

Term Sheet

FUND: Palos Income Fund L.P.

Firm: **Palos Management Inc. (Canada)**

This Term Sheet sets forth a summary of information a prospective investor ought to know before investing. For further details on the Fund, Key Personnel, Risk Factors, etc. investors should, before investment, refer to the website of Palos, www.palosmanagement.com. The limited partnership agreement and other significant contracts are available upon request. This Term Sheet is dated May 11, 2012.

Organization Overview

Palos Income Fund L.P. (the "Fund") is a limited partnership formed in Canada on September 1st, 2001. The securities being offered are limited partnership units of a "pooled investment" fund. Palos Management Inc. (the "Firm") is responsible for the investment decisions of the Fund.

Palos Management, Inc., a Canadian investment management company, specializes in income oriented securities markets in Canada and the U.S., i.e., dividend-paying stocks, convertible bonds, preferred shares, REITs, limited partnerships, royalty trusts and MLPs.

Investment Objective & Strategy

The Fund's primary objectives are:

1. to preserve capital;
2. to provide an attractive and steady stream of income; and
3. to deliver trading-enhanced returns.

The Fund is a long-bias, actively managed fund that invests in a core portfolio of select high-grade and undervalued dividend-paying securities. The Fund seeks to enhance the returns of its core portfolio by opportunistically engaging in syndication trades, risk arbitrage, pair trades, statistical pair trades and selling covered calls.

In making investment decisions, management employs a largely fundamental approach complimented with macro analysis, and develops and implements qualitative, quantitative and comparative research methods and proprietary free cash flow models.

Summary of Terms

Subscription:	Daily
Minimum Investment:	Accredited investors only CA \$150,000 (in all provinces) CA \$1,000 (accredited investors) CA \$500 (subsequent purchases)
Eligibility:	Canadian residents only
Legal Domicile:	Canada
Distributions Frequency:	Quarterly
Withdrawals:	Last business day of each calendar quarter (upon written request)
Notice:	30 days before quarter end
Loan Facility:	Not to exceed 25% on NAV
No Fee Switching:	Palos Funds
Fiscal Year:	December 31
Management Fee:	1% on Book Value
Performance Fee:	20% over 10% hurdle
Hurdle Rate:	10%
High-Water Mark:	None
Trailer Fee:	0.25% (included in management fee)
Redemption Fee:	0%
Early Redemption Fee:	1% on NAV (waived if redemption done on the last business day of each quarter, with 30 days prior written notice to Fund Company)
FundSERV:	PAL 100

Portfolio Characteristics

Strategy:	Long Bias
Asset Class:	Mix of dividend paying stocks, preferred shares and convertible bonds
Region:	North American with a Canadian focus
Approach:	Top-Down/Bottom-Up
Process:	Fundamental Analysis
Investment Style Bias:	Value
Market Cap. Bias:	No Bias
Sector Bias:	No Bias
Underlying Currency:	Canadian Dollars and some U.S. Dollars
Currency Hedging:	Strategic hedging

Firm Information

Firm:	Palos Management Inc.
Role:	Investment Fund Manager
Web Site:	www.palosmanagement.com
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Contacts

Prime Broker:	CIBC World Markets Inc.
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DISCLAIMER: This offering is made available only in those jurisdictions where it may be lawfully offered. No securities regulatory authority has expressed an opinion about the securities offered herein and it is an offence to claim otherwise.

This document constitutes an Offering Memorandum. Where an offering memorandum contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied on the misrepresentation, the following rights:

1. The purchaser has a right of action for damages against the issuer and a selling security holder on whose behalf the distribution is made.
2. If the purchaser purchased the security from a person or company referred to in paragraph 1, the purchaser may elect to exercise a right of rescission against the person or company. If the purchaser exercises this right, the purchaser ceases to have a right of action for damages against the person or company.