to information regarding the portfolios of clients and the Funds.

Gifts and Business Entertainment - When employees of Palos accept gifts or business entertainment of more than minimal value in connection with services provided to Palos' clients or to the Funds, there is also a perceived or potential conflict of interest. Palos has established written standards for the acceptance of gifts and business entertainment from persons or entities with which the firm has an

existing or potential business relationship and regularly monitors employees' adherence to such standards.

Outside Business Activities - Palos has developed policies and procedures that restrict any outside business activity that would interfere or give the appearance of interfering with an employee's ability to act in the best interests of, or perform work for, Palos and its clients.

Fees and Expenses

Fees - In the case of a Palos Fund fees due to Palos shall be payable in accordance with the terms of the subscription agreement and limited partnership agreement or trust agreement applicable to a given fund, as the case may be. The fees will be charged to the fund itself, and not to you directly.

In the case of a segregated account composed of individual securities managed on your behalf by Palos, you will pay an annual fee that will be set out in your investment management agreement with Palos. You will not be charged any additional fees beyond the annual fee (the total amount of which may be divided and charged to you in parts over the course of the year).

If you have a segregated account managed by Palos, Palos may, on your behalf, purchase units of a fund it manages. In that case, in order to ensure that you are not charged twice, Palos will waive its fee for the component of your account that is invested to a Palos Fund. Palos receives a separate fee for managing the Palos Funds.

You should be aware of costs associated with trading securities in your portfolio. We execute trades through NBCN where your brokerage accounts reside. NBCN charges a fee of \$25 per transaction on investment funds and variable commission fees for other securities in the account. NBCN may also levy additional fees in connection with the maintenance of your brokerage account. Our agreement with NBCN is permitting us to waive some of these fees. You can obtain full disclosure of the range and amounts of these fees by referring to the fee pamphlet NBCN has provided to you along with copies of the forms you filled out to open NBCN brokerage accounts.

If you have an external dealer other than NBCN, your external dealer (your broker) may charge you additional fees. Palos does not get a share of any such fees.

Referral Agreements

Palos has, in the past, entered into referral agreements with certain individuals and companies that, from time to time, referred clients to Palos. If Palos enters into a referral agreement and you are referred to Palos pursuant to that agreement, we will send you a separate disclosure containing the details of that referral in compliance with applicable securities legislation.

Referral Agreement with NBCN

NBCN is Palos' client account custodian. This means that your account will be held at NBCN unless you instruct Palos differently. You do not pay an annual fee, account opening fee or account closing fee for having your account at NBCN. If you hold units of investment funds managed by Palos in an NBCN account, NBCN will transfer back to Palos the trailer fees that it receives. This transfer may be considered a referral fee under applicable law. The fee is equal to the trailer fee that would be paid to a third party investment advisor if you purchased units of a Palos fund through that third party advisor. Trailer fees range from 0.25% to 1% of the net asset value of the units on an annual basis. NBCN provides Palos with a wide variety of services, and this fee is part of a larger agreement that Palos has with NBCN. Palos does not perceive any conflicts of interest as a result of this arrangement, except that Palos has an incentive to direct you to open an account with NBCN instead of with another service provider. Nevertheless, Palos believes that NBCN provides an attractive service at a competitive price. NBCN is an IROC-regulated broker and will be providing you with the services commensurate with that role, including all activity requiring registration (except those specific activities that will be provided to you by Palos). Palos will be acting as your portfolio

manager and will be providing you with the services commensurate with that role.

Additional Soft Dollars Disclosure

Palos has entered into a soft dollars agreement. "Soft dollars" means that a broker rebates a certain amount of commission dollars to the advisor. Under Canadian securities law, the advisor is only allowed to use soft dollars for order execution goods and services and research goods and services, which reduces the cost of trading and research. Palos only has one soft dollars arrangement in place: Bloomberg machine services are paid for by NBCN on behalf of Palos. Palos utilizes the Bloomberg machines extensively for research. In fact, the Bloomberg machines are the main tool that Palos uses to gather and analyze information with regards to investment opportunities. Palos also uses the Bloomberg machines to manage risk within investment portfolios it manages. Although Palos considers the Bloomberg machines to be a benefit, the primary factors in determining whether to select one broker over another are timely order execution at a low commission. Palos evaluates brokers initially and on an ongoing basis and determines whether a given broker is performing at or above expectations. Palos also carefully considers a broker's reputation for fairness, honesty and execution. Palos does not have any affiliated entities that are brokers. A typical soft dollars arrangement would provide that a certain percentage of commissions generated would be allocated to a "soft dollars account", which could then be accessed by Palos for certain permitted expenditures. Palos makes a good faith determination that its clients are receiving a reasonable benefit as a result of its soft dollars arrangement because Bloomberg terminals are expensive and that cost would be passed along to Palos' clients if it was not able to access soft dollars. In addition, Palos does not believe that its brokerage costs are any more expensive, nor is order execution any less effective, as a result of its soft dollars arrangements. A copy of the Palos/NBCN soft dollars agreement can be accessed by contacting Palos directly.

If You are a Resident of a Canadian Jurisdiction Outside Québec

If you are a resident of a Canadian jurisdiction outside Québec, please note that Palos is a resident in Québec, and is therefore is a non-resident in your jurisdiction. The following people will accept service on behalf of Palos:

In British Columbia:

Owen Pawson
Answith Corporate Services Ltd.
Robson Court
1000 – 840 Howe Street
Vancouver, BC V6Z 2M1

In Yukon:

Drew Pearson
202-208 Main Street
Whitehorse, Yukon Y1A 2A9

In Alberta:

Bryant D. Freidman
Bryan D. Freidman, Solicitor
3000, 700 – 9th Avenue SW
Calgary, Alberta T2P 3V4

In Manitoba:

Nigel Thompson
Aikins, MacAulay & Thorvaldson LLP
30th Floor, 360 Main Street
Winnipeg, MB R3C 4G1

In New Brunswick:

C. Paul W. Smith
Stewart McKelvey
44 Chipman Hill, Suite 1000
Saint John, NB E2L 4S6

In Newfoundland and Labrador:

Neil L. Jacobs
Stewart McKelvey
11th Floor, 100 New Gower St.

P.O. Box 5038, St. John's, NL A1C 5V3

In Nova Scotia:

Marc Belliveau
Stewart McKelvey
900 – 1959 Upper Water Street
P.O. Box 997
Halifax, NS B3J 2X2

In Ontario:

Paul Marleau
1-18077 Tyotown Road
Cornwall, ON K6H 5R5

In Prince Edward Island:

James C. Travers. Q.C.
Stewart McKelvey
65 Grafton Street
Charlottetown, PEI C1A 8B9

In Saskatchewan:

Aaron D. Runge
MacPherson Leslie & Tyerman LLP
1500 – 1874 Scarth Street
Regina, SK S4P 4E9

Please note that your legal rights may not be enforceable outside Québec, and if you wish to take legal action against Palos, you may have to retain counsel in Québec. Furthermore, Québec law is different from the law outside Québec, and your rights and obligations may be affected as a result. Please contact your legal advisor for more information.

SCHEDULE "G"
PRIVACY POLICY

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.