



**TERMS AND CONDITIONS OF SUBSCRIPTION FOR  
CLASS C COMMON SHARES OF RIVER HILLS RAILROAD INC.**

**Terms of the Offering**

1. The Subscriber acknowledges that this subscription is subject to rejection or allotment by the Corporation in whole or in part. The Subscriber acknowledges and agrees that the Shares are subject to a minimum subscription and that if such minimum subscription is not achieved that the Corporation will reject this Subscription and return all moneys paid hereunder. Alternatively, if the minimum subscription is achieved the Corporation may close the Offering (as defined herein) in one or more closings in its sole discretion, either before or after the Closing Date.
2. The Subscriber acknowledges that the Class C Common Shares subscribed for by it hereunder form part of a larger offering by the Corporation of Common Shares (hereinafter referred to as the "Securities").
3. The Subscriber acknowledges that the Securities are being offered hereunder in reliance upon certain exemptions from the prospectus requirements in the province of **Manitoba** and will be subject to restrictions on resale until such time as:
  - (i) the applicable hold period has expired;
  - (ii) a further exemption may be relied upon by the Subscriber; or
  - (iii) an appropriate discretionary order is obtained pursuant to applicable securities legislation.

**Representations, Warranties and Covenants by the Subscriber**

4. The Subscriber represents, warrants and covenants to the Corporation (and acknowledges that the Corporation is relying thereon) that:
  - (a) it has not become aware of any advertisement in printed media of general and regular paid circulation (or other printed public media), radio, television, or telecommunications or other form of advertisement (including electronic display) with respect to the distribution of the securities offered under the Offering and did not become aware of the Offering and was not influenced to purchase the Securities as the result of any press release, newspaper, radio, television, news service report or other media coverage relating to the Corporation or the Offering; and
  - (b) it is or is deemed to be, pursuant to National Instrument 45-106 ("**NI 45-106**") entitled "Prospectus and Registration Exemptions" promulgated under *The Securities Act*, (Manitoba), purchasing the Shares as principal for its own account, not for the benefit of any other person, for investment only and not with a view to the resale or distribution of all or any of the securities comprising the Shares, it is resident in, or otherwise subject to the applicable securities legislation of, the jurisdiction set out as the "Subscriber's Address" on the initial page hereof and it fully complies with the criteria set forth below:
    - (i) it is resident in or otherwise subject to the applicable securities legislation of **Manitoba** and it is an "accredited investor" as such term is defined in NI 45-106, it was not created or used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of accredited investor in NI 45-106 (which is reproduced in Appendix "A" to **Exhibit 1**), and it has concurrently executed and delivered a Representation Letter in the form attached as **Exhibit 1** to this Subscription Agreement and has initialled or placed a check mark in Appendix "A" thereto indicating that the Subscriber satisfies one of the categories of "accredited investor" set forth in such definition; or

- (ii) it is resident in or otherwise subject to the applicable securities legislation of **Manitoba** and it is one of the following and has so indicated by initialling the applicable paragraph:
- \_\_\_\_\_ A. a "director", "executive officer" or "control person" of the Corporation, or of an "affiliate" of the Corporation (within the meaning of these expressions as used in NI 45-106); or
  - \_\_\_\_\_ B. a "spouse" (within the meaning of that expression as used in NI 45-106), parent, grandparent, brother, sister or child of any person referred to in subparagraph A above; or
  - \_\_\_\_\_ C. a parent, grandparent, brother, sister or child of the spouse of any person referred to in subparagraph A above; or
  - \_\_\_\_\_ D. a "close personal friend" (within the meaning of that expression as used in NI 45-106) of any person referred to in subparagraph A above and, if requested by the Corporation will provide a signed statement describing any such person and the nature of the relationship with such persons. For the purposes of this subparagraph D, "close personal friend" means that you have known such individual well enough and for a sufficient period of time and in a sufficiently close relationship (where such relationship is direct and extends beyond being a relative or a member of the same organization, association or religious group or a client, customer or former client or customer or being a close personal friend of a close personal friend of such individual) to be in a position to assess the capabilities and the trustworthiness of such individual; or
  - \_\_\_\_\_ E. a "close business associate" (within the meaning of that expression as used in NI 45-106) of any person referred to in subparagraph A above and, if requested by the Corporation, will provide a signed statement describing any of such persons and the nature of the relationship with such persons. For the purposes of this subparagraph E "close business associate" means that you have had sufficient prior business dealings with such individual (where such relationship is direct and extends beyond solely being a client, customer or former client or customer or being a close business associate of a close business associate of such individual) to be in a position to assess the capabilities and trustworthiness of such individual; or
  - \_\_\_\_\_ F. a "founder" (within the meaning of that expression as used in NI 45-106), of the Corporation or a spouse, parent, grandparent, brother, sister, child, close personal friend or close business associate of a founder of the Corporation; or
  - \_\_\_\_\_ G. a parent, grandparent, brother, sister or child of a spouse of a founder of the Corporation; or
  - \_\_\_\_\_ H. a "person" (within the meaning of that expression as used in NI 45-106) of which a majority of the voting securities are beneficially owned by, or a majority of directors are, persons or companies described in subparagraphs A through G above; or
  - \_\_\_\_\_ I. a trust or estate of which all of the beneficiaries or a majority of the trustees or executors are persons or companies described in subparagraphs A through G above;

- (iii) provided that if the Subscriber is resident in, or otherwise subject to the applicable securities legislation of **Manitoba**, and is relying on the exemptions contained in (i) 4(b)(ii)D or 4(b)(ii)E; (ii) 4(b)(ii)F based on its relationship as a close personal friend or close business associate of a founder of the Corporation, or (iii) 4(b)(ii)H or 4(b)(ii)I and the trade is based in whole or in part on a close personal friendship or close business association, the Subscriber must execute and deliver a signed Risk Acknowledgement Form in the form attached to this Subscription Agreement as **Exhibit 2** and provided that no commission or finder's fee may be paid to any director, officer, founder or control person of the Corporation or an affiliate of the Corporation in connection with the trade;
- (c) if it is a corporation, partnership, unincorporated association or other entity, it has been duly incorporated or created, it is valid and subsisting under the laws of its jurisdiction of incorporation or creation, it has the legal capacity to enter into and be bound by this Subscription Agreement, and all necessary approvals in respect of its entering into this Subscription Agreement have been obtained; and
- (d) if it is an individual, it is of the full age of majority and is legally competent to execute this Subscription Agreement and take all action pursuant to each of such agreements; and
- (e) this Subscription Agreement has been duly and validly authorized, executed and delivered by, and constitutes a legal, valid, binding and enforceable obligation of, the Subscriber; and
- (f) it has such knowledge in financial and business affairs as to be capable of evaluating the merits and risks of its investment and it, or, where it is not purchasing as principal, each beneficial purchaser, is able to bear the economic risk of loss of its investment; and
- (g) it has neither received or been provided with, nor has it requested, nor does it have any need to receive, any prospectus, offering memorandum, sales or advertising literature, or any other document describing the business and affairs of the Corporation which has been prepared for delivery to and review by prospective purchasers in order to assist it in making an investment decision in respect of the Shares; and
- (h) the Subscriber has not relied upon any verbal or written representation as to fact or otherwise made by or on behalf of the Corporation; and
- (i) if required by applicable securities legislation, regulations, rules, policies or orders or by any securities commission, stock exchange or other regulatory authority, the Subscriber will execute, deliver, file and otherwise assist the Corporation in filing, such reports, undertakings and other documents with respect to the issue of the Securities (and in any event, in the case of an "accredited investor" resident in or otherwise subject to the applicable securities legislation of **Manitoba**, a Representation Letter in the form attached as **Exhibit 1**); and
- (j) it acknowledges that it may be required to file a report in a prescribed form, together with prescribed fees, with securities regulatory authorities within a prescribed period of time of each disposition of all or any part of the Securities (and any securities which may be issued directly or indirectly, in exchange therefor or in connection therewith); and
- (k) it will not resell the Securities (and any securities which may be issued directly or indirectly, in exchange therefor or in connection therewith) except in accordance with this Subscription Agreement and the provisions of any applicable securities legislation and stock exchange rules at the time of such resale; and
- (l) the entering into of this Subscription Agreement and all related agreements and the transactions contemplated hereby will not result in a violation of any of the terms or provisions of any law applicable to the Subscriber, or if the Subscriber is not a natural person, any of the Subscriber's

constating documents, or any agreement to which the Subscriber is a party or by which it is bound; and

- (m) the Subscriber acknowledges that it has been encouraged to obtain independent legal, income tax and investment advice with respect to its subscription for the Securities, and it has had the opportunity to acquire an understanding of the meanings of all terms contained herein relevant to the Subscriber and the Offering for purposes of giving representations, warranties and covenants under this Subscription Agreement.

## **General**

5. Throughout this Subscription Agreement, if the Subscriber is contracting on behalf of another person or persons, all representations, warranties, covenants, acknowledgements, confirmations and statements made by the Subscriber hereunder shall be true with respect to such person or persons on whose behalf the Subscriber is contracting as if such representations, warranties, covenants, acknowledgments, confirmations or statements were made directly by such person or persons.

6. The Subscriber agrees that the representations, warranties and covenants of the Subscriber herein will be true and correct as of the execution of this Subscription Agreement and will survive the completion of the issuance of the Securities (and the securities which may be issued, directly or indirectly, in exchange therefor or in connection therewith). The representations, warranties and covenants of the Subscriber herein are made with the intent that they be relied upon by the Corporation in determining the eligibility of a purchaser of Securities and the Subscriber agrees to indemnify the Corporation against all losses, claims, costs, expenses and damages or liabilities which it may suffer or incur which are caused or arise from a breach thereof and reliance thereon. The Subscriber undertakes to immediately notify the Corporation, through its solicitors, c/o Thompson Dorfman Sweatman LLP, 2200 - 201 Portage Avenue, Winnipeg, Manitoba R3B 3L3 Attention: Art Stacey, (ajs@tdslaw.com) of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing.

7. The Subscriber acknowledges and agrees that all costs incurred by the Subscriber relating to the sale of the Securities to the Subscriber hereunder shall be borne by the Subscriber.

8. Nothing herein shall constitute or be construed to constitute a partnership of any kind whatsoever between the Subscriber and the Corporation.

9. The contract arising out of this Subscription Agreement and all documents relating thereto, which by common accord has been or will be drafted in English, shall be governed by and construed in accordance with the laws of the Province of Manitoba and the federal laws of Canada applicable therein. The parties irrevocably attorn to the exclusive jurisdiction of the courts of the Province of Manitoba. Time shall be of the essence hereof.

10. This Subscription Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.

11. The Subscriber acknowledges that this Subscription Agreement and certain of the Exhibits hereto require the Subscriber to provide certain personal information to the Corporation. Such information is being collected by the Corporation for the purposes of completing the Offering, which includes, without limitation, determining the Subscriber's eligibility to purchase the Securities under applicable securities legislation, preparing and registering certificates and/or agreements representing the Securities to be issued to the Subscriber, completing filings required by stock exchanges or securities regulatory authorities and applying to Canadian tax authorities for tax clearance certificates. The Subscriber's personal information may be disclosed by the Corporation to: (a) stock exchanges or securities regulatory authorities; (b) the registrar and transfer agent of the Corporation, if any; (c) Canadian tax authorities; and (d) any of the other parties involved in the Offering, including legal counsel for the Corporation. By executing this Subscription Agreement, the Subscriber is deemed to be consenting to the foregoing collection, use and disclosure of the Subscriber's personal information. The Subscriber also consents to the filing of copies or

originals of any of the Subscriber's documents described herein as may be required to be filed with any stock exchange or securities regulatory authority in connection with the transactions contemplated hereby.

12. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.

**NOTE:**

- (a) **"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;
- (b) **"person"** includes
  - (iii) an individual,
  - (iv) a corporation,
  - (v) a partnership, trust, fund and an association, syndicate, organization or other organized group of persons, whether incorporated or not, and
  - (vi) an individual or other person in that person's capacity as a trustee, executor, administrator or personal or other legal representative;

**EXHIBIT 1**

**REPRESENTATION LETTER**

**TO: RIVER HILLS RAILROAD INC. (the "Corporation")**

In connection with the purchase of Class C Common Shares in the share capital of the Corporation (the "Shares") by the undersigned subscriber or, if applicable, the principal on whose behalf the undersigned is purchasing as agent (the "**Subscriber**" for the purposes of this Exhibit 1), the Subscriber hereby represents, warrants, covenants and certifies to the Corporation that:

2. The Subscriber is resident in or is subject to the laws of Manitoba;
3. The Subscriber is purchasing the Shares as principal for its own account;
4. The Subscriber is an "accredited investor" within the meaning of National Instrument 45-106 entitled "Prospectus and Registration Exemptions" ("**NI 45-106**") by virtue of satisfying the indicated criterion as set out in Appendix "A" to this Representation Letter;
5. The Subscriber has not been created or used solely to purchase or hold securities as an "accredited investor" as described in paragraph (m) of the definition of "accredited investor" in NI 45-106, which is reproduced in Appendix "A" to this Representation Letter; and
6. Upon execution of this Exhibit 1 by the Subscriber, this Exhibit 1 shall be incorporated into and form a part of the Subscription Agreement.

Dated: \_\_\_\_\_, 2011

\_\_\_\_\_  
Print name of Subscriber

By:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print name of Signatory (if different from  
Subscriber)

\_\_\_\_\_  
Title

**IMPORTANT: PLEASE INITIAL THE CATEGORY OR CATEGORIES  
IN APPENDIX "A" ON THE NEXT PAGE THAT DESCRIBE YOU**

**APPENDIX "A"**

**TO EXHIBIT 1**

**PLEASE MARK YOUR INITIALS OR PLACE A CHECKMARK BESIDE THE CATEGORY OF  
"ACCREDITED INVESTOR" TO WHICH YOU BELONG.**

**Accredited Investor** - (defined in National Instrument 45-106) means:

- \_\_\_\_\_ (a) a Canadian financial institution, or a Schedule III bank;
- \_\_\_\_\_ (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada);
- \_\_\_\_\_ (c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary;
- \_\_\_\_\_ (d) a person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than a person registered solely as a limited market dealer under one or both of the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador);
- \_\_\_\_\_ (e) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in paragraph (d);
- \_\_\_\_\_ (f) the Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada;
- \_\_\_\_\_ (g) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l'île de Montréal or an intermunicipal management board in Québec;
- \_\_\_\_\_ (h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- \_\_\_\_\_ (i) a pension fund that is regulated by either 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, directly or indirectly, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000;
- \_\_\_\_\_ (k) an individual whose net income before taxes exceeded \$200,000 in each of the 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, 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 of NI 45-106 [Minimum amount investment], and 2.19 of NI 45-106 [Additional investment in investment funds], or (iii) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 of NI 45-106 [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* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be;
- \_\_\_\_\_ (q) a person acting on behalf of a fully managed account managed by that person, if that person (i) is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction, and (ii) in Ontario, is purchasing a security that is not a security of an investment fund;
- \_\_\_\_\_ (r) a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded;
- \_\_\_\_\_ (s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) to (d) or paragraph (i) in form and function;
- \_\_\_\_\_ (t) a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors;
- \_\_\_\_\_ (u) an investment fund that is advised by a person registered as an adviser or a person that is exempt from registration as an adviser; or
- \_\_\_\_\_ (v) a person that is recognized or designated by the securities regulatory authority or, except in Ontario and Québec, the regulator as (i) an accredited investor, or (ii) an exempt purchaser in Alberta or British Columbia.

**NOTE: The investor must initial or place a checkmark beside the applicable portion of the above definition.**

**EXHIBIT 2**  
**RISK ACKNOWLEDGMENT FORM**  
**FORM 45-106F5**

**WARNING**

- 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.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- I could lose all the money I invest.

I am investing \$\_\_\_\_\_ in total, representing \_\_\_\_\_ Class \_\_\_\_ shares; this includes any amount I am obliged to pay in future.

**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.**

**You have 2 business days to cancel your purchase.**

To do so, send a notice to River Hills Railroad Inc stating that you want to cancel your purchase. You must send the notice before midnight on the 2<sup>nd</sup> business day after you sign the agreement to purchase the securities. You can send the notice by fax (204) 934-0537 or email ([h.purkess@mts.net](mailto:h.purkess@mts.net)) or deliver it in person to River Hills Railroad Inc. at its business address: c/o the R.M. of Victoria, Holland, Manitoba. Keep a copy of the notice for your records.

### **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.

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 ahs 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**

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. In Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edwards Island, Quebec, Saskatchewan, and Yukon to qualify as an eligible investor, you may be required to obtain that advice.

### **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. There may be no market for these securities. 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. You can only sell the securities of a non-reporting issuer in very limited circumstances. You may never be able to sell these securities.

For more information on the exempt market, call your local securities regulatory authority or regulator: The Manitoba Securities Commission, (204) 945 - 2548; [www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)

***[Instruction: The purchaser must sign 2 copies of this form. The purchaser and the issuer must each receive a signed copy.]***