

OFFERING MEMORANDUM



Date: August 21, 2019

The Issuer

Name: **HERA INVESTMENT FUNDS INC.**
Head office: Address: 103 – 850 Harbourside Drive, North Vancouver, British Columbia V7P 0A3
Phone: 604-339-4422
Fax: 604-988-8736
E-mail: info@herafunds.com

Currently listed or quoted? No. **These securities do not trade on any exchange or market.**
Reporting issuer? No
SEDAR filer? No

The Offering

Securities offered: Class “B” Preferred Shares (non-voting and redeemable)
Price per security: \$1.00 per Share
Minimum offering: \$200,000 (200,000 Shares)
Maximum offering: \$30,000,000 (30,000,000 Shares)
Minimum subscription amount: \$50,000 (50,000 Shares); \$10,000 if held in Deferred Income Plan (as defined)
Payment terms: The subscription price for Shares being purchased is payable in full by certified cheque or bank draft by the closing of the offering. See Item 5.2 – Subscription Procedure.
Proposed closing date(s): September 3, 2019 and on the first business day of each month thereafter until the earlier of September 1, 2020 or the issuance of the Company’s April 30, 2020 annual financial statements
Income tax consequences: **There are important tax consequences to these securities. See Item 6 – Income Tax Consequences and RRSP Eligibility.**
Selling agent: No. See Item 7 – Compensation Paid to Sellers and Finders.

Resale restrictions

You will be restricted from selling your securities for an indefinite period. See Item 10 – Resale Restrictions.

Purchaser’s rights

You have two business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11 – Purchasers’ Rights.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 – Risk Factors.

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ITEM 1: USE OF AVAILABLE FUNDS

1.1 Funds

The funds that will be available to us from this offering, together with funds that will be available from other sources, are set out in the following table.

	Description	Assuming	
		Minimum Offering	Maximum Offering
A.	Amount to be raised by this offering	\$ 200,000	\$ 30,000,000
B.	Selling commissions and fees ⁽¹⁾	500	25,000
C.	Estimated offering costs (e.g. legal, accounting & audit)	50,000	100,000
D.	Available funds: D = A - (B + C)	\$ 149,500	\$ 29,875,000
E.	Additional sources for funding required (available)	0	0
F.	Working capital (or deficiency) ⁽²⁾	0	0
G.	Total: G = (D + E) - F	\$ 149,500	\$ 29,875,000

(1) Assuming a minimum of one and a maximum of 50 investments are made. See Item 7 – Compensation Paid to Sellers and Finders.

(2) We do not have, as at the date of this Offering Memorandum, nor do we expect to have significant working capital (as substantially all of our cash on hand is generally loaned to borrowers) or a working capital deficiency.

1.2 Use of Available Funds

We will use the funds available from this offering, together with funds that will be available from other sources, as estimated in Item 1.1 – Funds, as set out in the following table.

Description of intended use of net proceeds (listed in order of priority)	Assuming	
	Minimum Offering	Maximum Offering
Invest in residential, commercial and industrial mortgages secured by real estate property located in Canada ⁽¹⁾	\$ 149,500	\$ 29,875,000
Totals	\$ 149,500	\$ 29,875,000

(1) Our revenue from operations has been, and we expect it to continue to be, sufficient to cover our operating costs.

1.3 Reallocation

We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons.

ITEM 2: BUSINESS OF HERA INVESTMENT FUNDS INC.

2.1 Structure

We are a company incorporated under the *Business Corporations Act* (British Columbia) on April 1, 2014.

2.2 Our Business

We carry on the business of a “mortgage investment corporation” or “MIC” under Canada’s *Income Tax Act* (the “**Tax Act**”). MICs generate most of their income from loans secured by mortgages on Canadian real estate. Under the Tax Act, a MIC’s only permitted undertaking is the investing of its funds in connection with real estate in Canada, and MICs are specifically prohibited from managing or developing real estate property.

Taxation of MICs

The Tax Act provides that MICs do not have to pay income tax on their net income and net realized capital gains if they annually distribute such net income and one-half of such net realized capital gains (that is, the “taxable capital gains”) to the MIC’s shareholders. Therefore, to qualify as a MIC and receive this favourable tax treatment, we annually pay out all of our net income and taxable capital gains. The annual distribution is paid, at the election of each Class “B” Shareholder, in cash or in further Class “B” Shares within 90 days of our financial year end. **These distributions are taxed as interest income in the hands of the Class “B” Shareholders and not as dividends** as described in Item 6 – Income Tax Consequences and RRSP Eligibility.

Business Objective

Our business objective is to develop a stable source of income from a portfolio of loans to homeowners, builders and developers secured by mortgages on their residential commercial, industrial and real estate in Canada. We primarily hold first and second mortgages with a principal amount which, when added to the principal amount of prior mortgages, is not more than 80% (85% if we are loaning under a first mortgage) of the appraised value of the property against which the mortgages are secured. Most of the mortgages will secure loans made by us,

Location and Regulation of our Business

Currently, we conduct our mortgage lending business only in British Columbia. Accordingly, we are registered as a mortgage broker in British Columbia. The Office of the Registrar of Mortgage Brokers at the [British Columbia] Financial Institutions Commission regulates the mortgage brokering and lending activities of MICs under the *Mortgage Brokers Act* (British Columbia). The Registrar and the *Mortgage Brokers Act* do not regulate the capital raising and investment marketing activities of MICs which are subject to securities legislation and regulation. We may extend our lending into other provinces and, if we

do, we will obtain such authorizations under applicable corporate and mortgage legislation in order to carry on business as a MIC in such provinces.

Investment Policies

We intend to obtain mortgages for our portfolio as follows:

Direct Origination – Through direct negotiations with borrowers such as home purchasers, homeowners, homebuilders and industrial and commercial owners, developers and real estate syndicators.

Agency Origination – Through qualified market intermediaries who assist in identifying mortgage investment opportunities consistent with our investment policies. These intermediaries will be experienced mortgage brokers or lenders who have demonstrated their ability to supply mortgage loans within the parameters of our lending criteria.

We will primarily invest in (by making loans secured by) residential, commercial and industrial mortgages in accordance with the following investment policies:

- (a) All mortgages will, prior to funding, be registered in our name on the title to the subject property.
- (b) The largest first mortgage we will fund is \$4 million and the smallest is \$25,000.
- (c) For a first mortgage, we will not loan more than 85% of the appraised value.
- (d) Depending on the specific mortgage and the market, we might charge lender fees and the mortgages will be pre-payable without penalty.
- (e) Mortgages will have a term of one year, with a possible one year renewal.
- (f) All mortgages must be on properties in established or developing areas in British Columbia, including the Greater Vancouver area, and some Fraser Valley properties.
- (g) The residence must be owner-occupied or be an investment property, the property cannot exceed two acres in size nor located in an agricultural land reserve, there must be a minimum of 15 years of economic life left in the residence unless the building is going to be demolished and the property developed, if the property is leasehold, there must be a minimum of 25 years left on the lease, and we will lend on lands that are going to be developed.
- (h) We will generally only invest in mortgages on properties for which we have reviewed and evaluated an independent appraisal from a suitable, approved appraiser, however, if the loan to value ratio is less than 60% of the assessed value, an appraisal may not be required.
- (i) If the independent appraisal reports a value for the real property securing the mortgage other than on an “as is” basis, we will advance funds by way of progress payments upon completion of

specified stages of construction or development supported by receipt progress reports as applicable, or upon completion of other specified milestones.

- (j) We will generally not loan any funds to be secured by a mortgage unless, at the date the funds are initially advanced, the indebtedness secured by such mortgage plus the amount of additional third party indebtedness of the borrower in priority to our loan, if any, does not exceed, on a property by property basis, 80% (85% if we are loaning under a first mortgage) of the appraised value of the real property securing the mortgage, where the appraised value may be based on stated conditions including, without limitation, completion, rehabilitation or lease-up of improvements located on the real property and which activities we will monitor on an ongoing basis.
- (k) Commercial first mortgages will be made on similar terms as set out above provided the property does not have any environmental concerns, although the loan to appraised value ratio is reduced from 80% (85% if we are loaning under a first mortgage) to 75%.
- (l) For second mortgages, we will loan up to 80% of the appraised value, and the maximum mortgage amount is reduced to \$4 million.
- (m) To the extent that, from time to time, our funds are not invested in mortgages or other permitted investments as allowed in the Tax Act's MIC criteria, they will be held in cash deposited with a Canadian chartered bank or trust company or in short term deposits, savings accounts or government guaranteed income certificates or treasury bills so as to maintain a level of working capital for our ongoing operations we consider acceptable.
- (n) We will not make any investment, or allow any mix of investments, that would result in our failing to qualify as a MIC pursuant to the Tax Act.

Leveraging through Borrowing

Under the Tax Act, our borrowing is restricted to a maximum of three times our equity capital unless at least two-thirds of the book value of our investments are mortgages secured on Canadian residential property, money, and specified deposits, in which case our maximum borrowing is five times our equity capital.

We believe that this leverage opportunity is important in terms of our dividend performance, and we intend to maximize our leverage opportunity under the Tax Act. We will do so by borrowing funds whenever possible and if it is economical and prudent to do so. These borrowings may take the form of lines of credit from banks and other lending institutions and promissory notes and other types of debt contacts with individuals and companies. It is probable that debt instruments will form part of a floating charge against our assets and equity, and in the event of liquidation or wind-up, will rank in priority to our outstanding shares.

Management Company

We rely on the expertise of our CEO and CFO, Stella Liao, to manage our business (“**Manager**”). She is a registered mortgage sub-broker with significant experience in the real estate industry. See Item 3.2 – Management Experience.

Our Manager is solely responsible for administration of our mortgage portfolio in accordance with our investment policies and investor relationships, including:

- Assisting us with respect to raising additional funding (including through exempt market dealers) and communicating with our shareholders;
- Administering mortgages and other security interest related to real estate; and
- Providing administrative services required by us in carrying on business as a Mortgage Investment Corporation.

Until August 1, 2019, we paid Ms. Liao a fee of \$5,000 per month in consideration of her services. Effective August 1, 2019, we began to pay Ms. Liao, or a management company owned by her, a fee of \$12,000 per month and by the end of each financial year a bonus equal to the difference between the fees paid and up to 1.5% of the principal amount of our mortgage portfolio depending on our performance.

We will indemnify and save our Manager harmless if she suffers a loss of any nature in connection with the performance of her duties, except where such loss resulted from the negligence, wilful misconduct or dishonesty of our Manager, her employees or agents. However, our Manager will be liable to us for any loss caused by her in carrying out her duties in a negligent or wilfully or dishonestly improper manner.

The appointment of our Manager has an indefinite term and may be terminated upon any of the following events:

- (a) if any proceedings in insolvency, bankruptcy, receivership or liquidation be taken against or by our Manager;
- (b) if our Manager assigns or purports to assign the agreement or any rights accruing thereunder without our prior written consent;
- (c) if our Manager commits a breach or default under the agreement, but if such breach or default does not relate to payment of any monies to be paid by our Manager to us, we shall give our Manager notice in writing stipulating the breach or default and our Manager shall have 30 days to remedy the default;
- (e) upon three months written notice by either party; or
- (f) mutual consent, in writing, of us and our Manager.

2.3 Development of Business

We began our operations in April 2016 by raising initial financing totalling \$275,000 and making one loan.

In our financial year ended April 30, 2019, we raised \$12,567,086 (2018 – \$11,898,000) through the sale of preferred shares for total preferred share capital of \$16,707,854 (2018 – \$12,340,600). Redemptions of preferred shares during our financial year ended April 30, 2019 were \$8,804,303 (2018 – \$135,578). As at April 30, 2019, we had mortgages receivable of \$15,977,250 (2018 – \$11,406,250).

During our financial year ended April 30, 2019 we distributed \$1,172,781, consisting of \$604,471 in additional preferred shares and \$ 568,310 in cash to the holders of our preferred shares (2018 – \$478,498, consisting of \$318,178 in additional preferred shares and \$160,320 in cash).

The average annual rate of return which our shareholders receive on their investments is determined annually by our auditor as at our April 30th financial year end. The effective annual yields on adjusted share capital for our shareholders for our most recent financial quarter ended July 31, 2019 and the past eight financial quarters comprising our two most recent financial years ended April 30, 2019 and 2018 are set out in the following table.

Year	Q 4	Q 3	Q 2	Q 1
2020	–	–	–	7.5480%
2019	8.2971%	8.4926%	6.2012%	8.8000%
2018	8.8001%	9.0175%	8.2586%	10.5379%

All of our cash distributions for the financial years shown were, and we expect future distributions to continue to be, funded from our operating activities and funds re-invested through our share re-investment plan, and none were funded from bank borrowings, share subscriptions from our investors or other sources.

The rates of return are averages for all of our shareholders and may not reflect the return received by any one investor. There is no guarantee that such rates of return will continue or that investors will receive similar returns in future years. The factors which affect the rate of return are described in Item 8 – Risk Factors.

It is our intention to raise further funds from private placement financings, lend such funds as a MIC and grow our business as described under Item 2.4 – Long Term Objectives.

2.4 Long Term Objectives

Our principal long term objectives are to raise investment capital and invest in residential mortgages in British Columbia. To achieve those objectives, we need a continuous supply of qualified, performing mortgages. Most of the mortgages in which we intend to invest will be short-term mortgages of less than one year, with a one year renewal, secured by residential real estate in British Columbia. From time to time, we may also invest in commercial and industrial mortgages, but those types of mortgage are intended to be the exception rather than our normal practice. As our capital base expands, we may place some of our capital in longer-term mortgages or outside of British Columbia. We hope to expand our mortgage and investment base to other provinces in Canada, beyond British Columbia, within the next five years.

If we achieve the foregoing objectives, it is our hope that our net income will be in the range of 7% to 9% per year, which income will be distributed on a quarterly basis.

There cannot be any assurance, however, that we will meet any of the foregoing objectives. See Item 8 – Risk Factors.

2.5 Short Term Objectives and How We Intend to Achieve Them

Our short term objectives for the next 12 months are twofold.

Firstly, to carry out the offering described in this Offering Memorandum.

Secondly, to achieve the same objectives as our long term objectives set out in Item 2.4 – Long Term Objectives.

We intend to meet those objectives as set out in the following table.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete	
		Minimum offering	Maximum offering
Carry out the offering as described in this Offering Memorandum.	12 months	\$ 50,500	\$ 125,000
Invest the offering proceeds in compliance with the requirements for MICs under the Tax Act.	12 months	\$ 149,500	\$ 29,875,000

2.6 Insufficient Funds

There is no assurance that (i) any of this offering will be sold, (ii) the proceeds of the offering, if any, will be sufficient to accomplish our proposed objectives, or (iii) alternative financing will be available.

2.7 Material Agreements

We are not currently a party to any material contracts or contracts with related parties other than an oral agreement with our Manager. See Item 2.2 – Management Company.

ITEM 3: INTERESTS OF DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 Compensation and Securities Held

The following table discloses the compensation paid to, and securities held by, each of our directors, officers and promoters and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of our voting securities (a “Principal Holder”).

Name & Municipality of Principal Residence	Positions Held & Date Appointed	Compensation Paid & Payable ⁽¹⁾ Last Year (Current Year)	Number, Type & Percentage of Our Securities held ⁽²⁾ after completion of the:	
			Minimum Offering	Maximum Offering
Qin (Stella) Liao Surrey, British Columbia	CEO, CFO and Director January 22, 2019	\$42,000 (\$123,000 ⁽³⁾)	25 common (16.67%) 30,678 preferred (0.16%)	25 common (16.67%) 30,678 preferred (0.06%)
Afshin Doustmohammadi (Doust) North Vancouver, British Columbia	Principal Holder April 1, 2014	0 (\$2,250 ⁽⁴⁾)	25 common (16.67%) 12,964 preferred (0.07%)	25 common (16.67%) 12,964 preferred (0.03%)
Amir Doustmohammadi North Vancouver, British Columbia	Principal Holder September 1, 2015	0 (\$2,250 ⁽⁴⁾)	25 common (16.67%) 0 preferred (0.00%)	25 common (16.67%) 0 preferred (0.00%)
Parviz Maghsoud West Vancouver, British Columbia	Principal Holder June 30, 2017	0 (\$2,250 ⁽⁴⁾)	25 common (16.67%) 2,038,410 preferred (10.98%)	25 common (16.67%) 2,038,410 preferred (4.20%)
Pooya Tazehzadeh North Vancouver, British Columbia	Principal Holder August 8, 2016	0 (\$2,250 ⁽⁴⁾)	25 common (16.67%) 0 preferred (0.00%)	25 common (16.67%) 0 preferred (0.00%)
Farid Ansari North Vancouver, British Columbia	Principal Holder September 1, 2015	0 (\$2,250 ⁽⁴⁾)	25 common (16.67%) 0 preferred (0.00%)	25 common (16.67%) 0 preferred (0.00%)

- (1) Paid by us in our last financial year. Amounts shown in parentheses are the compensation expected to be paid in the current financial year.
- (2) Common Shares and Class “B” Preferred Shares beneficially held, directly or indirectly, or which control or direction is exercised, by each person including shares held jointly with a spouse. Amounts are subject to variation depending on the share purchases and redemptions during the term of this offering.
- (3) In addition to this amount, a bonus may be paid. See Item 2.2 – Management Company.
- (4) Effective August 1, 2019, holders of our common shares began receiving a monthly dividend of \$10 per share.

3.2 Management Experience

The principal occupations of our sole director and executive officer over the past five years and any relevant experience in a business similar to ours are set out in the following table.

Name & Position	Principal occupation for last five years and related business experience
Stella Liao CEO, CFO and Director	<p>Chartered Professional Accountant (CPA CGA) since May 2012 Registered Mortgage Sub-Broker since August 21, 2019</p> <p>CEO and CFO (since January 22, 2019) of Hera Investment Funds Inc. Previously Controller (from February 2018 to January 22, 2019) of Hera Investment Funds Inc., responsible for financial statements and reporting, administration, training new employees and accounting and regulatory compliance.</p> <p>President and sole Director of Quest CPA Consulting Inc. (accounting services company) from February 2018 to present</p> <p>Formerly, Controller of Reliance Properties Ltd. (property management company) from February 2015 to February 2018, responsible for supervising the accounting team; compliance with accounting principles, laws and regulations; communications with partners, auditors, financial institutions and lawyers; budgeting and managing cash flow for a portfolio of approximately 60 income-producing properties; and managing construction loans for multiple development sites.</p> <p>Formerly, a senior accountant with Warrington PCI Management, League Assets Corporation and Westbank Projects Corp. (real estate management and development companies) from 2004 to 2015 with experience in property management accounting, project accounting, real estate investment trust (REIT) and other income-producing assets accounting, budgeting and due diligence for property acquisition and disposition.</p>

3.3 Penalties, Sanctions and Bankruptcy

- (a) No penalty or sanction has been in effect during the last 10 years and no cease trading order has been in effect for more than 30 consecutive days at any time during the past 10 years against:
- (i) any of our directors, executive officers or control persons; or
 - (ii) an issuer of whom a person referred to in (i) was a director, executive officer or control person at the time.
- (b) No bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, has been in effect during the last 10 years with regard to any:
- (i) of our directors, executive officers or control persons; or
 - (ii) issuer of which a person referred to in (i) above was a director, executive officer or control person at the time.

3.4 Loans

As at the date of this Offering Memorandum there are no debentures or loans due to or from the directors, management, promoters and Principal Holders.

ITEM 4: CAPITAL STRUCTURE

4.1 Share Capital

Our share capital is set out in the following table.

Description of security ⁽¹⁾	Number authorized to be issued	Price per Security	Number outstanding		
			as at the date of this Offering Memorandum	after the minimum offering	after the maximum offering
Common Shares	Unlimited	\$1.00	150	150	150
Class "A" Preferred Shares	Unlimited	\$1.00	0	0	0
Class "B" Preferred Shares	Unlimited	\$1.00	18,543,200	18,573,200	48,543,200
Class "C" Preferred Shares	Unlimited	\$1.00	0	0	0
Class "D" Preferred Shares	Unlimited	\$1.00	0	0	0

(1) All of our shares have a par value of \$1.00.

4.2 Long Term Debt Securities

As of the date of this Offering Memorandum, we do not have any long-term debt.

4.3 Prior Sales

Within the past 12 months, we have issued Common Shares and Class "B" Preferred Shares (and no securities convertible or exchangeable into Common or Class "B" Preferred Shares) as set out in the following table.

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total Funds Received
August 2018	Common	0	\$1.00	0
	Class "B" Preferred	0	\$1.00	0
September 2018	Common	0	\$1.00	0
	Class "B" Preferred	618,000	\$1.00	\$ 618,000
October 2018	Common	0	\$1.00	0
	Class "B" Preferred	1,904,000	\$1.00	\$ 1,904,000

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total Funds Received
November 2018	Common	0	\$1.00	0
	Class "B" Preferred	1,200,000	\$1.00	\$ 1,200,000
December 2018	Common	25	\$1.00	\$ 25
	Class "B" Preferred	1,000,000	\$1.00	\$ 1,000,000
January 2019	Common	0	\$1.00	0
	Class "B" Preferred	239,605	\$1.00	\$ 239,605
February 2019	Common	0	\$1.00	0
	Class "B" Preferred	354,625	\$1.00	\$ 354,625
March 2019	Common	0	\$1.00	0
	Class "B" Preferred	1,130,000	\$1.00	\$ 1,130,000
April 2019	Common	0	\$1.00	0
	Class "B" Preferred	360,858	\$1.00	\$ 360,858
May 2019	Common	0	\$1.00	0
	Class "B" Preferred	0	\$1.00	0
June 2019	Common	0	\$1.00	0
	Class "B" Preferred	210,000	\$1.00	\$ 210,000
July 2019	Common	0	\$1.00	0
	Class "B" Preferred	3,407,000	\$1.00	\$ 3,407,000
Totals	Common	25	\$1.00	\$ 25
	Class "B" Preferred	10,424,088	\$1.00	\$ 10,424,088

4.4 Redemption History

During our last two financial years and subsequent period to the date of this Offering Memorandum, we have redeemed the following Common Shares and Class "B" Preferred Shares:

Financial Year	Redemption Requests							
	Opening Outstanding Requests		Received during Financial Year		Paid Out during Financial Year		Ending Outstanding Requests	
Common Shares								
2018	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
2019	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
2020 ⁽¹⁾	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
Class B Preferred Shares								
2018	0	\$ 0	7	\$ 135,578	7	\$ 135,578	0	\$ 0

Financial Year	Redemption Requests							
	Opening Outstanding Requests		Received during Financial Year		Paid Out during Financial Year		Ending Outstanding Requests	
2019	0	\$ 0	27	\$ 8,804,303	27	\$ 8,804,303	0	\$ 0
2020 ⁽¹⁾	0	\$ 0	14	\$ 1,919,127.26	14	\$ 1,919,127.26	0	\$ 0

(1) Financial period from May 1, 2019 to the date of this Offering Memorandum.

ITEM 5: SECURITIES OFFERED

5.1 Terms of Securities

The securities being offered for sale by this Offering Memorandum are Class “B” Preferred Shares with a par value of \$1.00 each (“Class “B” Shares”) in our share capital. The rights and restrictions of the Class “B” Shares are as follows:

(a) Voting Rights

The holders of Class “B” Shares are not entitled to receive notice of, or to attend or vote at, general meetings of our shareholders other than special meetings of Class “B” Shareholders. Our Common Shares are the only class of our shares entitled to attend and vote at annual general meeting of our shareholders.

(a) Dividend Rights

The Class “B” Shares are entitled to receive dividends equal to our net profits and half of our net capital gains. Our Common Shares are paid a monthly dividend of \$10 per share.

Dividends are paid at the discretion of, and when declared by, our director. Under the Tax Act, dividends of all of our profits and half of our net capital gains must be paid annually, within 90 days of our financial year end. Dividends are paid as either a cash dividend or, if the shareholder elects, a reinvestment into additional Class “B” Shares at a price of \$1.00 per share.

Such dividends will be so declared and paid to the extent that our available cash can support such payment and does not exceed the amount permitted under the Tax Act.

Subject to our Articles and applicable legislation, we reserve the right to amend our policy regarding share dividends as may be in the best interests of our business.

(b) Redemption by Hera

We may redeem, in our sole discretion, all or any portion of a shareholder’s Class “B” Shares at any time upon payment of the Redemption Amount (defined below) and not less than 30 days written notice in writing of such redemption. Upon completion of the redemption process the redeemed Class “B” Shares will be cancelled.

If not all of the outstanding Class “B” Shares are to be redeemed, the Class “B” Shares to be redeemed may be selected at the discretion of the directors and need not to be selected either in proportion to the number of Class “B” Shares registered in the name of each shareholder or from any or every particular shareholder.

The “**Redemption Amount**” to be paid by us in respect of each Class “B” Share to be redeemed will be equal to the net book value of the Class “B” Share plus all dividends declared on the Class “B” Share but unpaid less any deficit divided by the number of outstanding Common Shares and Class “B” Shares.

(c) Retraction (Redemption) by Shareholder

The Class “B” Shares have retraction rights, meaning their holders have the right to present some or all of their Class “B” Shares to us for cancellation and payment to such shareholders of the Retraction Amount for such retracted Class “B” Shares. No retraction shall be made for less than 2,000 Class “B” Shares unless the shareholder owns less than 2,000 Class “B” Shares in which event the shareholder may only redeem all of such shares. Our Articles provide that any retraction made before the second anniversary of issuance of a Class “B” Preferred Share shall be subject to a 4% early retraction penalty, however, we usually waive that penalty unless the retraction is sought within six months of the issuance of the shares in which case we will charge the 4% early retraction penalty, subject to a minimum charge of \$1,000.

A shareholder wishing to retract a minimum of 2,000 Class “B” Shares (“**Retracted Shares**”) must provide us with a written notice of retraction (“**Retraction Notice**”) not less than 90 days prior to our financial year-end and pay an administrative fee of \$200 plus GST. Upon receipt of a Retraction Notice, the holder of the Retracted Shares shall continue to have all rights with respect to the Retracted Shares until the Retraction Amount is paid. If we accept such retraction, any Retracted Shares shall be retracted by us for the Retraction Amount within 90 days after the receipt of the Retraction Notice. The “**Retraction Amount**” to be paid by us for each Retracted Share shall be equal to the net book value of the Class “B” Share plus all dividends declared on the Class “B” Share but unpaid plus interest at the prime interest rate of the Bank of Canada on such unpaid dividends from the date of declaration of the unpaid dividend until the date of payment of the Retraction Amount.

Any retraction is subject to the discretion of our director. The most likely scenarios where the directors would use their discretion to reject a retraction application is where the retraction is made when we are, or it would result in us being, insolvent or if the retraction would result in us not complying with the Tax Act’s MIC requirements regarding shareholders, which require that a MIC has at least 20 shareholders, and no shareholder together with related parties to that shareholder holds among them more than 25% of the issued shares of any class of shares of the MIC.

(d) Compassionate Early Redemption or if no Spouse survives

We may consider, under special circumstances, applications for early redemption on compassionate reasons made by the spouse of a deceased shareholder of Class “B” Shares. The decision as to whether or not to carry out an early redemption is at our sole discretion (which discretion may be delegated to our

Manager, when one is retained) and is otherwise dependent upon applicable law permitting such early redemption.

In the case of a deceased shareholder without a surviving spouse, we shall redeem all of the Class “B” Shares held by the deceased shareholder within 90 days after the end of our financial year.

(e) Modification of Class “B” Share Provisions

The provisions of our Class “B” Shares can only be modified by a resolution approved by not less than 75% of our Class “B” Shareholders and not less than 75% of our Common Shareholders.

(f) Pre-emptive Rights

Class “B” Shares are not entitled to any pre-emptive or priority rights to subscribe for, purchase, or receive any part of any issue of our shares, bonds, debentures or other securities.

(g) Conversion

The Class “B” Shares are not convertible into any other form of share or security.

(h) Liquidation, Dissolution, or Winding-Up

In the event of our liquidation, dissolution or winding up whether voluntary or involuntary, or other distribution of our assets among our shareholders for the purpose of winding up our affairs, or upon a reduction or return of our capital, the amount being distributed shall be apportioned between the Class “B” Shares pro rata according to the total paid up capital and declared and unpaid dividends on each Class “B” Share, thereon, the balance of our assets shall be distributed to the holders of our Class “B” Shares *pro rata* according to the total number of Class “B” Shares held by each shareholder.

(i) Additional Restrictions on Ownership

The Tax Act imposes significant penalties on investments by Registered Retirement Savings Plans (“RRSP”) and Tax Free Savings Accounts (“TFSA”) if the ownership through an RRSP or TFSA by an investor and parties related to the investor equals 10% or more of the shares of a MIC. A “related party” who is an individual includes the investor and any individual related to the investor by blood, marriage, “common law” partnership or adoption. **These Tax Act rules are complex and investors should seek advice from an accountant, investment advisor or other qualified person if the investor and the investor’s related parties might jointly own 10% or more of our Preferred Shares.**

5.2 Subscription Procedure

(a) Subscription Form

Investors wishing to purchase Class “B” Shares must complete the Subscription Agreement attached to this Offering Memorandum.

(b) Method of Payment

A certified cheque or bank draft payable to “Hera Investment Funds Inc.” equal to \$1.00 multiplied by the number of Class “B” Shares being subscribed for.

(c) Submitting Subscriptions

Investors may deliver the completed Subscription Agreement and payment to us at the address set out on the cover page of this Offering Memorandum.

(d) Two Day Cancellation Period

In connection with each investor’s two day cancellation right, their subscription funds will be held until midnight on the second business day after the investor signs the Subscription Agreement.

(e) Acceptance of Subscriptions and Closing

Subscriptions may be accepted by us, subject to the terms and conditions of the Subscription agreement signed by the investor. Subscriptions will be received subject to prior sale and subject to rejection of allotment, in whole or in part, by us prior to any closing.

Subscriptions may be accepted or rejected by us in our sole discretion. We are not obligated to accept any subscription nor to accept subscriptions in the order we receive them. If we reject a subscription, the subscription funds received will be returned to the investor, without interest or deduction, along with notification of the rejection.

This offering is subject to a minimum initial subscription level of 200,000 Class “B” Shares. There are no conditions of closing; therefore any funds received from an investor are available to us and need not be refunded to the investor. Closing will take place periodically at our discretion.

On acceptance of a subscription, the original share certificate will be kept in our office unless you subscribe for your shares through a registered retirement savings plan (“RRSP”), registered retirement income fund (“RRIF”), tax free savings account (“TFSA”), registered education savings plans (“RESP”), or deferred profit sharing plans (“DPSP” and, collectively, “Deferred Income Plans”), in which case the original share certificates are sent to the financial institution administering your Deferred Income Plan. See Item 6.2 – Eligibility for Investment by Deferred Income Plans. We will provide you with a copy of your share certificate for your records on your request.

This offering may be nullified in our sole discretion. For example, we might choose to nullify the offering upon the occurrence of events such as any material adverse change in our business, personnel or financial condition. If this offering is nullified for any reason, the Subscription Agreements and cash funds received by us prior to the nullification will be returned to investors without interest or deduction as if the investors’ subscriptions had been rejected (whether or not the subscription[s] had previously been accepted by us).

A prospective investor becomes a shareholder upon acceptance and execution of the Subscription Agreement by us, payment of the subscription price, and entry of the investor's name in our register of shareholders.

Investors should carefully review the terms of the Subscription Agreement provided with this Offering Memorandum for more detailed information concerning your rights and obligations. Execution and delivery of the Subscription Agreement will bind you to the terms thereof, whether executed by you or by an agent on your behalf. You should consult with your own professional advisors respecting this investment. See Item 8 – Risk Factors.

ITEM 6: INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

6.1 Caution

You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you, including the consequences of acquiring, holding and disposing of Class “B” Shares and the application and effect of the income and other tax laws of any country, province, state or local tax authority.

6.2 Description of Income Tax Consequences

In the opinion of our management, the following tax disclosure is a summary of the principal Canadian federal income tax consequences of acquiring, holding and disposing of Class “B” Shares by a subscriber who, at all relevant times, is a resident of Canada, deals at arm's length with us, and who acquires and holds the Class “B” shares as capital property, all within the meaning of the Tax Act. Subscribers who may not hold the Class “B” shares as capital property may elect, in certain circumstances, to have such property treated as capital property by making an irrevocable election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to any subscriber which is a “financial institution” as defined in section 142.2 of the Tax Act, or to any subscriber an interest in which is a “tax shelter investment” for the purposes of the Tax Act.

This summary is based upon the facts set out in this Offering Memorandum, the current provisions of the Tax Act, the regulations made under the Tax Act (the “**Tax Regulations**”), all specific proposals to amend the Tax Act and the Tax Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Offering Memorandum and the current published administrative practices of Canada Revenue Agency. This summary assumes that all such tax proposals will be enacted as currently proposed but does not take into account or anticipate any other changes in law whether by legislative, government or judicial action and does not take into account tax legislation or considerations of any province, territory or foreign jurisdiction.

The tax disclosures contained in this section is of a general nature only and is not exhaustive of all possible Canadian federal income tax consequences. It is not intended to be and should not be interpreted as legal or tax advice to any particular Subscriber. You should consult your own professional tax advisors regarding the income tax consequences to you of acquiring, holding and disposing of the Class “B”

Shares including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

The Tax Act's MIC Criteria

This summary is based on the assumption that we qualify as a MIC under the Tax Act. Section 130.1 of the Tax Act sets out the criteria governing a MIC which generally provides that in order to qualify as a MIC for a taxation year a company must have met the following criteria throughout that taxation year:

- (a) We are a “Canadian corporation”, that is, a company incorporated and resident in Canada;
- (b) Our only undertaking was the investing of our funds, and we did not manage or develop any real property;
- (c) We did not invest in:
 - (i) debts that are secured on real property outside Canada;
 - (ii) debts of non-residents, other than debts secured on real property situated in Canada;
 - (iii) shares of any company not resident in Canada; or
 - (iv) real property or leasehold interest situated outside Canada;
- (d) We have 20 or more shareholders, and no one shareholder together with related parties to that shareholder held between them more than 25% of the issued shares of any class of our shares;
- (e) Any holder of preferred shares had a right, after payment of their dividends, and payment of dividends in a like amount per share to the holders of common shares, to participate *pari passu* with the holders of common shares in any further payment of dividends;
- (f) The cost amount of our property represented by loans secured on houses or on property included in a housing project, deposits insured by the Canada Deposit Insurance Corporation, deposits in a credit union, together with cash on hand, (collectively, the “**Qualifying Assets**”) is at least 50% of the cost amount to us of all of our property. For the purposes of the foregoing, “house” means a building or movable structure intended for human habitation containing not more than two family housing units, together with the land, if any, on which the building or movable structure is situated; and “housing project” means a building or movable structure intended for human habitation, any property intended to be improved, converted or developed to provide housing accommodation or services in support of housing accommodation, and any property associated with housing accommodation, including, land, buildings and movable structures, and public, recreational, commercial, institutional and parking facilities;

- (g) The cost amount of real property (including leasehold interests therein but excluding real property acquired as a consequence of foreclosure or defaults on a mortgage held by us) owned by us did not exceed 25% of the cost amount to us of all of our property; and
- (h) Where at any time in the year the cost amount to us of our Qualifying Assets was less than two-thirds of the cost amount to us of all of our property, our liabilities did not exceed three times the amount by which the cost amount to us of all of our property exceeded our liabilities, or, where throughout the taxation year the cost amount to us of our Qualifying Assets equalled or exceeded two-thirds of the cost amount of all of our property, our liabilities did not exceed five times the amount by which the cost amount to us of all of our property exceeded our liabilities.

It is intended, and this summary assumes, that these requirements will be satisfied so that we will qualify as a MIC at all relevant times. **If we do not qualify as a MIC, the income tax consequences would be materially different from those described below.**

We have prepared the following commentary, which we believe is a fair and adequate summary of the principal Canadian federal income tax consequences arising under the Tax Act to an investor who is an individual resident in Canada who acquires shares under this Offering Memorandum.

The income tax consequences will not be the same for all investors, but may vary depending on a number of factors including the province or provinces in which the investors resides or carries on business, whether shares acquired by him will be characterized as capital property, and the amount his taxable income would be but for his participation in this offering.

The following discussion of the Canadian income tax consequences is of a general and limited nature only, is not intended to constitute a complete analysis of the income tax consequences, and should not be interpreted as legal or tax advice to any particular investor. This summary does not address provincial or territorial laws of Canada or any tax laws of any jurisdiction outside of Canada. Each prospective investor should obtain advice from the investor's own independent tax advisor as to the federal and provincial income tax consequences of his or her acquisition of shares, as such consequences can vary depending upon the particular circumstances of each investor.

This summary outlines the Canadian federal income tax consequences to an investor based on important facts and assumptions as set out by us in the Offering Memorandum and particular on additional facts and assumptions as follows:

- (a) investors are, and will not cease to be, individual residents in Canada;
- (b) investors acquire shares pursuant to this Offering Memorandum and hold the Class "B" Shares as capital property;
- (c) investors hold shares for the purpose of earning income and have a reasonable expectation of earning a profit from holding the Class "B" Shares; and

(d) we will qualify at all material times as a MIC for the purposes of the Tax Act.

It is incumbent upon prospective investors to fully investigate and substantiate the expectations above and, with respect to the assumption stated in (c) above, it is incumbent on an investor to investigate and substantiate the subscriber's expectation of earning a profit from holding our Class "B" Preferred shares, having regard to his expected financing costs and any projections the investors may wish to obtain from us.

There is no assurance that the Tax Act and related Regulations will not be amended in a manner that fundamentally alters the income tax consequences to the investors who acquire or dispose of shares. This summary does not take into account any changes in law, whether by way of legislative or judicial action.

There has been no application for an advance income tax ruling from Canada Revenue Agency on any aspect of the transactions proposed in the Offering Memorandum, nor is it intended that such application will be made. No opinion from our legal counsel or accountants has been given with respect to these income tax considerations. The analysis herein is not all-encompassing and should not be construed as specific advice to any particular investor and is not a substitute for careful tax planning, particularly since certain of the income tax consequences of an investment will not be the same for all taxpayers. Regardless of tax consequences a decision to purchase the Class "B" Shares offered should be based on the merits of the investment as such and on an investor's ability to bear any loss that may be incurred.

Taxation of Hera

As a MIC, we are subject to special rules under the Tax Act that permit us to be operated, in effect, as a tax free "flow through" conduit of our profits to shareholders. We will, in computing our taxable income, generally be entitled to deduct the full amount of all taxable dividends (other than capital gains dividends) which we pay during the year or within 90 days after the end of the year to the extent that such dividends were not deductible by us in computing our income for the preceding year.

As a MIC is deemed to be a public company, no capital dividends can be paid by us. However, a MIC may declare a capital gains dividend in an amount equal to the gross of our capital gains and is entitled to deduct a portion of such dividend from our taxable income. As discussed below, a capital gains dividend is taxed in the hands of a shareholder as a capital gain arising from a notional disposition of capital property. The combination of our deduction for capital gains dividends and the shareholder's deemed capital gain will allow us to flow capital gains through to a shareholder on a tax efficient basis. As we are deemed to be a public company, we will be subject to tax at the highest corporate rates. However, we intend to declare dividends and capital gains dividends each year in sufficient amounts to reduce our taxable income to nil.

Class “B” Shareholders

(a) Dividends

Taxable dividends, except capital gains dividends, received by a shareholder, are taxable in the hands of the shareholder as interest and not as dividends. Capital gains dividends received by a shareholder are treated as realized capital gains of the shareholder, and will be subject to the general rules relating to the taxation of capital gains. The normal gross-up and dividend tax credit rules do not apply to dividends paid on Class “B” Shares to individuals and trusts, and corporate holders of the Class “B” Shares will not be entitled to deduct the amount of any dividends paid on their Class “B” Shares from their taxable income.

(b) Dispositions

The cost to a shareholder of Class “B” Shares acquired pursuant to the Offering will equal the purchase price of the Class “B” Shares plus the amount of any other reasonable costs incurred in connection therewith. This cost will be averaged with the cost of all other Class “B” Shares held by the shareholder to determine the adjusted cost base of each Class “B” Share.

A disposition or a deemed disposition of Class “B” Shares (other than to us) will result in the shareholder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Class “B” Shares exceed, or are exceeded by, the adjusted cost base of the Class “B” Shares and the disposition costs. Amounts paid by us on the redemption or acquisition by us of a Class “B” Share, up to the paid-up capital thereof, will be treated as proceeds of disposition. Any amount paid by us on the redemption or acquisition of a Class “B” Share which is in excess of the paid-up capital of such Class “B” Share will be deemed to be interest and will be included in the income of a holder of Class “B” Shares (and deductible by us), in accordance with the rules described above.

One-half of any capital gain realized by a shareholder (including capital gains deemed to be realized as a result of a receipt of a capital gains dividend) is included in the shareholder’s income under the Tax Act as a “taxable capital gain”. Subject to certain specific provisions in the Tax Act, one-half of any capital loss realized may be used to offset any taxable capital gains realized in that year. The excess of capital losses over capital gains in the year of disposition may generally be deducted against capital gains in the three preceding taxation years or in any subsequent taxation year, subject to the more specific provisions in the Tax Act.

Taxable capital gains realized by a shareholder that is an individual may give rise to alternative minimum tax depending on upon the shareholder’s circumstances.

A shareholder that is a “Canadian-Controlled Private Corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax of 10-2/3% on certain investment income, including amounts in respect of interest and taxable capital gains. The 10-2/3% tax is to be added to such corporate shareholder’s refundable dividend tax on hand account and will be eligible for a refund at a rate of \$1.00 for every \$2.61 of taxable dividends paid by the corporate shareholder.

6.3 Eligibility for Investment by Deferred Income Plans

The Class “B” Shares may be qualified investments for Deferred Income Plans, at a particular time if we qualify as a MIC under the Tax Act at such particular time and if throughout the calendar year in which the particular time occurs, we do not hold as part of our property any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, a subscriber, or a holder, as the case may be, of or under the relevant Deferred Income Plan or of any other person who does not deal at arm's length with that person. Deferred Income Plans will generally not be liable for tax in respect of any dividends received from us.

If we fail to qualify as a MIC at any time throughout a taxation year, the Class “B” Shares may cease to be a qualified investment for a Deferred Income Plan. When a Deferred Income Plan holds a non-qualified investment, the holder of the Deferred Income Plan may be subject to a tax of 50% of the fair market value of the investment at the time it was acquired or at any time if the investment becomes a non-qualified investment. This tax is potentially refundable if the non-qualified investment is disposed of in the calendar year in which the tax arose or within a period the Canada Revenue Agency considers reasonable. Additionally, while a RRSP, RRIF or TFSA holds a non-qualified investment at any time during a particular year, the holder will also be subject to an additional tax under Part I of the Tax Act that is based on income earned from the non-qualified investment. RESPs which hold non-qualified investments can have their registration revoked.

The Class “B” Shares may be a qualified investment for the purposes of Deferred Income Plans, but it is possible that the Class “B” Shares may be a prohibited investment thus subjecting the holder to a tax of 50% of the fair market value of the investment. A prohibited investment includes a share of a company in which the annuitant of a Deferred Income Plan is a specified shareholder or does not deal at arm's length. A share of a corporation that does not deal at arm's length with a corporation in which the annuitant of a Deferred Income Plan is a specified shareholder is also a prohibited investment. A specified shareholder, as defined in subsection 248(1) of the Tax Act, includes a taxpayer who owns, directly or indirectly, at any time in the year, not less than 10% of the issued shares of any class of shares of the corporation or any other corporation that is related to it; and, a taxpayer shall be deemed to own each share of a corporation owned at that time by a person with whom the taxpayer does not deal at arm's length.

As noted, taxable dividends are deemed to be interest income to the shareholder, which, together with one-half of capital gains dividends, are added to the shareholder's taxable income if the Class “B” Shares are held personally by the shareholder. Such distributions paid on shares held by a Deferred Income Plan will be received on a tax-deferred basis whereby tax is not paid until it is removed from the Deferred Income Plan (at which time such distributions are fully taxable at the holder's then applicable rate of taxation). Any income earned on such dividends within a Deferred Income Plan is earned tax-free.

Not all securities are eligible for investment in Deferred Income Plans. You should consult your own professional tax advisors to obtain advice on the eligibility of these securities for the purpose of investment in Deferred Income Plans.

ITEM 7: COMPENSATION PAID TO SELLERS AND FINDERS

The Class “B” Shares will be sold on a commercially reasonable efforts basis by our agent, Capital Street Group Investment Services, Inc., an exempt market dealer. We pay Capital Street a fee of \$500 per investment made.

We may also appoint, and enter into agency agreements with, other agents registered to sell securities under the *Securities Act* (British Columbia) under which they will offer the Class “B” Shares for sale to subscribers on a commercially reasonable basis. The commissions and fees payable to any such agents may be a fixed fee or a percentage of the gross proceeds received in connection therewith. As at the date of this Offering Memorandum, no such agreements have been entered into.

ITEM 8: RISK FACTORS

This is a speculative offering. The purchase of shares involves a number of risk factors and is suitable only for investors aware of the risks inherent in the real estate industry, with the ability and willingness to accept the risk of loss of their invested capital and without any immediate need for liquidity. **There is no assurance of any return on an investor’s investment.**

Prospective investors should consult with their own independent professional legal, tax, investment and financial advisors before purchasing shares under this offering in order to determine the appropriateness of this investment in relation to their financial and investment objectives and in relation to the tax consequences of any such investment.

In addition to the factors set forth elsewhere in this Offering Memorandum prospective investors should consider the following risks before purchasing shares. Any or all of these risks, or other as yet unidentified risks, may have a material adverse effect on our business and return to the investors.

8.1 Investment Risk

Risks that are specific to the Class “B” Shares being offered under this offering include the following:

- (a) Investment is Not Guaranteed

Unlike bank deposits and guaranteed investment certificates (GICs) or money you have deposited in a bank account, your investment in a MIC is not guaranteed by the Canada Deposit Insurance Corporation, by any other government insurer or by us.

- (b) Taxation Consequences of an Investment in our shares

As a MIC, we may deduct taxable dividends paid from our income, but **the normal gross-up and dividend tax credit rules will not apply to dividends paid by us on the Class “B” Shares. Instead, the dividends will be taxable in the hands of shareholders as if they had received an interest**

payment. Furthermore if, for any reason, we fail to maintain our MIC qualification in a particular year, the dividends we pay on the Class “B” Shares would be subject to the normal gross-up and dividend tax credit rules. In addition, the Class “B” Shares might cease to be qualified investments for trusts governed by RRSPs, TFSAs, RESPs, deferred profit sharing plans and registered retirement income funds, with the effect that a penalty tax would be payable by the subscriber.

(c) No Market for Class “B” Shares

There is no market through which the Class “B” Shares may be sold and we do not expect that any market will develop pursuant to this offering or in the future. Furthermore, the Class “B” Shares are subject to onerous resale restrictions under applicable securities legislation. See Item 10 – Resale Restrictions regarding resale restrictions applicable to the Class “B” Shares. Accordingly, an investment in Class “B” Shares should only be considered by subscribers who do not require liquidity.

(d) Retraction Liquidity

The Class “B” Shares are retractable, meaning that subscribers have the right to require us to redeem them, upon appropriate advance notice to us from the subscriber.

Retraction and redemption of our Class “B” Shares is subject to us having access to sufficient excess cash or other liquid assets to pay the redemption price for such shares, the restrictions set out in our Articles and compliance with applicable corporate and securities legislation. Retraction and redemption of the Class “B” Shares is also subject to the obligation of our directors to act in our best interests under applicable corporate and securities law, as well as in respect of our operations as a MIC under the Tax Act.

We provide no assurance that any subscriber will be able to retract any or all of their Class “B” Shares at any time. Accordingly this investment is unsuitable for those prospective subscribers who may require liquidity.

(e) Absence of Involvement in Appointment of Management

The Class “B” Shares being sold under this offering do not have the right to vote at general meetings of our shareholders and, consequently, an investment in such shares does not provide any right to take part in the election of directors and, therefore, the control or management of our business.

In assessing the risks and rewards of an investment in Class “B” Shares, potential subscribers should appreciate that they are relying solely on the good faith, judgment and ability of our directors, officers and employees and of our Manager (when one is retained) to make appropriate decisions with respect to our management, and that they will be bound by the decisions of our and our Manager’s directors, officers and employees. It would be inappropriate for subscribers unwilling to rely on these individuals to this extent to purchase Class “B” Shares.

(f) Lack of Separate Legal Counsel

The subscribers, as a group, have not been represented by legal counsel. Neither our legal counsel nor legal counsel for our Manager (when a manager is retained) have acted or will act for the subscribers nor have they conducted any investigation or review on behalf of subscribers.

8.2 Issuer Risk

Risks that are specific to us include the following:

(a) MIC Tax Designation

Under our Articles, our directors are required to use their best efforts to ensure that we qualify as a MIC under the Tax Act. If, for any reason, we fail to maintain our MIC qualification in a particular year, the dividends paid by us on the Class “B” Shares would cease to be deductible from our income for that year. As well, our Articles grant the directors the discretion to reject any applications for stock dividends or share subscriptions, transfers, redemptions or retractions where, in the view of the directors, it would not be in our best interests as a MIC under the Tax Act. **There can be no assurance, however, that we will be able to meet the Tax Act’s MIC qualifications at all material times.**

(b) Reliance on our Manager

We rely solely on our CEO and CFO to provide management services to us. Our CEO and CFO does not have the benefit of a board of directors to provide guidance since she is also our sole director. Accordingly, our CEO and CFO will have sole responsibility for the conduct of our affairs. Any inability of our CEO and CFO to perform competently or on a timely basis will negatively affect us.

(c) Key Personnel

Our operations are highly dependent upon the continued support and participation of our CEO and CFO and other key personnel. The loss of the services of our CEO and CFO or such key personnel may materially affect our ability to carry out our business plan. Failure in this regard would likely have a material adverse effect on our business, financial condition, and results of operations.

(d) Conflict of Interest

Conflicts of interest may exist or arise between us and our investors. There is no assurance that any conflicts of interest that may arise will be resolved in a manner most favourable to investors. Persons considering a purchase of shares pursuant to this offering must rely on the judgment and good faith of our CEO and CFO in resolving such conflicts of interest as may arise.

(e) Future Operations and Possible Need for Additional Funds

We require significant funds to carry out our business plan. If we are unable to raise sufficient funds by this offering, we may have insufficient funds available to it to carry out our business plan, and subscribers may receive a little or no return on their shares. Certain uninsurable or uninsured events may also occur which can substantially reduce our ability to carry on business in a profitable manner, including natural or man-made disasters.

We anticipate that substantially all of the net proceeds of this offering will be expended investing in residential mortgages, and also anticipate that the net proceeds of the offering and anticipated cash flow from operating revenues will be sufficient to carry out our business plan. There can be no assurances, however, that we will generate sufficient cash flow from operations or that we will not encounter unexpected costs in connection with implementing our business plan, and as a consequence there can be no assurances that we will not require additional financing. We have no current arrangements with respect to any other additional financing, and there can be no assurance that any such additional financing can be obtained on terms acceptable to us, or at all. Failure to obtain additional financing would likely have a substantial material adverse effect on us. Moreover, if we obtain such additional financing, it could have a dilutive effect on investors' participation in the revenues generated through our operations.

8.3 Industry Risk

There are also risks faced by us because of the industry in which we operate and include the following:

(a) Economic uncertainties

Real estate investment is subject to significant risks due, among other factors, to uncertain costs of construction, development and financing, uncertainty as to the ability of a developer to obtain required licenses, permits and approvals, uncertainty of whether a homeowner can repay a mortgage loan and fluctuating demand for developed real estate. Accordingly, inherent in mortgage loans are completion risks as well as financing risks. The anticipated higher returns associated with our mortgages reflect the greater risks involved in making these types of loans as compared to long-term conventional mortgages.

(b) Borrowers are or could become a Bad Credit Risk

Our borrowers often have incomes that are seasonal or fluctuate or they may have been refused credit from banks and other traditional financial institutions. Accordingly, our borrowers may be considered to be higher risk and, as a result, there is a risk they may not be able to, or may refuse to, pay back their loans when due. We believe our lending policy is conservative and anticipate that minimal losses will be incurred, Furthermore, if a loss does occur, it will be spread over all of our capital. Nevertheless, such losses could amount to a reduction in the anticipated return on your investment or, in the worst circumstances, resulting in you losing your entire investment.

(c) Insurance

Our mortgages will not usually be insured. As well, there are certain inherent risks in the real estate industry, some of which we may not be able to insure against or which we may elect not to insure due to the cost of such insurance. The effect of these factors cannot be accurately predicted.

(d) Priority

Financial charges for construction and other financing funded by conventional third party lenders may rank in priority to the mortgages registered in favour of us. In the event of default by the mortgagor under any prior financial charge, we may not recover any or all of the monies advanced under foreclosure proceedings.

(e) Default

If there is default on a mortgage, it may be necessary for us, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing. In those cases, it is possible that the total amount recovered by us may be less than the total investment, resulting in loss to us. Equity investments in real property may involve fixed costs in respect of mortgage payments, real estate taxes, and maintenance costs, which could adversely affect our income.

(f) Yield

The yields on real estate investments, including mortgages, depend on many factors including economic conditions and prevailing interest rates, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, legislation, governmental regulation and tax laws. We cannot predict the effect that such factors will have on our operations.

(g) Competition

Our earnings depend on our ability, with the assistance of our Manager (when one is retained), to locate suitable opportunities for the investment and re-investment of our funds and on the yields available from time to time on mortgages and other investments. The investment industry in which we operate is subject to a wide variety of competition from other lenders, many of whom have greater financial and technical resources than us. Such competition, as well as any future competition, may adversely affect our success in the marketplace. There is no assurance that we will be able to successfully maintain our business plan or operate profitably.

(h) Change in Tax Legislation could Adversely Affect our Business

We have been created to comply with the MIC requirements of the Tax Act. Our Class “B” Shares are intended to appeal to individuals holding such shares through Deferred Income Plans such as RRSPs, RRIFs, TFSA and RESPs. While it is not anticipated the provisions of the Tax Act respecting such Deferred Income Plans will change, there is always the possibility that they could be altered so that our Class “B” Shares would no longer be eligible investments for such plans. Such changes could have an adverse effect on your investment.

We intend our business to be operated so that it complies at all times with the current requirements for MICs under the Tax Act. Failure to meet such requirements could have a material adverse effect on our financial performance.

The provisions of the Tax Act could be changed so that our profits could be taxable in our, rather than your, hands. This could affect the value of your investment, especially if you own our Class “B” Shares in a Deferred Income Plan.

(i) Risk of Dealing with Trustees

We will deal with the trustees of Deferred Income Plans as necessary but we will not undertake any responsibility for the administration of any self-directed Deferred Income Plans by such trustees. The trust company of your Deferred Income Plan may impose conditions upon us with which we are unable or unwilling to comply. As a result, your trustee may refuse to allow our Class “B” Shares to be an eligible investment for your Deferred Income Plan.

ITEM 9: REPORTING OBLIGATIONS

9.1 Continuous Disclosure

We are not a “reporting issuer” under applicable securities legislation, nor will we become a reporting issuer following the completion of the offering. **Consequently, we are not required to send you any documents on an annual or ongoing basis.** Since we are not, and will not become, subject to the continuous disclosure requirements of such securities legislation we are not required to issue press releases or to send to you our interim and annual financial statements, management’s discussion and analysis respecting such statements or annual reports.

However, the *Business Corporations Act* (British Columbia) requires us to hold a general meeting of our shareholders in each calendar year and, at the meeting, to provide our shareholders with audited financial statements for the previous financial year. Accordingly, we will prepare financial statements for each financial year, have them audited by an independent auditor and present them to the shareholders at our annual general meeting of shareholders as required by that Act. We will also provide additional tax information to the shareholders as required by the Tax Act.

9.2 Access to Corporate and Securities Information about Us

Since we are not a reporting issuer and our Class “B” Shares are not publicly traded, no corporate or securities information about us is available from a government, regulatory authority, stock exchange or quotation and trade reporting system. Some securities information about this and previous offerings is available from British Columbia Securities Commission at www.besc.bc.ca.

ITEM 10: RESALE RESTRICTIONS

10.1 Overview

These securities [our Class “B” Shares acquired under this Offering Memorandum] will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

10.2 Restricted Period

Unless permitted under securities legislation, you cannot trade the securities [our Class “B” Shares acquired under this Offering Memorandum] before the date that is four months and a day after the date we become a reporting issuer in any province or territory in Canada.

We are not a reporting issuer in any Canadian province or territory, we will not become a reporting issuer upon completion of this offering and we do not anticipate becoming a reporting issuer. Accordingly, the resale restriction on our Class “B” Shares you acquire under this Offering Memorandum may never expire.

ITEM 11: PURCHASERS’ RIGHTS

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

11.1 Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so you must send a notice to us by midnight on the second business day after you sign the Subscription Agreement to buy the securities.

11.2 Statutory Rights of Action in Event of a Misrepresentation

If there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) us to cancel your agreement to buy these securities; or

- (b) for damages against us, our directors as at the date of this Offering Memorandum and every signatory to this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. 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.

If you intend to rely on the rights described in (a) or (b) above, you must 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 180 days after learning of the misrepresentation and three years after you signed the agreement to purchase the securities.

If you sue for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that we prove does not represent the depreciation in value of the securities resulting from the misrepresentation.
securities.

11.3 Contractual Rights of Action in the Event of a Misrepresentation

If you are resident outside of Canada and the securities legislation where you are resident does not provide a comparable statutory right and there is a misrepresentation in this Offering Memorandum, you have a contractual right to sue us:

- (a) to cancel your agreement to buy these securities; or
- (b) for damages.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that we prove does not represent the depreciation in value of the securities resulting from the misrepresentation. We have a defence if we prove that you knew of the misrepresentation when you purchased the securities.

ITEM 12: FINANCIAL STATEMENTS

Following are our audited financial statements for our last completed financial year.

HERA INVESTMENT FUNDS INC.

**Financial Statements
April 30, 2019 and 2018
(Expressed in Canadian Dollars)**

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF HERA INVESTMENT FUNDS INC.

Opinion

We have audited the financial statements of Hera Investment Funds Inc. (the "Company"), which comprise the statements of financial position as at April 30, 2019 and 2018, and the statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
July 24, 2019

HERA INVESTMENT FUNDS INC.
Statements of Financial Position
As at April 30
(Expressed in Canadian Dollars)

	2019	2018
Assets		
Cash	\$ 879,499	\$ 994,476
Interest and other receivable (note 6)	46,142	36,307
Mortgages receivable (note 6)	15,977,250	11,406,250
Prepaid expense	23,750	-
	\$ 16,926,641	\$ 12,437,033
Liabilities		
Accounts payable and accrued liabilities	\$ 19,865	\$ 5,390
Distributions payable	131,324	22,328
Deferred revenue	67,448	68,590
Preferred shares (notes 7 and 9)	16,707,854	12,340,600
	16,926,491	12,436,908
Shareholders' Equity		
Share capital (note 8)	150	125
	\$ 16,926,641	\$ 12,437,033

Approved on behalf of the board by:

Stella Liao (signed)
Stella Liao, Director

HERA INVESTMENT FUNDS INC.
Statements of Operations and Comprehensive Income
Years Ended April 30
(Expressed in Canadian Dollars)

	2019	2018
Revenues		
Interest	\$ 1,359,808	\$ 469,539
Lending fees	160,887	79,227
	1,520,695	548,766
Expenses		
Professional fees (note 9)	78,752	26,687
Wages and employee benefits (note 9)	45,432	8,636
Advertising and promotion	34,286	22,597
Licenses, dues and subscriptions	27,884	7,042
Rent	22,000	16,500
Office	2,943	349
Travel	2,404	-
Donations	2,000	2,500
Interest and bank charges	889	412
	216,590	84,723
Income for Year before Distributions	1,304,105	464,043
Distributions declared to preferred shareholders (note 7)	(1,304,105)	(464,043)
Net Income and Comprehensive Income for the Year	\$ -	\$ -

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

HERA INVESTMENT FUNDS INC.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Common Shares		Amount		Total
Balance, April 30, 2017	100	\$	100	\$	100
Share subscriptions	25		25		25
Balance, April 30, 2018	125	\$	125	\$	125
Share subscriptions	25		25		25
Balance, April 30, 2019	150	\$	150	\$	150

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

HERA INVESTMENT FUNDS INC.
Statements of Cash Flows
Years Ended April 30
(Expressed in Canadian Dollars)

	2019	2018
Operating Activities		
Income before distributions	\$ 1,304,105	\$ 464,043
Changes in non-cash working capital		
Interest and other receivable	(9,835)	(33,018)
Prepaid expense	(23,750)	-
Accounts payable and accrued liabilities	14,475	3,890
Distributions payable	108,996	(2,707)
Deferred revenue	(1,142)	68,590
	1,392,849	500,798
Mortgages issued	(15,882,750)	(13,738,750)
Mortgages repaid	11,311,750	2,602,500
Cash Used in Operating Activities	(3,178,151)	(10,635,452)
Financing Activities		
Distributions paid	(699,634)	(145,865)
Proceeds from issuance of preferred shares	12,567,086	12,216,178
Proceeds from issuance of common shares	25	25
Preferred shares redeemed	(8,804,303)	(135,578)
Cash Provided by Financing Activities	3,063,174	11,616,582
Inflow (Outflow) of Cash	(114,977)	981,130
Cash, Beginning of Year	994,476	13,346
Cash, End of Year	\$ 879,499	\$ 994,476
Supplemental Cash Flow Information		
Mortgage renewed	\$ 4,457,250	\$ -
Shares issued as stock	\$ 604,471	\$ 318,178

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

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Hera Investment Funds Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on April 1, 2014. The address of its head office is located at 103 - 850 Harbourside Drive, North Vancouver, British Columbia, V7P 0A3.

The principal business of the Company is to acquire, originate and maintain a portfolio of mortgages secured by residential property, which is the single operating segment in which the Company operates. All operations of the Company are located in Canada.

The Company qualifies as a mortgage investment corporation ("MIC") under section 130.1 of the *Income Tax Act* (Canada), and as such is able to make distributions to its shareholders on a pre-tax basis, provided that its taxable income is paid to its shareholders in the form of dividends within 90 days of April 30 of the respective year.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements of the Company were approved by the director and authorized for issue on July 24, 2019.

(b) Basis of measurement and presentation

The financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit or loss ("FVTPL"), which are stated at their fair values. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These financial statements are presented in Canadian dollars, which is the Company's functional currency. All values are rounded to the nearest dollar, unless otherwise indicated.

HERA INVESTMENT FUNDS INC.
Notes to the Financial Statements
Years Ended April 30, 2019 and 2018
(Expressed in Canadian Dollars)

3. USE OF ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the year.

In making estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis as required. There are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these financial statements.

Estimate

Recoverability of mortgages receivable

This estimate may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present and future legislation or regulation, prior encumbrances, and other factors affecting the investments and underlying security of the investments these assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

Judgment

Classification of preferred shares

Judgment is required in applying International Accounting Standard (“IAS”) 32 *Financial Instruments: Presentation* to determine the classification of preferred shares as a liability or equity.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements
Years Ended April 30, 2019 and 2018
(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES

- (a) Financial instruments
 - (i) Financial assets

Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in profit or loss.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to retained earnings when the financial instrument is derecognized or its fair value substantially decreases.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Financial instruments (Continued)

(ii) Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(iii) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

(iv) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Financial instruments (Continued)

(v) Impairment of assets

The Company assesses financial assets for impairment at the end of the reporting period using the expected credit loss (“ECL”) model. The ECL model is forward looking and results in a provision for losses being recorded on the financial statements regardless if there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received.

The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 – financial assets that have not experienced a significant increase in credit risk since initial recognition. Stage 2 – financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date. Stage 3 – financial assets for which there is objective evidence of impairment at the reporting date. The Company considers a number of factors when assessing if there has been a significant increase in credit risk.

(b) Mortgages receivable

The mortgages receivable are recognized initially at cost plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgages receivable are measured at amortized cost using the effective interest method, less any impairment losses.

The mortgage receivable is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset which can be estimated reliably.

An impairment loss in respect of mortgage receivable measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the investment. Interest on the impaired asset continues to be recognized through the unwinding of the discount if it is considered collectable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(c) Preferred shares

Preferred shares that are redeemable on demand at the option of the holder are recorded on the statement of financial position as a liability at their redemption value as at the date of issue. Distributions are recognized in the statement of operations in the period declared.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue recognition

Interest income is recognized as earned over the term of the mortgage at the stated interest rate.

Lending fees are recognized as earned over the term of the mortgage.

(e) Income taxes

The *Income Tax Act* (Canada) permits MICs to deduct taxable dividends paid during the period or within 90 days after fiscal year-end in calculating taxable income for the period. Management of the Company intends to follow the policy of annually distributing all taxable income to the shareholders by dividend, and in accordance with this policy, no provision for income taxes has been recorded in these financial statements.

(f) Changes in accounting policies

The Company has adopted IFRS 9 Financial Instruments (“IFRS 9”) as of May 1, 2018 using the modified retrospective basis. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for the classification and measurement of financial instrument and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, with the exception that for financial liabilities designated at fair value through profit or loss, the change in fair value that is attributable to changes in credit risk of that liability is presented in other comprehensive (loss) income instead of in the statement of operations as previously applied. The Company has classified its financial instruments as follows under IFRS 9 compared to the Company’s previous accounting policy:

	IAS 39	IFRS 9
Financial Assets		
Cash	Fair value through profit or loss (“FVTPL”)	FVTPL
Mortgage receivable	Amortized cost	Amortized cost
Financial liabilities		
Trade payable and accrued liabilities	Amortized cost	Amortized cost

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Future changes in accounting policies

The Company has reviewed new and revised accounting pronouncements that have been issued, but are not yet effective. The Company has not early-adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements. The standards, amendments and interpretations that will be relevant to the Company are:

The Conceptual Framework for Financial Reporting

The revised Conceptual Framework, issued by the IASB in March 2018, replaces the Conceptual Framework for Financial Reporting (issued by the IASB in September 2010).

The revised Conceptual Framework includes the following:

- Concepts on measurement, including factors to consider when selecting a measurement basis.
- Concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income.
- Guidance on determining the boundary of a reporting entity.
- Updated definitions of an asset and a liability.
- Updated criteria for recognizing assets and liabilities in financial statements, and guidance on when to remove them.
- Clarification on the roles of stewardship, prudence, measurement uncertainty and substance over form.

The IASB and the IFRS Interpretations Committee began using the revised Conceptual Framework immediately after it was issued. The effective date for stakeholders who develop an accounting policy based on the Conceptual Framework is for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Annual Improvements to IFRS Standards 2015–2017 Cycle

The following standards have been revised to incorporate amendments:

- IFRS 3 *Business Combinations* – The amendments clarify that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in that business.
- IFRS 11 *Joint Arrangements* – The amendments clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure previously held interests in that business.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Future changes in accounting policies (Continued)

- IAS 12 *Income Taxes* – The amendments clarify that an entity recognizes income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend.
- IAS 23 *Borrowing Costs* – The amendments clarify that an entity treats as general borrowings any borrowings made specifically to obtain a qualifying asset that remain outstanding when the asset is ready for its intended use or sale.

IFRS 16 *Leases*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

5. FINANCIAL INSTRUMENTS

The Company's risk exposure and the impact on the Company's financial instruments is summarized below:

(a) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company manages credit risk, in respect of its cash by placing its cash at a major Canadian financial institution.

The Company is also exposed to credit risk with respect to its mortgages receivable. The Company follows a program of credit evaluations of mortgagees and has a registered charge on the underlying property. There have been no realized losses to date.

The Company's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at April 30, 2019 is represented by the respective amounts of the relevant financial assets in the statement of financial position.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due.

The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities, distributions payable and preferred shares. Accounts payable and accrued liabilities are due within 90 days of the period-end date. Preferred shares are redeemable at \$1 per share at the option of the holder subject to certain restrictions. The Board of Directors may determine at their discretion to not redeem preferred shares if it would result in the Company's insolvency.

(c) Interest rate risk

Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(ii) To the extent that changes in prevailing market rates differ from interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's mortgages receivable are at a fixed interest rate. Therefore, the Company is not exposed to interest rate cash flow risk during the term of the mortgage. The Company is exposed to interest rate price risk, as the fair value of the mortgage receivable will fluctuate if market rates differ from the interest rate of the mortgage. Due to the short-term nature of these financial instruments, fluctuations in market rates of interest do not have a significant impact on future cash flows.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

5. FINANCIAL INSTRUMENTS (Continued)

(d) Market risk

Market risk is the risk that the fair value of the collateral securing any of the mortgages receivable falls to a level approaching the mortgage amounts. The Company ensures that it is aware of real estate market conditions in regions in which it operates and monitors real estate market trends and lending practices. Policies are adjusted when necessary.

(e) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

(f) Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The Company is not exposed to currency risk, as all assets and liabilities are denominated in Canadian funds.

(g) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements.

The Company's cash, mortgages receivable, interest and other receivable, accounts payable and accrued liabilities, and distributions payable are short term in nature, and therefore the carrying value approximates fair value. The Company's preferred shares have been measured using Level 3 inputs.

6. MORTGAGES RECEIVABLE

The mortgages receivable bear interest at rates ranging from 5.50% to 11.50% per annum, with a weighted average rate of 9.26% (2018 – 9.09%). The mortgages receivable individually mature within the next twelve months and are renewed subject to management review, good standing and credit risk analysis.

As at April 30, 2019, interest receivable related to mortgages receivable totaled \$46,142 (2018 - \$36,307).

7. PREFERRED SHARES

(a) Authorized

Unlimited number of preferred shares with a par value of \$1 each.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian Dollars)

7. PREFERRED SHARES (Continued)

(b) Issued

During the year, the Company issued 12,567,086 (2018 – 11,898,000) Class B preferred shares at a price of \$1 per share. The Company redeemed 8,804,303 (2018 – 135,578) Class B preferred shares at a price of \$1 per share.

Preferred shares are non-voting and are redeemable at \$1 per share at the option of the holder subject to certain restrictions. The Board of Directors may determine at their discretion to not redeem preferred shares if it would result in the Company's insolvency. Preferred shares are eligible for dividends at the discretion of the Board of Directors and are classified as financial liabilities.

	Number of Preferred Shares	Value of Preferred Shares
Balance, April 30, 2017	260,000	\$ 260,000
Preferred share subscriptions	11,898,000	11,898,000
Preferred share redemptions	(135,578)	(135,578)
Distributions to shareholders in the form of preferred shares	318,178	318,178
Balance, April 30, 2018	12,340,600	\$ 12,340,600
Preferred share subscriptions	12,567,086	12,367,086
Preferred share redemptions	(8,804,303)	(8,804,303)
Distributions to shareholders in the form of preferred shares	604,471	604,471
Balance, April 30, 2019	16,707,854	\$ 16,707,854

During the year ended April 30, 2019, the Company issued 604,471 (2018 - 318,178) preferred shares for \$604,471 (2018 - \$318,178) as a stock distribution. Cash distributions of \$568,310 (2018 - \$160,320) were also paid for total distributions to preferred shareholders of \$1,172,781 (2018 - \$478,498). Distributions to preferred shareholders are presented as an expense in the statements of operations and comprehensive income.

HERA INVESTMENT FUNDS INC.

Notes to the Financial Statements
Years Ended April 30, 2019 and 2018
(Expressed in Canadian Dollars)

8. SHARE CAPITAL

- (a) Authorized

Unlimited number of common shares with a par value of \$1 each.

- (b) Issued

Common shares

During the year, the Company issued 25 (2018 – 25) common shares at a price of \$1 per share.

Common shareholders are not entitled to annual dividends, but may participate in certain circumstances upon wind-up of the Company.

9. RELATED PARTY TRANSACTIONS

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling activities of the Company directly or indirectly, including any director (whether executive or otherwise) of the Company. The Company's key management personnel include certain directors.

- (a) The Company has included in its shareholder agreement to pay to a director of the Company an annual management fee of 1.5% of the principal mortgage balance. The management fee for current year was waived by the director.
- (b) Included in wages and employee benefits are wages of \$11,432 (2018 - \$nil) paid to the director. Also included in professional fees are consulting fees of \$16,950 (2018 - \$nil) paid to a company controlled by the director.
- (c) During the year, the Company issued 25 (2018 – 25) common shares and 30,000 (2018 – nil) Class B Preferred Shares to a director. Both the common shares and the preferred shares are issued at a price of \$1 per share.

10. SUBSEQUENT EVENT

Subsequent to the year ended April 30, 2019, shareholders redeemed 853,000 preferred shares for \$853,000 in cash.

11. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to preserve common and preferred share values, provide preferred shareholders with stable dividends and use leverage in a conservative manner to improve return to preferred shareholders. There have been no changes to the Company's approach to capital management during the year ended April 30, 2018.

The capital structure of the Company consists of issued and outstanding common and preferred shares.

ITEM 13: DATE AND CERTIFICATE

Dated: August 21, 2019

This Offering Memorandum does not contain a misrepresentation.

The Issuer

(signed) QIN (STELLA) LIAO
CEO, CFO & Director

SCHEDULE A – SUBSCRIPTION AGREEMENT

(For Shares distributed under our Offering Memorandum dated August 21, 2019)

To: HERA INVESTMENT FUNDS INC. (the “Issuer”)

The undersigned (the “**Subscriber**”) hereby irrevocably subscribes for and agrees to purchase from the Issuer, on the terms and conditions set forth herein, the Shares set out below:

Class of Shares	Number of Shares (Minimum of 50,000 or \$10,000 if held in Deferred Income Plan)	Subscription Price per Share	Total Subscription Amount (Minimum of \$50,000 or \$10,000 if held in Deferred Income Plan)
Class “B” Preferred Shares (non-voting and redeemable)	_____	\$1.00	\$ _____

<u>Subscriber Information</u>
Name of Subscriber _____
Names(s) of Joint Subscriber(s) _____
Signature of Subscriber(s) (if Subscriber(s) is an individual) _____
Company Name (if Subscriber is a company) _____
Name & title of Authorized signatory of the Company _____
Signature of Company’s authorized signatory _____
Social Insurance Number(s) (SIN) or Business Number _____
Social Insurance Number(s) of Joint Subscribers _____
Subscriber’s Residential Address or Company Address _____
City Province Postal Code _____
Home Phone Number or Company Phone Number _____
Fax Number _____
E-mail address _____
Date _____

<u>Register the Class “B” Shares as set forth below</u>
Name(s) of beneficial holder(s) or trustee of a self-directed RRSP _____
RRSP / Brokerage Account reference, if applicable _____
RRSP / Brokerage & Contact Name, if applicable _____
RRSP / Brokerage Address _____
City Province Postal Code _____
<u>OFFICE USE ONLY</u>
ACCEPTED by the Issuer this _____ day on _____, 20____.
HERA INVESTMENT FUNDS INC.
Per: _____
Authorized Signatory _____
Name Position _____

TERMS AND CONDITIONS OF SUBSCRIPTION FOR SHARES

1. Definitions

In this Agreement, including the recitals hereof, the following terms have the meanings set out beside them:

- (a) **“Agreement”** means this subscription agreement for the purchase of Shares;
- (b) **“Closing”** means the delivery and payment for the Shares, which may incur in stages on different dates;
- (c) **“Closing Date”** means a date on which a Closing occurs, the first such Closing Date being the **“Initial Closing Date”**;
- (d) **“Issuer”** means Hera Investment Funds Inc.;
- (e) **“Offering Memorandum”** means the offering memorandum of the Issuer dated August 21, 2019, as amended from time to time;
- (f) **“Securities Laws”** means the applicable securities laws, regulations, rules, orders and published policy statements of British Columbia and its Securities Commission;
- (g) **“Selling Jurisdiction”** means the Province of British Columbia;
- (h) **“Shares”** means the Class “B” Preferred Shares (non-voting and redeemable) of the Issuer;
- (i) **“Subscriber”** means that person or entity or entity whose name is set forth on the first page hereof;
- (j) **“Subscription Price”** means the subscription amount per Share;
- (k) **“Total Subscription Amount”** means the Subscription Price multiplied by the total number of Shares purchased;
- (l) **“Tax Act”** means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time.

2. Closing

The Shares will be issued to, or as directed by, the Subscriber against complete and proper execution and delivery to the Issuer at 103 – 850 Harbourside Drive, North Vancouver, British Columbia V7P 0A3 of the documents and funds set out in Section 3 of this Agreement. Notwithstanding receipt of the foregoing, the Issuer retains the right to decline any subscription, without any reason.

3. Delivery of Documents and Funds

The Subscriber hereby delivers to the Issuer properly completed and executed copies of:

- (a) page 1 of this Agreement; and
- (b) Appendix I (Risk Acknowledgement – Form NI 45-106F4) of this Agreement.

The Subscriber also delivers a certified cheque, bank draft or electronic funds transfer for the Total Subscription Amount payable to “Hera Investment Funds Inc.” and authorizes the Issuer to release and accept, without notice thereof to the Subscriber, the Total Subscription Amount immediately following the Closing.

4. Representations, Warranties and Covenants by Subscriber

The Subscriber represents and warrants to, and covenants with, the Issuer (and acknowledges that the Issuer and its counsel are relying thereon) as follows:

- (a) it has been advised and is fully aware that:
 - (i) the Shares offered hereunder have not been qualified for distribution in Canada by the filing of a prospectus with any securities commission or other securities regulatory authority;
 - (ii) the Shares are being offered hereunder in reliance upon specific exemptions from the prospectus and registration requirements in British Columbia;
 - (iii) unless permitted under applicable Securities Laws, residents of British Columbia cannot trade their Shares before the date that is four months and a day after the date that the Issuer becomes a reporting issuer in British Columbia;
- (b) it understands it is solely responsible for obtaining such legal, tax and other advice as is appropriate in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereunder and the Issuer’s legal counsel are acting solely for the Issuer and the Subscriber may not rely upon such counsel in any respect;
- (c) if an individual, the Subscriber has attained the age of majority and has the legal capacity and competence to enter into and deliver this Agreement and to perform his or her obligations hereunder;
- (d) if a corporation or other entity, the Subscriber has been duly incorporated or created, as the case may be, and is valid and subsisting under the laws of the Issuer’s jurisdiction of incorporation or creation, it has good and sufficient power, authority and right to enter

into and deliver this Agreement and to perform the Issuer's obligations hereunder, the person signing this Agreement is a duly authorized signatory of the corporation or other entity and has the authority to act on the Issuer's behalf respecting the Shares and the Issuer is hereby authorized to treat any one such signatory to this Agreement as the authorized agent and signatory of the corporation or other entity in all matters respecting the Shares unless otherwise notified in writing by the corporation or other entity;

- (e) it is resident at the address set forth on the execution page hereof;
- (f) it was not created or is not being used solely to purchase or hold the Shares in reliance on any of the exemptions described in this Agreement;
- (g) it is purchasing the Shares as a principal for the Issuer's own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Shares; it acknowledges that the Issuer is required by law to disclose, on a confidential basis, to certain regulatory authorities, the identity of each subscriber of Shares;
- (h) it has received the Offering Memorandum and:
 - (j) has reviewed, prior to the execution of this Agreement, the Offering Memorandum and the Subscriber fully understands the contents and effect of the Offering Memorandum;
 - (ii) it has not received or relied upon any documents, representations, warranties or other information in assessing this investment except the Offering Memorandum and the information contained therein; and
 - (iii) prior to entering into this Agreement it executed the Risk Acknowledgement (Appendix I – Form NI 45-106F4) attached to this Agreement;
- (i) if the Subscriber is resident in a jurisdiction outside of North America, it has sought and received legal and investment advice respecting this subscription and represents and warrants that it is purchasing the Shares pursuant to, and in compliance with, applicable securities laws of the jurisdiction where the Subscriber resides; it will deliver to the Issuer such particulars of the Issuer's qualification under and compliance with such applicable securities laws as the Issuer may reasonably request; and it acknowledges and agrees that there will be no obligation on the part of the Issuer to file a prospectus in such jurisdiction or to take any other actions, including any disclosure or regulatory filings, to facilitate the sale of the Shares to the Subscriber;
- (i) 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, if applicable, the beneficial purchaser;

- (j) the Subscriber, as the case may be, has not received nor does the Subscriber expect to receive any financial assistance from the Issuer directly or indirectly, in respect of the purchase of the Shares;
- (k) the Subscriber or beneficial purchaser, as the case may be, acknowledges that the Issuer is not a reporting issuer in any province or territory of Canada and, as such, the hold periods applicable to the Shares may never expire and the Shares may never be resold except pursuant to a further statutory exemption or a discretionary order;
- (l) the Subscriber or beneficial purchaser, as the case may be, acknowledges that the certificates representing the Shares may bear a legend prohibiting their transfer and indicating such indefinite hold period, as prescribed by applicable Securities Laws;
- (m) the Subscriber acknowledges that the Shares are being offered for sale only on a “private placement” basis and the Issuer is relying on exemptions (and such sales are conditional upon the existence of such exemptions or the receipt of such orders, consents and approvals as are necessary to make such sales exempt) from the requirements to provide the Subscriber with a prospectus and to sell securities through a person registered to sell securities under applicable Securities Laws and, as a consequence:
 - (i) the Subscriber, as the case may be, is restricted from using most of the civil remedies available under such Securities Laws;
 - (ii) the Subscriber, as the case may be, may not receive information that would otherwise he required to be provided to the Subscriber under such Securities Laws;
 - (iii) the Issuer is relieved from certain obligations that would otherwise apply under such Securities Laws; and
 - (iv) the Shares will be subject to resale restrictions with which the Subscriber or the beneficial purchaser, as the case may be, must comply;
- (n) the Issuer is not registered under any securities legislation for the purposes of selling the Shares;
- (o) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Shares;
- (p) there is no government or other insurance covering the Shares;
- (q) there are risks associated with the purchase of the Shares;
- (r) the Issuer has not advised, recommended or otherwise represented to the Subscriber that the Shares are suitable to the Subscriber, with regard to the Subscriber’s

- (i) investment needs and objectives,
 - (ii) financial circumstances, or
 - (iii) risk tolerance;
- (s) it is aware that the Shares have not been and will not be registered under the United States Securities Act of 1933 (the “**U.S. Securities Act**”) and may not be offered or sold in the United States without registration under the U.S. Securities Act or compliance with requirements of an exemption from registration;
- (t) it is not a “U.S. Person” (as that term is defined by Regulation S under the U.S. Securities Act, which definition includes, but is not limited to, an individual resident in the United States, an estate or trust of which any executor or administrator or trustee, respectively, is a U.S. Person and any partnership or corporation organized or incorporated under the laws of the United States) and neither is acquiring the Shares for the account or benefit of a U.S. Person or a person in the United States;
- (u) it shall not to offer or sell the Shares in the United States unless such securities are registered under the U.S. Securities Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available, and further that neither will resell the Shares except in accordance with the provisions of applicable securities legislation, regulations, rules, policies, orders and stock exchange rules;
- (v) if required by applicable Securities Laws, 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 Issuer in filing, such reports, undertakings and other documents with respect to the issue of the Shares;
- (w) following the purchase of Shares by it pursuant to this Agreement, it and the Issuer will deal with each other at arm’s length and it will not be a “Specified Shareholder” of the Issuer, all within the meaning of the Tax Act;
- (x) it acknowledges and agrees that the Issuer may deduct or withhold from distributions payable to any Subscriber all amounts required by law to be withheld from such distribution;
- (y) the Subscriber hereby authorizes the Issuer to correct any minor errors in, or complete any minor information missing from, any document which has been executed by the Subscriber and delivered to the Issuer with respect to this subscription;
- (z) to the best of its knowledge, none of the funds the Subscriber is using to purchase the Shares

- (i) have been or will be derived from or related to any activity that is prohibited by, or deemed criminal under, the laws of any jurisdiction, or
 - (ii) are being tendered on behalf of a person or entity who has not been identified to the Subscriber;
- (aa) it has read and understands the statutory or contractual rights of the province of British Columbia described in the Offering Memorandum; and
- (bb) it understands and acknowledges that the Issuer's Articles provide that any retraction of a Share purchased hereunder before the second anniversary of issuance of that Share shall be subject to a 4% early retraction penalty which the Issuer may, in its sole discretion, waive but if the retraction is sought within six months of the issuance of that Share the Issuer will not waive the 4% early retraction penalty and early retraction will be subject to a minimum charge of \$1,000.

The Subscriber agrees that the above representations, warranties and covenants will be true and correct both as of the execution of this Agreement and as of the Closing and will survive the completion of the issuance of the Shares.

The Subscriber further acknowledges that the representations, warranties, covenants, acknowledgements and agreements contained in this Agreement are made with the intent that they may be relied upon by the Issuer in determining the suitability of a purchaser of Shares and the Subscriber hereby agrees to indemnify the Issuer and the Issuer's directors and officers against all losses, claims, costs, expenses and damages or liabilities which it or they may suffer or incur caused or arising from their reliance thereon.

5. Representations, Warranties and Covenants by the Issuer

The Issuer represents, warrants and covenants to the Subscriber that:

- (a) it is a duly incorporated and validly subsisting corporation under the laws of the province of British Columbia;
- (b) it has full corporate power and authority to enter into this Agreement and to carry out the Issuer's obligation hereunder;
- (c) it is a "mortgage investment corporation" within the meaning of subsection 130.1(6) and 130.1(8) of the Tax Act and it will use commercially reasonable efforts to continue to so qualify at all times;
- (d) the Offering Memorandum and the representations contained in this Agreement are accurate in all material respects and omit no fact, the omission of which would make such representation misleading in light of the circumstances in which such representation was made;

- (e) the Issuer has complied and will comply with all applicable corporate and securities laws and regulations in connection with the offer, sale and issuance of the Shares
- (f) the issuance and sale of the Shares by the Issuer does not and will not conflict with and does not and will not result in a breach of any of the terms, conditions or provisions of its constating documents or any agreement or instrument to which the Issuer is a party
- (g) this Agreement has been duly authorized by all necessary corporate action on the part of the Issuer and, subject to acceptance by the Issuer, constitutes a valid obligation of the Issuer legally binding upon it and enforceable in accordance with its terms.

6. General

- (a) The Subscriber shall immediately notify the Issuer of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing.
- (b) The Issuer will have the right to accept or reject the Subscriber's subscription in whole or in part at any time at or prior to the Closing. Notwithstanding the foregoing, the Subscriber acknowledges and agrees that the acceptance of this Agreement will be conditional, among other things upon the sale of the Shares to the Subscriber being exempt from any prospectus requirements of applicable Securities Laws.
- (c) Neither this Agreement nor any provisions 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.
- (d) The terms and provisions of this Agreement shall be binding upon and enure to the benefit of the Subscriber and the Issuer and their respective heirs, executors, administrators, successors and assigns and this Agreement shall not be assignable by any party without the prior written consent of the other party.
- (e) This 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.
- (f) The contract arising out of this Agreement and all documents relating thereto will be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
- (g) Time will be of the essence hereof.
- (h) This Agreement is not transferable or assignable.

- (i) The Issuer shall be entitled to rely on delivery by facsimile machine of an executed copy of this Agreement and acceptance by the Issuer of such facsimile copy shall be equally effective to create a valid and binding agreement between the Subscriber and the Issuer in accordance with the terms hereof.
- (j) No amendment or waiver of the provisions of this Agreement shall be effective unless in writing and signed by all of the parties hereto.
- (k) If the securities legislation where the Subscriber is resident does not provide comparable statutory rights, the Subscriber shall be entitled to those rights against the Issuer for cancellation and damages or rescission, as the case may be, as set out under “Purchasers’ Rights” in the Offering Memorandum as if those rights were a part of this Agreement.
- (l) The Subscriber (on its own behalf and, if applicable, on behalf of any person for whose benefit the Subscriber is subscribing) acknowledges and consents to the Issuer:
 - (i) collecting the Subscriber’s (and that of any person for whose benefit the Subscriber is subscribing) personal information for the purposes of completing the Subscriber’s subscription;
 - (ii) retaining the personal information for as long as permitted or required by applicable law or business practices; and
 - (iii) providing to various governmental and regulatory authorities, as may be required by applicable Securities Laws or to give effect to this agreement any personal information provided by the Subscriber.
- (m) The Subscriber represents and warrants that it has the authority to provide the consents and acknowledgements set out in this paragraph on behalf of all persons for whose benefit the Subscriber is subscribing.

Appendix I
RISK ACKNOWLEDGEMENT
(Form NI 45-106F4)

Risk Acknowledgement Form

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority 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 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.
- 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. Hera Investment Funds Inc. will pay a fee of \$500 to Capital Street Group Investment Services, Inc. as a fee or a 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 two 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 **Hera Investment Funds Inc.** 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 e-mail or deliver it in person to **Hera Investment Funds Inc.** at its business address below. Keep a copy of the notice for your records.

Issuer Name: **Hera Investment Funds Inc.**
Address: 103 – 850 Harbourside Drive, North Vancouver, British Columbia V7P 0A3
Fax No.: 604-988-8736
E-mail: info@herafunds.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.

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

You will not get professional advice about whether the investment is suitable for you. But you can still seek that advice from a registered advisor or investment dealer. In Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edward 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. 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 the Issuer's business. You may not receive ongoing information about this issuer.

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

British Columbia Securities Commission

Telephone: 604-899-6854
Toll free: 1-800-373-6393
Website: <http://www.bsc.bc.ca>

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