

# OFFERING MEMORANDUM



Date: September 22, 2016

## The Issuer

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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: \$10,000,000 (10,000,000 shares)  
Minimum subscription amount: \$10,000  
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): October 3, 2016 and on the first business day of each month thereafter until the earlier of August 1, 2017 or the issuance of the Company’s April 30, 2017 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: 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	\$ 10,000,000
B.	Selling commissions and fees <sup>(1)</sup>	4,000	200,000
C.	Estimated offering costs (e.g., legal, accounting, audit.)	15,000	20,000
D.	<b>Available funds: D = A - (B+C)</b>	<b>181,000</b>	<b>9,780,000</b>
E.	Additional sources for funding required	0	0
F.	Working capital deficiency <sup>(2)</sup>	0	0
G.	<b>Total: G = (D+E) – F</b>	<b>\$ 181,000</b>	<b>\$ 9,780,000</b>

1. If commissions of 2% are paid for all shares sold.
2. As at the date of this Offering Memorandum.

### 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 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	\$ 178,325	\$ 9,635,500
Yearly management fees and expenses <sup>(1)</sup>	2,675	144,500
<b>Totals</b>	<b>\$ 181,000</b>	<b>\$ 9,780,000</b>

1. See Item 2.2 – Our Business – Management Company and Item 2.7 – Material Agreements.

### 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.

#### *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 intend to 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*

Initially, we intend to 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 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.

In addition to the foregoing, we may occasionally:

- (a) invest in residential, commercial and industrial real estate;
- (b) purchase cash flowing real estate assets at market or below market prices; and
- (c) seek investments in real estate related assets and investments in shares and other securities of Canadian companies.

The time at which we sell any of such investments will be in our sole discretion.

#### *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 net realized capital gains to the MIC's shareholders. We intend to annually pay out all of our net income and net realized capital gains and thereby avoid paying any income tax thereon. Our shareholders will have to pay income tax on such distributions. See Item 6 – Income Tax Consequences and RRSP Eligibility.

#### *Management Company*

We have not retained a management company to administer our business (a “**Manager**”). Instead, we intend rely on the expertise of our President, Afshin Doust, for our mortgage investment opportunities. He is registered under the *Mortgage Brokers Act* (British Columbia) and has experience in the real estate industry, including experience in real estate sales and mortgage brokerage.

When we retain a Manager, we expect it will be wholly-owned by Mr. Doust and that we will pay it an annual fee of 1.5% of the principal amount of our mortgage portfolio in consideration of it providing its management services.

### ***2.3 Development of Business***

In April and May 2016, we began operations by raising initial financing totalling \$275,000 pursuant to an offering memorandum. In May 2016, we made our first loan as a MIC, consisting of a one year loan (with an option to extend for another year) of \$270,000 with interest at 8.95% per year secured by a residential property located in North Vancouver, British Columbia. 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 to develop 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 we can distribute our net income on a quarterly basis in the range of 7.00% per year.

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 threefold.

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

Secondly, to remain qualified as a MIC. To do so, we must maintain an investor base of at least 20 shareholders, with no shareholder holding more than 25% of our shares.

Thirdly, 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. <sup>(1)</sup>	12 months	\$ 19,000	\$ 220,000
Invest the offering proceeds in compliance with the requirements for MICs under the Tax Act.	12 months	\$ 178,325	\$ 9,635,500

1. If commissions of 2% are paid for all shares sold.

## 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. If and when we enter into a management agreement as described under Item 2.2 – Our Business – Management Company, we expect that it will contain the following terms.

Our Manager will be 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.

The annual remuneration of our Manager will be equal to 1.5% of our mortgage portfolio, payable on a monthly basis (0.125% per month).

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

The agreement will have 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 notice by either party; or
- (f) mutual consent, in writing, of us and our Manager.

### 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 <sup>(1)</sup> Last Year (Current Year)	Number, Type & Percentage of Our Securities held <sup>(2)</sup> after completion of the:	
			Minimum Offering	Maximum Offering
Afshin Doustmohammadi (Doust) North Vancouver, British Columbia	President & Director April 1, 2014	0 (0)	25 common (25%) 10,000 preferred (0%)	25 common (25%) 10,000 preferred (0%)
Amir Doustmohammadi North Vancouver, British Columbia	Principal Holder September 1, 2015	0 (0)	25 common (25%) 0 preferred (0%)	25 common (25%) 0 preferred (0%)
Pooya Tazehzadeh North Vancouver, British Columbia	Principal Holder August 8, 2016	0 (0)	25 common (25%) 0 preferred (0%)	25 common (25%) 0 preferred (0%)
Farid Ansari North Vancouver, British Columbia	Principal Holder September 1, 2015	0 (0)	25 common (25%) 0 preferred (0%)	25 common (25%) 0 preferred (0%)

1. Paid by us or a related party in our last financial year. Amounts shown in parentheses are the compensation expected to be paid in the current financial year. If we retain a Manager as described under Item 2.2 – Our Business – Management Company, a fee equal to 1.5% of the value of our mortgage portfolio will be paid.
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.

### 3.2 Management Experience

The principal occupations of our directors and executive officers 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
Afshin Doust President & Director	<p>Registered mortgage broker since February 2005 and licensed real estate agent since February 2005, in British Columbia.</p> <p>Founding shareholder and director since February 2005 of YesPros Mortgages Inc., a British Columbia registered mortgage broker sourcing and arranging institutional and private mortgages.</p> <p>Regional Sales and Relationship Manager, British Columbia from May 2003 to February 2005 of Household Financial Corp. (HFC), a subsidiary of HSBC Canada, responsible for all alternate mortgage sales in British Columbia. Handled all aspects of business development, presentation of HFC products into the marketplace, building relationships with major banks and brokerage firms, differentiating HFC products from its competitors and resolving all issues that arose with strategic partners. Also a part of the team that conveyed specific market intelligence to key decision makers in HFC to facilitate design and creation of new financial products. Held presentations throughout British Columbia for mortgage brokerage firms and trained their sub-mortgage brokers on HFC (HSBC Finance) offerings and products. A part of the trainings included sales strategies and mortgage analysis to increase the sub-mortgage brokers' sales volume.</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 <sup>(1)</sup>	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	100	100	100
Class "A" Preferred Shares <sup>(2)</sup>	Unlimited	\$1.00	0	0	0
Class "B" Preferred Shares <sup>(2)</sup>	Unlimited	\$1.00	275,000	475,000	10,475,000
Class "C" Preferred Shares <sup>(2)</sup>	Unlimited	\$1.00	0	0	0
Class "D" Preferred Shares <sup>(2)</sup>	Unlimited	\$1.00	0	0	0

1. All our shares have a par value of \$1.00.
2. All our Preferred Shares are non-voting.

### 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
April 1, 2016	Common	0	\$1.00	0
	Class "B" Preferred	215,000	\$1.00	\$ 215,000
May 3, 2016	Common	0	\$1.00	0
	Class "B" Preferred	60,000	\$1.00	\$ 60,000
<b>Totals</b>	<b>Common</b>	<b>0</b>	<b>\$1.00</b>	<b>0</b>
	<b>Class "B" Preferred</b>	<b>275,000</b>	<b>\$1.00</b>	<b>\$ 275,000</b>

#### 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	
<b>Common Shares</b>								
2015	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
2016	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
2016 <sup>(1)</sup>	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
<b>Class B Preferred Shares</b>								
2015	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
2016	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0
2016 <sup>(1)</sup>	0	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0

1. Financial period from May 1, 2016 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 not paid any dividends.

Dividends are paid at the discretion of, and when declared by, the Board of Directors. 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.

We are targeting a cash dividend of 7.00% per annum, calculated and payable annually. 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 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. Any retraction made before the second anniversary of issuance of a Class “B” Preferred Share shall be subject to a 4% early retraction penalty unless the notice is given at least 240 days before the date of retraction and no income is paid on the shares being retracted during such 240 day period.

A shareholder wishing to retract a minimum of 2,000 Class “B” Shares (“**Retracted Shares**”) after the fourth anniversary of issuance 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 board of directors. 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 it 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 our lawyers, “Kuhl Law Corporation, In Trust” 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 hold Period

An investor’s subscription funds will be held in trust 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; or, in our first taxation year, at the end of such first taxation year:

1. We are a Canadian corporation as defined in the Tax Act;
2. Our only undertaking was the investing of our funds, and we did not manage or develop any real property;
3. We did not invest in:
  - (a) debts that are secured on real property outside Canada;
  - (b) debts of non-residents, other than debts secured on real property situated in Canada;
  - (c) shares of any company not resident in Canada; or
  - (d) real property or leasehold interest situated outside Canada;
4. 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 shares of the MIC or been a “specified shareholder” (as that term is defined in subsection 130.1(6)(d) of the Tax Act) of us;

5. 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;
6. The cost amount of our property represented by loans secured on houses or on property included in a housing project, as those terms are defined in the *National Housing Act* (Canada), deposits insured by the Canada Deposit Insurance Corporation (“**CDIC**”), deposits in a credit union, together with cash on hand, (collectively, the “**Qualifying Property**”) is at least 50% of the cost amount to us of all of our property. For the purposes of the foregoing, the *National Housing Act* (Canada) provides that: “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 that “‘housing project’ means a project consisting of one or more houses, one or more multiple-family dwellings, housing accommodation of the hostel or dormitory type, one or more condominium units or any combination thereof, together with any public space, recreational facilities, commercial space and other buildings appropriate to the project, but does not include a hotel”;
7. 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
8. Where at any time in the year the cost amount to us of our Qualifying Property 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 Property equaled 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.

This restriction may be summarized as follows: the borrowing by a corporation 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 the maximum borrowing is five times our equity capital.

We believe that this leverage opportunity is important in terms of our dividend performance, and we will maximize our leverage opportunity under the Tax Act. We will borrow funds whenever funds are available provided 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, as the case may be. 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.

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 company’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 us.

## ***6.2 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 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. 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 the capital stock 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 the capital stock 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 the capital stock 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. 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 by us and our directors, executive officers and employees, and may be sold on a best efforts basis by any agents that may be duly authorized by us.

We may appoint, and enter into agency agreements with, agents under which they will offer the Class “B” Shares for sale to subscribers on a commercially reasonable basis. We may also appoint finders and enter into finder agreements with finders under which the finders will refer subscribers to us. The commissions and fees payable to any such agents and finders will be up to 2.0% of the gross proceeds received in connection therewith. As at the date of this Offering Memorandum, no such agreements have been entered into.

If permitted by applicable securities legislation, we may also compensate our executive officers, directors, and employees in respect of any shares sold by them. Such commissions may be paid in cash immediately upon us accepting the particular subscription, or paid over time.

## **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. Furthermore, if the subscriber does not

provide us with the appropriate Notice of Retraction, the right of retraction is suspended until an additional time period has elapsed. See Item 5.1 – Terms of Securities.

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 one 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) Our Operations have not Commenced and Lack of Earnings

We have not yet commenced any mortgage lending operations and, therefore, have no history of revenue or earnings on which investors may assess our success. **If we fail to grow our business to a point where it generates sufficient income to cover our costs, investors could incur a loss on their investment. Investors should not invest in our shares unless they can withstand a partial or entire loss of their investment.**

(c) Reliance on our Manager

Under the terms of any Management Agreement that may be entered into between us and our Manager, our Manager will have significant responsibility for assisting the conduct of our affairs. Any inability of our Manager to perform competently or on a timely basis will negatively affect us.

(d) Key Personnel

Our operations and the operations of any Manager we may appoint are highly dependent upon the continued support and participation of our key personnel. The loss of the services of such key personnel may materially affect our timing or ability to implement our business plan.

Our management team consists and, when formed, the management team of our Manager will consist, of several key people. In order to manage us successfully in the future, it may be necessary to further strengthen these management teams. The competition for such key personnel is intense, and there can be no assurance of success in attracting, retaining, or motivating such individuals. Failure in this regard would likely have a material adverse effect on our business, financial condition, and results of operations.

(e) Conflict of Interest

Conflicts of interest may exist, and others may arise, between subscribers and the directors and officers of our Manager (when one is retained) and us and their associates and affiliates.

There is no assurance that any conflicts of interest that may arise will be resolved in a manner most favourable to subscribers. Persons considering a purchase of shares pursuant to this offering must rely on the judgment and good faith of the directors, officers and employees of our Manager (when one is retained) and us in resolving such conflicts of interest as may arise.

We and our shareholders will be dependent in large part upon the experience and good faith of our Manager when one is retained. Our Manager will be entitled to act in a similar capacity for other companies with investment criteria similar to ours. As such, there is a risk our Manager (when one is

retained) will not be able to originate sufficient suitable investment opportunities to keep our funds fully invested. Also, our directors and our Manager's directors are employed by or act in other capacities for other companies involved in mortgage and lending activities. See Item 2.7 – Material Agreements.

(f) 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 implement our business plan, and subscribers may receive 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 a substantial portion 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 it 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 subscribers' 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, TFSAs 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.bsc.bc.ca](http://www.bsc.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, 2016 and 2015  
(Expressed in Canadian Dollars)**

<b><u>Index</u></b>	<b><u>Page</u></b>
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<b>Financial Statements</b>	
Statements of Financial Position	2
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Statements of Changes in Shareholders' Equity	4
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## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF HERA INVESTMENT FUNDS INC.

We have audited the accompanying financial statements of Hera Investment Funds Inc., which comprise the statements of financial position as at April 30, 2016 and 2015, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hera Investment Funds Inc. as at April 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
July 25, 2016



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

	2016	2015
<b>Assets</b>		
Cash	\$ 215,100	\$ 1
<b>Shareholders' Equity</b>		
Share capital (note 4)	\$ 215,100	\$ 1
Contributed surplus (note 5)	16,387	-
Deficit	(16,387)	-
<b>Total shareholders' equity</b>	<b>\$ 215,100</b>	<b>\$ 1</b>

Approved by:

*Afshin Doust (signed)*  
Afshin Doust, President

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

	<b>2016</b>	<b>2015</b>
Professional fees	\$ 16,387	\$ -
<b>Net Loss and Comprehensive Loss for the Year</b>	<b>\$ 16,387</b>	<b>\$ -</b>

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 Shares		Amount	Contributed Surplus	Deficit	Total
	Common	Preferred				
<b>Balance, May 1, 2014 and April 30, 2015</b>	1	-	\$ 1	\$ -	\$ -	\$ 1
Share subscriptions	99	215,000	215,099	-	-	215,099
Contribution from director (note 5)	-	-	-	16,387	-	16,387
Net loss for the year	-	-	-	-	(16,387)	(16,387)
<b>Balance, April 30, 2016</b>	100	215,000	\$ 215,100	\$ 16,387	\$ (16,387)	\$ 215,100

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)**

	<b>2016</b>	<b>2015</b>
<b>Operating Activity</b>		
Net loss	\$ (16,387)	\$ -
<b>Financing Activities</b>		
Proceeds from issuance of share capital	215,099	-
Contributions from director	16,387	-
	<b>231,486</b>	<b>-</b>
<b>Inflow of Cash</b>	<b>215,099</b>	<b>-</b>
<b>Cash, Beginning of Year</b>	<b>1</b>	<b>1</b>
<b>Cash, End of Year</b>	<b>\$ 215,100</b>	<b>\$ 1</b>

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

# HERA INVESTMENT FUNDS INC.

## Notes to the Financial Statements

Years Ended April 30, 2016 and 2015

(Expressed in Canadian Dollars)

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### 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.

### 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.

The financial statements of the Company were approved by the director and authorized for issue on July 25, 2016.

(b) Basis of measurement and presentation

The financial statements have been prepared on a historical cost basis. 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.

(c) 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.

## HERA INVESTMENT FUNDS INC.

### Notes to the Financial Statements

Years Ended April 30, 2016 and 2015

(Expressed in Canadian Dollars)

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## 2. BASIS OF PRESENTATION (Continued)

### (d) Financial instruments

#### (i) Financial assets

The Company classifies its financial assets as fair value through profit or loss ("FVTPL"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

#### *Fair value through profit or loss*

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

#### (ii) 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.

### (e) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and preferred shares are classified as equity instruments.

## HERA INVESTMENT FUNDS INC.

### Notes to the Financial Statements

Years Ended April 30, 2016 and 2015

(Expressed in Canadian Dollars)

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## 2. BASIS OF PRESENTATION (Continued)

### (f) 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:

#### **IFRS 9 *Financial Instruments* (2014)**

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to annual periods beginning on or after January 1, 2018.

#### ***Disclosure Initiative (Amendments to IAS 1)***

- Clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes; and provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements.

Applicable to annual periods beginning on or after January 1, 2018.

**HERA INVESTMENT FUNDS INC.**  
**Notes to the Financial Statements**  
**Years Ended April 30, 2016 and 2015**  
**(Expressed in Canadian Dollars)**

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**2. BASIS OF PRESENTATION (Continued)**

- (f) Future changes in accounting policies (continued)

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Applicable to annual periods beginning on or after January 1, 2018.

**IFRS 16 Leases**

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on January 1, 2019.



## **HERA INVESTMENT FUNDS INC.**

### **Notes to the Financial Statements**

**Years Ended April 30, 2016 and 2015**

**(Expressed in Canadian Dollars)**

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### **3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company classifies its financial instrument as follows:

- Cash is classified as a financial asset at FVTPL.

The carrying value of this financial asset approximates its fair value.

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

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is not exposed to significant credit risk.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market rates.

The Company is not exposed to significant interest rate risk.

(c) 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.

(d) 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.

## **HERA INVESTMENT FUNDS INC.**

**Notes to the Financial Statements  
Years Ended April 30, 2016 and 2015  
(Expressed in Canadian Dollars)**

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### **4. SHARE CAPITAL**

(a) Authorized

The authorized share capital of the Company is an unlimited number of common and preferred shares with a par value of \$1 each.

(b) Issued

On April 1, 2016, the Company issued 99 common shares at a price of \$1 per share and issued 215,000 Class B preferred shares at a price of \$1 per share.

### **5. RELATED PARTY TRANSACTIONS**

A director of the Company contributed \$16,387 (2015 - \$nil) to the Company during the year ended April 30, 2016, to cover the cost of professional fees incurred. The Company has recorded this transaction as contributed surplus.

## ITEM 13: DATE AND CERTIFICATE

Dated: September 22, 2016

**This Offering Memorandum does not contain a misrepresentation.**

### **The Issuer**

(signed) AFSHIN DOUST  
President & Director  
(chief executive officer &  
*de facto* chief financial officer)

## SCHEDULE A – SUBSCRIPTION AGREEMENT

(For Shares distributed only in BC under an Offering Memorandum)

**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	Subscription Price per Share	Total Subscription Amount (\$)
Class “B” Preferred Shares (non-voting)	_____	\$1.00	_____

<u>Subscriber Information</u>
Name of Subscriber (Print) _____
Names(s) of Joint Subscriber(s) (Print) _____
<b>Signature of Subscriber(s) if Subscriber(s) is an individual</b> _____
Company Name (if Subscriber is a company) (Print) _____
Name & title of Authorized signatory of the Company (Print) _____
<b>Signature of Company’s authorized signatory</b> _____
Social Insurance Number(s) (SIN) or Business Number _____
Social Insurance Number(s) of Joint Subscribers _____
Subscriber’s <b>Residential Address*</b> or Company Address _____
City _____ Province _____ Postal Code _____
Home Phone Number or Company Phone Number _____
Fax Number _____
E-mail address _____
<b>*For purposes of Section 116 of the Income Tax Act (Canada) the Residential Address must be filled out.</b>

<u>Register the Class “B” Shares as set forth below</u>
Name(s) of beneficial holder(s) or trustee of a Self-Directed Registered Retirement Savings Plan _____
RRSP/Brokerage Account reference, <i>if applicable</i> _____
RRSP/Brokerage & Contact Name, <i>if applicable</i> _____
RRSP Brokerage Address _____
City _____ Province _____ Postal Code _____
<b><u>OFFICE USE ONLY</u></b>
ACCEPTED by the Issuer this _____ day on _____, 201____.
<b>HERA INVESTMENT FUNDS INC.</b>
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 September 22, 2016; [NTD: to be inserted]
- (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) 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;
- (b) Appendix I (Risk Acknowledgement – Form BCI 32-517) of this Agreement; and
- (c) Appendix II (Risk Acknowledgement – Form NI 45-106F4) of this Agreement.

The Subscriber also delivers with the foregoing a certified cheque, bank draft or Electronic Funds Transfer for the Total Subscription Amount payable to the Issuer's lawyers, "Kuhl Law Corporation, In Trust".

### **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 we are 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 we are 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 a Risk Acknowledgement (Appendix II – 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 Subscriber acknowledges that the Shares are being purchased pursuant to the dealer registration exemption contained in BCI 32-517 order by the British Columbia Securities Commission and the Subscriber has provided the Issuer's acknowledgement of this by executing and delivering to the Issuer a Risk Acknowledgement (Appendix I – Form BCI 32-517) attached to this Agreement;
- (o) the Issuer is not registered under any securities legislation for the purposes of selling the Shares;
- (p) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Shares;
- (q) there is no government or other insurance covering the Shares;
- (r) there are risks associated with the purchase of the Shares;
- (s) 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;
- (t) 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;
- (u) 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;
- (v) 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;

- (w) 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;
- (x) 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;
- (y) 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;
- (z) 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;
- (aa) 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; and
- (bb) it acknowledges that it has the statutory or contractual rights of the province of British Columbia described in the Offering Memorandum.

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 BCI 32-517)**

**Risk Acknowledgement under BCI 32-517**  
*Exemption from Dealer Registration Requirement for Trades  
in Securities of Mortgage Investment Entities*

Name of Issuer: **HERA INVESTMENT FUNDS INC.**

Name of Seller: **HERA INVESTMENT FUNDS INC.**

**I acknowledge that:**

- the person selling me these securities is not registered with a securities regulatory authority and is prohibited from telling me that this investment is suitable for me;
- the person selling me these securities does not act for me;
- this is a risky investment and I could lose all of my money; and
- I am investing entirely at my own risk.

\_\_\_\_\_

Date

\_\_\_\_\_

Signature of Purchaser

\_\_\_\_\_

Print Name of Purchaser

Afshin Doust

Name of salesperson  
acting on behalf of the seller

Sign two copies of this document. Keep one for your records.

National Instrument 45-106 *Prospectus and Registration Exemptions* may require you to sign an additional risk acknowledgement form.

If you want advice about the merits of this investment and whether these securities are a suitable investment for you, contact a registered adviser or dealer.

**Appendix II  
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 2% of the total investment to \_\_\_\_\_ 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 2<sup>nd</sup> 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.bcsc.bc.ca>

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