

# OFFERING MEMORANDUM



Date: **August 1, 2023**

## The Issuer

Name: **HERA INVESTMENT FUNDS INC.**  
Head office: Address: **204 – 38 Fell Avenue, North Vancouver, British Columbia V7P 3S2**  
Phone: **604-770-0190**  
E-mail: **office@herafunds.com**  
Website: **www.herafunds.com**  
Currently listed or quoted?..... **No. These securities do not trade on any exchange or market.**  
Reporting issuer?..... **No**

## The Offering

Securities offered: **Class “B” Preferred Shares (non-voting and repurchasable)**  
Price per security: **\$1.00 per Share**  
Minimum offering: **There is no minimum. You may be the only purchaser.**  
Maximum offering: **\$8,000,000 (8,000,000 Shares)**  
Minimum subscription amount: **\$50,000 (50,000 Shares)**  
**\$10,000 (10,000 Shares) if held in Registered Plan (as defined in Item 5.1 – Terms of Securities)**  
Payment terms: **The subscription price for Shares being purchased is payable in full by the applicable closing date. See Item 5.2 – Subscription Procedure.**  
Proposed closing date(s): **This is a continuous offering. Closings will occur as subscriptions are received until the earlier of September 1, 2024 or the issuance of our April 30, 2024 annual financial statements.**  
Income tax consequences: **There are important tax consequences to these securities. See Item 8 – Income Tax Consequences and RRSP Eligibility.**

## Insufficient Funds

**Funds available under the offering may not be sufficient to accomplish the proposed objectives. See Item 2.6 – Insufficient Funds.**

## Compensation Paid to Sellers and Finders

A person [Drake Financial Ltd.] has received or will receive compensation for the sale of securities under the offering. See Item 9 – Compensation Paid to Sellers and Finders.

## Resale Restrictions

You will be restricted from selling your securities for an indefinite period. See Item 12 – Resale Restrictions.

## Conditions on Repurchases

**You will have a right to require us to repurchase the securities from you, but this right is qualified by a specified price, restrictions and fees. As a result, you might not receive the amount of proceeds that you want. See Item 5.1 – Terms of Securities.**

## 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 a right to damages or to cancel the agreement. See Item 13 – 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 10 – Risk Factors.**

## Table of Contents

|                                                                                              |    |
|----------------------------------------------------------------------------------------------|----|
| ITEM 1: USE OF AVAILABLE FUNDS.....                                                          | 1  |
| 1.1 Funds.....                                                                               | 1  |
| 1.2 Use of Available Funds.....                                                              | 1  |
| 1.3 Proceeds Transferred to Other Issuers Reallocation .....                                 | 1  |
| ITEM 2: OUR BUSINESS AND OTHER INFORMATION AND TRANSACTIONS .....                            | 1  |
| 2.1 Structure .....                                                                          | 1  |
| 2.2 Our Business .....                                                                       | 2  |
| 2.3 Development of Our Business .....                                                        | 6  |
| 2.4 Long Term Objectives .....                                                               | 11 |
| 2.5 Short Term Objectives .....                                                              | 11 |
| 2.6 Insufficient Funds.....                                                                  | 12 |
| 2.7 Material Contracts .....                                                                 | 12 |
| ITEM 3: COMPENSATION AND SECURITY HOLDINGS OF CERTAIN PARTIES.....                           | 12 |
| 3.1 Compensation and Securities Held.....                                                    | 12 |
| 3.2 Management Experience.....                                                               | 13 |
| 3.3 Penalties, Sanctions, Bankruptcy, Insolvency and Criminal or Quasi-Criminal Matters..... | 14 |
| 3.4 Certain Loans .....                                                                      | 14 |
| ITEM 4: CAPITAL STRUCTURE.....                                                               | 14 |
| 4.1 Securities Except for Debt Securities .....                                              | 14 |
| 4.2 Long Term Debt .....                                                                     | 15 |
| 4.3 Prior Sales .....                                                                        | 15 |
| ITEM 5: SECURITIES OFFERED .....                                                             | 15 |
| 5.1 Terms of Securities .....                                                                | 16 |
| 5.2 Subscription Procedure.....                                                              | 19 |
| ITEM 6: REPURCHASE REQUESTS.....                                                             | 21 |
| ITEM 7: CERTAIN DIVIDENDS OR DISTRIBUTIONS .....                                             | 21 |
| ITEM 8: INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY .....                                   | 21 |
| 8.1 Caution.....                                                                             | 21 |
| 8.2 Description of Income Tax Consequences.....                                              | 21 |
| 8.3 Eligibility for Investment by Registered Plans .....                                     | 25 |
| ITEM 9: COMPENSATION PAID TO SELLERS AND FINDERS .....                                       | 26 |
| ITEM 10: RISK FACTORS .....                                                                  | 26 |
| 10.1 Investment Risk.....                                                                    | 27 |
| 10.2 Issuer Risk .....                                                                       | 28 |
| 10.3 Industry Risk.....                                                                      | 29 |
| ITEM 11: REPORTING OBLIGATIONS.....                                                          | 31 |
| 11.1 Corporate Requirements .....                                                            | 31 |
| 11.2.1 Corporate and Securities Information .....                                            | 31 |
| ITEM 12: RESALE RESTRICTIONS .....                                                           | 32 |
| 12.1 Restricted Period .....                                                                 | 32 |
| ITEM 13: PURCHASERS' RIGHTS.....                                                             | 32 |
| 13.1 Two Day Cancellation Right .....                                                        | 32 |
| 13.2 Statutory Rights of Action in Event of a Misrepresentation.....                         | 32 |
| 13.3 Contractual Rights of Action in the Event of a Misrepresentation.....                   | 33 |
| ITEM 12: FINANCIAL STATEMENTS .....                                                          | 33 |
| ITEM 13: DATE AND CERTIFICATE .....                                                          | 56 |
| SCHEDULE A: SUBSCRIPTION AGREEMENT.....                                                      | 57 |

## ITEM 1: USE OF AVAILABLE FUNDS

### 1.1 Funds

The funds that will be available to us from the offering, together with funds that will be available from other sources, are as follows:

|    | Description                                                      | Assuming                 |                     |
|----|------------------------------------------------------------------|--------------------------|---------------------|
|    |                                                                  | Minimum Offering         | Maximum Offering    |
| A. | Amount to be raised by the offering                              | \$ 10,000                | \$ 8,000,000        |
| B. | Selling commissions and fees*                                    | \$ 300                   | \$ 15,000           |
| C. | Estimated offering costs (including legal, accounting and audit) | \$ 50,000                | \$ 100,000          |
| D. | <b>Available funds: D = A - (B + C)</b>                          | <b>&lt;\$ 40,300&gt;</b> | <b>\$ 7,885,000</b> |
| E. | Additional sources for funding required (available)              | 0                        | 0                   |
| F. | Working capital deficiency                                       | 0                        | 0                   |
| G. | <b>Total: G = (D + E) – F</b>                                    | <b>&lt;\$ 40,300&gt;</b> | <b>\$ 7,885,000</b> |

\* Assuming a minimum of one and a maximum of 50 investments are made. See Item 9 – Compensation Paid to Sellers and Finders.

### 1.2 Use of Available Funds

We will use the funds available from the offering, together with funds that will be available from other sources, as estimated in Item 1.1 – Funds, as follows:

| Description of intended use of net proceeds<br>(listed in order of priority)                                                      | Assuming         |                     |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------|
|                                                                                                                                   | Minimum Offering | Maximum Offering    |
| Loan investments secured by mortgages on residential, commercial and industrial mortgages properties located in British Columbia* | 0                | \$ 7,885,000        |
| <b>Totals (equal to G in the Funds table above)</b>                                                                               | <b>\$ 0</b>      | <b>\$ 7,885,000</b> |

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

### 1.3 Proceeds Transferred to Other Issuers Reallocation

None of the proceeds of the offering will be invested in, loaned to, or otherwise transferred to another issuer (other than a subsidiary) unless that issuer owns real property in British Columbia on which a mortgage has been granted to us in the ordinary course of our business. We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons.

## ITEM 2: OUR BUSINESS AND OTHER INFORMATION AND TRANSACTIONS

### 2.1 Structure

We are a company incorporated under the *Business Corporations Act* (British Columbia) on April 1, 2014. Our share capital consists of an unlimited number of common shares with a par value of \$1.00 each (“**Common Shares**”) and Class “B” Preferred Shares with a par value of \$1.00 each (“**Class “B” Shares**”),

as well as an unlimited number (none of which are issued) of Class “A”, “C” and “D” Preferred Shares with a par value of \$1.00 each.

## 2.2 Our Business

We are a “mortgage investment corporation” or “MIC”, a form of corporation under Canada’s *Income Tax Act* (the “**Tax Act**”) which makes loans secured by mortgages on real estate in Canada. 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.

To qualify as a MIC, we are restricted by the Tax Act to carrying on the following activities:

- (a) our business must be passive and of an investment nature (accordingly, we cannot manage or develop residential, commercial or industrial properties other than incidental management thereof – such as management of properties acquired by foreclosure); and
- (b) our only business can be the investing of funds.

Furthermore, such investments are subject to the following restrictions:

- (a) at least 50% of the cost amount of all of our assets must consist of bank deposits or debts secured on Canadian homes or housing projects;
- (b) no more than 25% of the cost amount of all of our assets can consist of ownership of, or lease interests in, real estate unless acquired through foreclosure;
- (c) we cannot invest our funds in
  - (i) real estate located outside Canada or in leasehold interests in such real estate,
  - (ii) debts of persons not resident in Canada unless the debt is secured by a mortgage on real estate located within Canada, and
  - (iii) shares of corporations not resident in Canada;
- (d) our net leveraging (the ratio of the amount of our outstanding liabilities to the amount by which the cost of our assets exceeds our liabilities) cannot exceed a 3:1 ratio unless more than two-thirds of our investments are in residential mortgages and bank deposits, in which case it is entitled to be no more than a 5:1 ratio.

### *Taxation of MICs*

The Tax Act provides that MICs do not have to pay income tax on their net income and net realized capital gains if they annually distribute such net income and one-half of such net realized capital gains (that is, the “taxable capital gains”) to the MIC’s shareholders. Therefore, to qualify as a MIC and receive this favourable tax treatment, we annually pay out all of our net income and taxable capital gains. The annual distribution is paid, at the election of each Class “B” Shareholder, in cash or in further Class “B” Shares within 90 days of our financial year end. **These distributions are taxed as interest income in the hands of the Class “B” Shareholders and not as dividends** as described in Item 8 – Income Tax Consequences and RRSP Eligibility.

### *Business Objective*

Our business objective is to maintain a stable source of income from a portfolio of loans to homeowners, builders and developers secured by mortgages on their residential, commercial, and industrial real estate in Canada. We primarily hold first and second mortgages with a principal amount which, when added to the principal amount of any prior mortgages, is not more than 85% (80% for a second mortgage) of the appraised value of the property against which the mortgages are secured (the “loan to value” or “LTV” ratio). We rarely purchase existing mortgages and virtually all of the mortgages will secure loans made by us.

### *Location and Regulation of our Business*

As a MIC, we make residential loans supplemented by a small number of commercial, and industrial loans, all secured by first and second mortgages. We have not made, and do not intend to make, any loans secured by third mortgages. We earn most of our income from the interest paid pursuant to these mortgages along with renewal fees, pre-payment penalties, performance bonuses and other fees and charges related to such mortgages. Additional income may be earned from short term rental of properties we acquire from foreclosures under mortgages held by us and any capital gains when such properties are sold.

We provide mortgage financing to borrowers whose applications do not necessarily fall within the lending and investing guidelines of conventional lenders. As a result of the additional risk, due diligence and administration associated with these mortgages, we charge a rate of interest that is higher than conventional lenders. If our borrowers default under their mortgage loans, we work through the foreclosure process with the goal of minimizing any significant losses.

Currently, we conduct our mortgage lending business only in British Columbia. Accordingly, we are registered (licenced) as a mortgage broker in British Columbia. The Office of the Registrar of Mortgage Brokers at the British Columbia Financial Services Authority 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 Policy*

Our investment policy is intended to enable us to qualify for the special tax treatment afforded to MICs under the Tax Act. For this reason, we loan most of our funds as residential mortgage loans and the balance is held in bank deposits. We may also lend our funds as commercial and industrial mortgage loans, however, we rarely do so. No funds will be loaned in respect of any property in which our director or officer has a direct or indirect interest.

We believe the types of mortgage loans which we have made, and intend to make, are consistent with the criteria for a MIC under the Tax Act. So long as we meet these criteria, we should be accorded the “flow through” tax treatment given to MICs. That treatment results in us not being taxed on any of our net income or taxable capital gains, all of which are distributed to our Class “B” Shareholders through annual distributions. **Pursuant to the Tax Act, such distributions are taxed as interest income in the hands of our Class “B” Shareholders and not as distributions.**

### *Operating Policy*

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 make loans secured by residential, commercial and industrial mortgages in accordance with the following 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 LTV and, if the appraised value is based on stated conditions including, without limitation, completion, rehabilitation or lease-up of improvements located on the real property, we will monitor such conditions on an ongoing basis.
- (d) For second mortgages, we will loan up to 80% of the appraised value, and the maximum mortgage amount is reduced to \$4 million.
- (e) 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 value ratio is reduced to 75%.
- (f) Depending on the specific mortgage and the market, we might charge lender fees and the mortgages will be pre-payable without penalty.
- (g) Our loans are repayable with interest ranging from 7% to 14% per year for first mortgages and 9% to 16% per year for second mortgages.
- (h) Mortgages will have a term of one year, with a possible one year renewal.
- (i) All mortgages must be on properties in established or developing areas in British Columbia, including the Greater Vancouver area, Victoria, Kelowna and some Fraser Valley properties.
- (j) The residence must be owner-occupied with valid homeowner insurance in place 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.
- (k) We will generally only make mortgage loans 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.
- (l) 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.

- (m) Appraisals are generally not required for renewal of mortgage loans although our Manager (see “Manager” below) may decide that it is prudent to have an appraisal in unusual circumstances.
- (n) Title insurance is required and all taxes, levies and assessments must be fully paid on all properties.
- (o) We do not make loans to related parties such as directors, officers and their families or companies controlled by them.
- (p) We exercise caution to ensure no significant mortgage loans are or will be made to any one borrower or group of related borrowers or for any one project. Further, no mortgage or collection of mortgages from a single borrower or group of related borrowers shall exceed 40% of our total assets.
- (q) 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.
- (r) 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.

### *Competition*

Our competitors are principally other MICs, but also include commercial lenders and financial institutions such as banks. Overall, the MIC lending business continues to increase in number of MICs and competitiveness of those MICs each year. There are already a significant number of MICs operating with varying levels of success and many of these MICs compete for the same borrowers. This has resulted, and could result in further, downward pressure on lending rates and the resulting rates of return to investors in MICs.

### *Leveraging through Borrowing*

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

We believe that this leverage opportunity may become important in terms of our profit distribution performance, and we intend to maximize our leverage opportunity under the Tax Act. If we do, we will borrow funds when 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 contracts with individuals and companies. It is probable that debt instruments will form part of a floating charge against our assets and equity, and in the event of liquidation or wind-up, will rank in priority to our outstanding shares.

### *Manager*

We rely on the expertise of our CEO and CFO, Qin (Stella) Liao (“**Manager**”), to manage our business.

Our Manager is a registered mortgage sub-broker with significant experience in the real estate industry. See Item 3.2 – Management Experience.

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

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

We pay our Manager, or a company owned by her, a fee of \$15,000 per month and, by the end of each financial year, a bonus equal to the difference between the fees paid and up to 1.5% of the principal amount of our mortgage portfolio depending on our performance. See Notes 9(a) and (b) “Related party transactions” of our annual financial statements included in this Offering Memorandum for details of our Manager’s remuneration.

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

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

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

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

We began our operations in April 2016 and since then our business has grown based on our prudent lending practices and working through any foreclosures with the goal of minimizing losses. We believe this growth and loss strategy has resulted, and will continue to result, in consistent and acceptable rates of return on our

invested capital compared to alternative investment opportunities for our shareholders.

During our last two financial years there have not been any unusual events or conditions that have favourably, or adversely, influenced the development of our business.

### *Summary of Operations*

The following table summarizes our operations for our last two financial years:

| Description                               |               | April 30, 2022       |                | April 30, 2023       |                |                  |
|-------------------------------------------|---------------|----------------------|----------------|----------------------|----------------|------------------|
|                                           |               |                      |                | Amount               |                | Change from 2022 |
| Gross Revenue                             |               | \$ 2,264,363         |                | \$ 3,051,476         |                | +34.8%           |
| Total Expenses                            |               | \$ 563,138           |                | \$ 667,475           |                | +18.5%           |
| <b>Net Profit</b>                         |               | <b>\$ 1,701,225</b>  |                | <b>\$ 2,384,001</b>  |                | <b>+40.1%</b>    |
| <b>Distributions Paid</b>                 |               | <b>\$ 1,696,709</b>  |                | <b>\$ 2,379,892</b>  |                | <b>+40.3%</b>    |
| First Mortgages                           | Number        | 9                    | 26.5% of total | 13                   | 24.5% of total | +44.4%           |
|                                           | Dollar Amount | \$ 10,732,252        | 41.1% of total | 10,342,951           | 36.0% of total | -3.6%            |
| Second Mortgages                          | Number        | 25                   | 73.5% of total | 40                   | 75.5% of total | +60.0%           |
|                                           | Dollar Amount | \$ 15,310,700        | 58.9% of total | 18,351,501           | 64.0% of total | +19.9%           |
| <b>Total Mortgage Receivables*</b>        |               | <b>\$ 26,042,952</b> |                | <b>\$ 28,694,452</b> |                | <b>+10.2%</b>    |
| Loan Loss Reserves                        |               | \$ 72,000            |                | \$ 131,600           |                | +8.3%            |
| Average Loan to Value                     |               | 64%                  |                | 60%                  |                | -6.25%           |
| Foreclosures in Progress                  |               | 0                    |                | 1                    |                | +100%            |
| <b>Share Capital Invested at year end</b> |               | <b>\$ 26,419,067</b> |                | <b>\$ 29,976,244</b> |                | <b>+13.5%</b>    |
| Number of Shareholders at year end        |               | 75                   |                | 77                   |                | +2.7%            |
| <b>Net Return on Investment</b>           |               | <b>7.16%</b>         |                | <b>8.69%</b>         |                | <b>+21.4%</b>    |

\* Summary data is based on gross mortgage receivables. Net receivables (gross receivables less the loan loss reserves at the fiscal year ends) are set out in our annual financial statements for the last two financial years. See the financial statements under Item 14 "Financial Statements".

### *Funding, Loans and Distributions to Investors*

In the past two financial years and subsequent financial period to the date of this Offering Memorandum, we have made loans and distributed our net income as follows:

| Financial Year ended April 30 <sup>th</sup> | Funds Raised         | Loans Made |                      |                              | Distributions Paid <sup>(1)</sup> |                     |                     |
|---------------------------------------------|----------------------|------------|----------------------|------------------------------|-----------------------------------|---------------------|---------------------|
|                                             |                      | No.        | Principal Amount     | Interest Rate <sup>(2)</sup> | Shares <sup>(3)</sup>             | Cash                | Total               |
| 2022                                        | \$ 7,123,288         | 34         | \$ 26,042,952        | 9.2%                         | \$ 813,553                        | \$ 883,157          | \$ 1,696,710        |
| 2023                                        | \$ 9,725,335         | 53         | \$ 28,694,452        | 10.4%                        | \$ 1,056,537                      | \$ 1,323,355        | \$ 2,379,892        |
| 2024 <sup>(4)</sup>                         | \$ 443,571           | 3          | \$ 1,726,000         | 11.5%                        | \$ 298,987                        | \$ 351,943          | \$ 650,930          |
| <b>Totals</b>                               | <b>\$ 17,292,194</b> | <b>87</b>  | <b>\$ 56,463,404</b> | <b>10.3%</b>                 | <b>\$ 2,169,077</b>               | <b>\$ 2,558,455</b> | <b>\$ 4,727,532</b> |

(1) Distributions are paid within 90 days after the financial year end.

(2) Weighted average annual interest rate charged on all loans made during the financial year.

(3) Value of Class “B” Shares issued at a deemed price of \$1.00 each.

(4) Three month financial period ended July 31, 2023.

### *Mortgage Portfolio*

The growth of our mortgage portfolio as at our April 30<sup>th</sup> financial year end in each of the past seven financial years is as follows:

| Mortgage                              | 2017     |                          |                        | 2018        |                          |                        |
|---------------------------------------|----------|--------------------------|------------------------|-------------|--------------------------|------------------------|
|                                       | No.      | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> | No.         | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> |
| First                                 | 0        | 0                        |                        | 8           | \$ 2,263,250             | 20.5%                  |
| Second                                | 1        | \$ 270,000               | 100.0%                 | 17          | \$ 8,788,000             | 79.5%                  |
| <b>Totals</b>                         | <b>1</b> | <b>\$ 270,000</b>        | <b>100.0%</b>          | <b>25</b>   | <b>\$ 11,051,250</b>     | <b>100.0%</b>          |
| <b>Weighted Average Interest Rate</b> |          |                          | <b>8.9%</b>            | <b>9.0%</b> |                          |                        |

| Mortgage                              | 2019      |                          |                        | 2020        |                          |                        |
|---------------------------------------|-----------|--------------------------|------------------------|-------------|--------------------------|------------------------|
|                                       | No.       | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> | No.         | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> |
| First                                 | 7         | \$ 3,251,918             | 20.4%                  | 8           | \$ 5,729,250             | 28.6%                  |
| Second                                | 29        | \$ 12,725,000            | 79.6%                  | 30          | \$ 14,298,500            | 71.4%                  |
| <b>Totals</b>                         | <b>36</b> | <b>\$ 15,976,918</b>     | <b>100.0%</b>          | <b>38</b>   | <b>\$ 20,027,750</b>     | <b>100.0%</b>          |
| <b>Weighted Average Interest Rate</b> |           |                          | <b>9.5%</b>            | <b>9.5%</b> |                          |                        |

| Mortgage                              | 2021      |                          |                        | 2022        |                          |                        |
|---------------------------------------|-----------|--------------------------|------------------------|-------------|--------------------------|------------------------|
|                                       | No.       | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> | No.         | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> |
| First                                 | 2         | \$ 1,305,000             | 7.5%                   | 9           | \$ 10,732,252            | 41.2%                  |
| Second                                | 29        | \$ 15,990,550            | 92.5%                  | 25          | \$ 15,310,700            | 58.8%                  |
| <b>Totals</b>                         | <b>31</b> | <b>\$ 17,295,550</b>     | <b>100.0%</b>          | <b>34</b>   | <b>\$ 26,042,952</b>     | <b>100.0%</b>          |
| <b>Weighted Average Interest Rate</b> |           |                          | <b>9.7%</b>            | <b>9.2%</b> |                          |                        |

| Mortgage                              | 2023      |                          |                        |
|---------------------------------------|-----------|--------------------------|------------------------|
|                                       | No.       | Principal <sup>(1)</sup> | Percent <sup>(2)</sup> |
| First                                 | 13        | \$ 10,342,951            | 36.0%                  |
| Second                                | 40        | \$ 18,351,501            | 64.0%                  |
| <b>Totals</b>                         | <b>53</b> | <b>\$ 28,694,452</b>     | <b>100.0%</b>          |
| <b>Weighted Average Interest Rate</b> |           |                          | <b>10.4%</b>           |

(1) Net of loan loss allowance.

(2) Of total principal amount.

As at the date of this Offering Memorandum, we held mortgages as security for loans as follows:

| Mortgage Ranking                                  | Number | Percentage (of Number) | Principal Amount | Percentage (of Principal) | Average (principal weighted) |                      |               |
|---------------------------------------------------|--------|------------------------|------------------|---------------------------|------------------------------|----------------------|---------------|
|                                                   |        |                        |                  |                           | LTV                          | Annual Interest Rate | Term (months) |
| First                                             | 11     | 23.4%                  | \$ 8,426,952     | 32.4%                     | 61%                          | 9.8%                 | 12            |
| Second                                            | 36     | 76.6%                  | \$ 17,617,500    | 67.6%                     | 58%                          | 10.7%                | 12            |
| Totals <sup>(1)</sup>                             | 47     | 100.0%                 | \$ 26,044,452    | 100.0%                    |                              |                      |               |
| Less allowance for loan impairment <sup>(2)</sup> |        |                        | \$ 131,560       |                           |                              |                      |               |
| Totals                                            |        |                        | \$ 26,044,452    |                           |                              |                      |               |
| Average mortgage balance                          |        |                        | \$ 556,256       |                           |                              |                      |               |
| Principal weighted average annual interest rate   |        |                        | 10.5%            |                           |                              |                      |               |

(1) Of these mortgages,

- (a) 47 (100% of our mortgages) with a total principal amount of \$26,044,452 (100% of our total principal amount loaned) will mature in less than one year from the date of this Offering Memorandum, and
- (b) three (6.4% of our mortgages) with a total principal amount of \$2,605,000 (10% of our total principal amount loaned) our total principal amount loaned) have payments more than 90 days overdue.

(2) In preparing our annual financial statements, we are required to make estimates of any expected and possible future losses on our mortgage portfolio, and to provide for them in the financial statements as an “allowance for loan impairment”. Loan impairment occurs when the underlying mortgage security is considered inadequate to recover all of our costs (including principal, interest, penalty and estimated costs of realization) and would result in a loss. See Note 3 “Summary of Material Accounting Policy Information” and Note 4 “Mortgages receivable” of our annual financial statements included in this Offering Memorandum and “Delinquencies and Foreclosures” below for further information.

(3) These mortgages were split among residential, commercial and industrial mortgages as follows:

| Mortgage Type | First Mortgages |                     |               | Second Mortgages |                      |               |
|---------------|-----------------|---------------------|---------------|------------------|----------------------|---------------|
|               | No.             | Principal           | %*            | No.              | Principal            | %*            |
| Residential   | 11              | \$ 8,426,952        | 100.0%        | 34               | \$ 16,695,500        | 94.8%         |
| Commercial    | 0               | 0                   | 0             | 1                | \$457,000            | 2.6%          |
| Industrial    | 0               | 0                   | 0             | 1                | \$465,000            | 2.6%          |
| <b>Totals</b> | <b>11</b>       | <b>\$ 8,426,952</b> | <b>100.0%</b> | <b>36</b>        | <b>\$ 17,617,500</b> | <b>100.0%</b> |

\* Percentage of Principal

Of our mortgages held as at the date of this Offering Memorandum, one comprised 10% or more of the total principal amount of all our mortgages. The details of this mortgage are:

- Principal amount: \$3,100,000
- Percentage of the total principal amount of all of our mortgages: 11.9%
- Interest rate: 9.95% per year
- Term to maturity: November 1, 2023
- Loan to value ratio: 64%
- Mortgage's priority (first, second, or third or lower): First
- Property type: Residential
- Property location: Langley, BC
- Whether any payment is more than 90 days overdue: No
- Whether any impairment of the mortgage: No
- Borrower's credit score <sup>(1)</sup>: 804 <sup>(2)</sup>

(1) Credit score represents how likely one of the two Canadian credit bureaus thinks someone is to pay their bills on time. The score can range from 300 to 900 with a credit score of more than 760 considered to be excellent and less than 560 considered to be bad

(2) Borrower is a corporation. Credit score is of its owner.

The average credit score of our borrowers, weighted by the principal amount of their mortgages is 700. A credit score represents how likely one of the two Canadian credit bureaus thinks someone is to pay their bills on time. The score can range from 300 to 900 with a credit score of more than 760 considered to be excellent and less than 560 considered to be bad.

#### *Delinquencies and Foreclosures*

As at the date of this Offering Memorandum, there were:

- three mortgages (6.4% of our 47 mortgages) with outstanding principal totalling \$2,605,000 (10.0% of our total outstanding principal of \$ 26,044,452) which were delinquent (interest and principal payments are at least 60 days in arrears);
- no mortgages which had an impaired value (underlying security is considered to be of insufficient value to cover all of our costs (including principal, interest, penalty and estimated costs of realization) and would result in a loss);

- no mortgages which were not impaired or in default, but for which we have made material accommodations to respond to financial difficulties of the borrower; and
- three mortgages (6.4% of our 47 mortgages) with outstanding principal totalling \$2,605,000 (10.0% of our total outstanding principal of \$ 26,044,452) in foreclosure.

### *Portfolio Performance*

The average annual rate of return which our shareholders receive on their investments is determined as at our April 30<sup>th</sup> financial year end. The effective annual yields on adjusted share capital for our shareholders for our last six financial years (since commence of our business) are as follows:

| 2017   | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|--------|-------|-------|-------|-------|-------|-------|
| 10.54% | 9.40% | 7.95% | 6.94% | 7.13% | 7.16% | 8.69% |

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

**The rates of return are averages for all of our shareholders and may not reflect the return received by any one investor. There is no guarantee that such rates of return will continue or that investors will receive similar returns in future years.** The factors which affect the rate of return are described in Item 10 – Risk Factors.

## **2.4 Long Term Objectives**

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

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

There cannot be any assurance, however, that we will meet any of the foregoing objectives. See Item 10 – Risk Factors.

## **2.5 Short Term Objectives**

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

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

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

We intend to meet those objectives as follows:

| Actions to be taken                                                                          | Target completion date or, if not known, number of months to complete* | Cost to complete |                  |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------|------------------|------------------|
|                                                                                              |                                                                        | Minimum offering | Maximum offering |
| Carry out the offering as described in this Offering Memorandum.                             | 12 months                                                              | \$ 50,300        | \$ 115,000       |
| Invest the offering proceeds in compliance with the requirements for MICs under the Tax Act. | 12 months                                                              | \$ 0             | \$ 7,885,000     |

\* Since we have an ongoing offering and investment mortgage loan program, there is no target completion date for our business plan. Loans will be made as our available funds permit.

## 2.6 Insufficient Funds

The funds available from the offering may not be sufficient to accomplish all of our proposed objectives and, if so, we will continue to use our existing capital and cash flows to carry on our business.

## 2.7 Material Contracts

We are a party to the following material contracts:

- (a) oral management agreement with our Manager. See Item 2.2 – Manager; and
- (b) Agency Agreement dated August 18, 2020 with Drake Financial Ltd. See Item 9 – Compensation Paid to Sellers and Finders.

# ITEM 3: COMPENSATION AND SECURITY HOLDINGS OF CERTAIN PARTIES

## 3.1 Compensation and Securities Held

The names and residences of, positions and appointment dates of, compensation paid and expected to be paid to, and securities held or controlled by, each of our directors, officers and promoters, each person who has beneficial ownership of or direct or indirect control over (or a combination thereof) 10% or more of any class of our voting securities (a “**Principal Holder**”) and each related party other than the foregoing who received compensation in our most recently completed financial year or who we expect to receive compensation in our current financial year are as follows:

| Full Legal Name & Place of Principal Residence | Positions Held & Date Appointed           | Compensation <sup>(1)</sup> Paid (Last Fiscal Year) & Expected to be Paid (Current Fiscal Year)          | Number, Type & Percentage of Our Securities held <sup>(2)</sup> after completion of the: |                                               |
|------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-----------------------------------------------|
|                                                |                                           |                                                                                                          | Minimum Offering                                                                         | Maximum Offering <sup>(3)</sup>               |
| Qin (Stella) Liao<br>Surrey, BC                | CEO, CFO and Director<br>January 22, 2019 | \$221,000 <sup>(4)</sup><br>\$180,000 <sup>(5)</sup><br>\$3,000 <sup>(6)</sup><br>\$3,000 <sup>(6)</sup> | 25 Common (16.7%)<br>442,786 Class “B” (1.6%)                                            | 25 Common (16.7%)<br>442,786 Class “B” (1.2%) |
| Afshin Doustmohammadi<br>North Vancouver, BC   | Principal Holder<br>April 1, 2014         | \$3,000 <sup>(6)</sup><br>\$3,000 <sup>(6)</sup>                                                         | 25 Common (16.7%)<br>344,905 Class “B” (1.3%)                                            | 25 Common (16.7%)<br>344,905 Class “B” (0.9%) |
| Amir Doustmohammadi<br>North Vancouver, BC     | Principal Holder<br>September 1, 2015     | \$3,000 <sup>(6)</sup><br>\$3,000 <sup>(6)</sup>                                                         | 25 Common (16.7%)<br>0 Class “B”                                                         | 25 Common (16.7%)<br>0 Class “B”              |

| Full Legal Name & Place of Principal Residence | Positions Held & Date Appointed       | Compensation <sup>(1)</sup> Paid (Last Fiscal Year) & Expected to be Paid (Current Fiscal Year) | Number, Type & Percentage of Our Securities held <sup>(2)</sup> after completion of the: |                                                 |
|------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------|
|                                                |                                       |                                                                                                 | Minimum Offering                                                                         | Maximum Offering <sup>(3)</sup>                 |
| Farid Ansari<br>North Vancouver, BC            | Principal Holder<br>September 1, 2015 | \$3,000 <sup>(6)</sup><br>\$3,000 <sup>(6)</sup>                                                | 25 Common (16.7%)<br>0 Class "B"                                                         | 25 Common (16.7%)<br>0 Class "B"                |
| Parviz Maghsoud<br>West Vancouver, BC          | Principal Holder<br>June 30, 2017     | \$3,000 <sup>(6)</sup><br>\$3,000 <sup>(6)</sup>                                                | 25 Common (16.7%)<br>1,401,056 Class "B" (5.2%)                                          | 25 Common (16.7%)<br>1,401,056 Class "B" (3.8%) |
| Pooya Tazehzadeh<br>North Vancouver, BC        | Principal Holder<br>August 8, 2016    | \$3,000 <sup>(6)</sup><br>\$3,000 <sup>(6)</sup>                                                | 25 Common (16.7%)<br>0 Class "B"                                                         | 25 Common (16.7%)<br>0 Class "B"                |

- (1) Paid by us directly and indirectly.
- (2) Shares beneficially held, directly or indirectly, or which control or direction is exercised, by each person excluding shares held jointly with a spouse. Amounts are subject to variation depending on the share purchases and repurchases during the term of the offering.
- (3) We are unaware whether such persons will purchase any Class "B" Shares in the offering. Amounts under Maximum Offering assume that the person does not purchase any Class "B" Shares in the offering.
- (4) Consists of annual fee of \$180,000 and bonus of \$41,000 including GST (see Item 2.2 – Manager) and bookkeeping fees (paid to Ms. Liao's company) of \$26,000 including GST.
- (5) In addition to this amount, a bonus may be paid. See Item 2.2 – Manager.
- (6) Holders of our Common Shares receive a monthly distribution of \$10 per share.

### 3.2 Management Experience

The principal occupations of our sole director and executive officer over the past five years and her experience are as follows:

| Full Legal Name & Position                 | Principal occupation and description of experience related to occupation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Qin (Stella) Liao<br>CEO, CFO and Director | <p>Chartered Professional Accountant (CPA CGA) since May 2012<br/>Registered Mortgage Sub-Broker since August 21, 2019</p> <p>CEO and CFO (since January 22, 2019) and previously Controller (from February 2018 to January 22, 2019) of Hera Investment Funds Inc.</p> <p>President and sole Director (since February 2018) of Quest CPA Consulting Inc., an accounting services company.</p> <p>Formerly, Controller of Reliance Properties Ltd. (February 2015 to February 2018, a real estate development company where she was responsible for supervising the accounting team; compliance with accounting principles, laws and regulations; communications with partners, auditors, financial institutions and lawyers; budgeting and managing cash flow for a portfolio of approximately 60 income-producing properties; and managing construction loans for multiple development sites.</p> <p>Formerly, a senior accountant (2004 to 2015) with Warrington PCI Management, League Assets Corporation and Westbank Projects Corp., real estate management and development companies where she obtained experience in property management accounting, project accounting, real estate investment trust (REIT) and other income-</p> |

| Full Legal Name & Position | Principal occupation and description of experience related to occupation                           |
|----------------------------|----------------------------------------------------------------------------------------------------|
|                            | producing assets accounting, budgeting and due diligence for property acquisition and disposition. |

### 3.3 Penalties, Sanctions, Bankruptcy, Insolvency and Criminal or Quasi-Criminal Matters

None of our directors or executive officers or issuers of which they were a director, executive officer or control person (a shareholder that controls, individually or with others, more than 20% of the issuer's voting shares) at the time, has been any time during the last 10 years subject to any:

- (a) penalty or other sanction imposed by a court or regulatory body relating to a contravention of securities legislation;
- (b) order restricting trading in securities for 30 or more consecutive days; or
- (c) declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under bankruptcy or insolvency legislation, proceeding, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets.

Neither we nor any of our directors or executive officers has ever pled guilty to or been found guilty of any:

- (a) summary conviction or indictable offence under the Criminal Code (Canada);
- (b) quasi-criminal offence (which includes offences under tax, immigration, or money laundering legislation) in any jurisdiction of Canada or a foreign jurisdiction
- (c) misdemeanour or felony under the criminal legislation of the United States of America, or any state or territory of the United States of America;
- (d) offence under the criminal legislation of any other foreign jurisdiction.

### 3.4 Certain Loans

We are not indebted to any of our directors, executive officers, promoters, or related parties, nor are any of them indebted to us, for any loans, debentures, or bonds.

## ITEM 4: CAPITAL STRUCTURE

### 4.1 Securities Except for Debt Securities

Our share capital is set out in the following table. See Item 5.1 "Terms of Securities" for a description of the terms of our share capital.

| Description of security*   | Number authorized to be issued | Price per Security | Number outstanding                         |                            |                            |
|----------------------------|--------------------------------|--------------------|--------------------------------------------|----------------------------|----------------------------|
|                            |                                |                    | as at the date of this Offering Memorandum | after the minimum offering | after the maximum offering |
| Common Shares              | Unlimited                      | \$1.00             | 150                                        | 150                        | 150                        |
| Class "A" Preferred Shares | Unlimited                      | \$1.00             | 0                                          | 0                          | 0                          |
| Class "B" Preferred Shares | Unlimited                      | \$1.00             | 26,839,989                                 | 26,849,989                 | 36,839,989                 |

| Description of security*   | 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 |
| Class “C” Preferred Shares | Unlimited                      | \$1.00             | 0                                          | 0                          | 0                          |
| Class “D” Preferred Shares | Unlimited                      | \$1.00             | 0                                          | 0                          | 0                          |

\* There are not any issued or outstanding options, warrants or other securities convertible into any of our shares.

## 4.2 Long Term Debt

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

## 4.3 Prior Sales

During the past 12 months, we have issued Class “B” Shares (and no Common Shares or securities convertible or exchangeable into Class “B” Shares or Common Shares) as follows:

| Date of Issuance  | Number of Securities Issued | Price per Security | Total Funds Received | Date of Issuance | Number of Securities Issued | Price per Security | Total Funds Received |
|-------------------|-----------------------------|--------------------|----------------------|------------------|-----------------------------|--------------------|----------------------|
| August 2022       | 1,107,000                   | \$1.00             | \$ 1,107,000         | February 2023    | 682,000                     | \$1.00             | \$ 682,000           |
| September 2022    | 400,000                     | \$1.00             | \$ 400,000           | March 2023       | 645,000                     | \$1.00             | \$ 645,000           |
| October 2022      | 600,000                     | \$1.00             | \$ 600,000           | April 2023       | 0                           | \$1.00             | 0                    |
| October 31, 2022* | 265,783                     | \$1.00             | \$ 265,783           | April 30, 2023*  | 283,557                     | \$1.00             | \$ 283,557           |
| November 2022     | 53,000                      | \$1.00             | \$ 53,000            | May 2023         | 45,000                      | \$1.00             | \$ 45,000            |
| December 2022     | 2,930,000                   | \$1.00             | \$ 2,930,000         | June 2023        | 300,000                     | \$1.00             | \$ 300,000           |
| January 2023      | 340,000                     | \$1.00             | \$ 340,000           | July 2023        | 0                           | \$1.00             | 0                    |
| January 31, 2023* | 278,992                     | \$1.00             | \$ 278,992           | July 31, 2023*   | 298,987                     | \$1.00             | \$ 298,987           |

\* Issued in lieu of a cash payment for our quarterly (July 31<sup>st</sup>, October 31<sup>st</sup>, and January 31<sup>st</sup>) or annual (April 30<sup>th</sup>) distribution of our net income and taxable capital gains for the preceding financial quarter or year, respectively.

## ITEM 5: SECURITIES OFFERED

By this Offering Memorandum, we are offering our Class “B” Shares for sale on a private placement basis to qualified investors (“**Subscribers**”) in British Columbia, Alberta and Saskatchewan on a “best efforts” basis by our selling agent, Drake Financial Ltd., and registered securities and exempt market dealers (if any).

## 5.1 Terms of Securities

### *Voting*

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.

### *Distribution of Profits*

Each financial year, we distribute to our Class “B” Shareholders all of our net income (profits) and taxable capital gains for that financial year. This is done through three distributions paid on each Class “B” Share outstanding as at the end of the first, second and third financial quarters, with a fourth and final distribution being paid on each Class “B” Share outstanding as at the end of our financial year end. All distributions are paid within two months after our financial quarter or year end. The distributions may be paid by the issuance of further Class “B” Shares or by way of cash, or a combination of both, as elected by the shareholder. Our financial quarters and the payment of our distributions are as follows.

| Financial Quarter | Period                                               | Distribution is Paid Before |
|-------------------|------------------------------------------------------|-----------------------------|
| 1 <sup>st</sup>   | May 1 <sup>st</sup> to July 31 <sup>st</sup>         | September 30 <sup>th</sup>  |
| 2 <sup>nd</sup>   | August 1 <sup>st</sup> to October 31 <sup>st</sup>   | December 31 <sup>st</sup>   |
| 3 <sup>rd</sup>   | November 1 <sup>st</sup> to January 31 <sup>st</sup> | March 30 <sup>th</sup>      |
| 4 <sup>th</sup>   | February 1 <sup>st</sup> to April 30 <sup>th</sup>   | June 30 <sup>th</sup>       |

Our Common Shares are paid a monthly distribution of \$10 per share.

Such distributions 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 distributions as may be in the best interests of our business.

### *Repurchase initiated by Hera*

We may repurchase, in our sole discretion, all or any portion of a shareholder’s Class “B” Shares at any time upon payment of the Repurchase Amount (defined below) and not less than 30 days written notice in writing of such repurchase. Upon completion of the repurchase 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 our director 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 “**Repurchase 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 distributions declared on the Class “B” Share but unpaid less any deficit divided by the number of outstanding Common Shares and Class “B” Shares.

### *Repurchase initiated by Shareholder*

The Class “B” Shares have repurchase (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 Repurchase Amount for such Class “B” Shares repurchased. No repurchase shall be made for less than 2,000 Class “B” Shares unless the shareholder owns less than 2,000 Class “B” Shares in which event the shareholder may only redeem all of such shares. Our Articles provide that any repurchase made before the second anniversary of issuance of a Class “B” Share shall be subject to a 4% early repurchase penalty, however, we usually waive that penalty unless the repurchase is sought within 12 twelve months of the issuance of the shares in which case we will charge the 4% early repurchase penalty, subject to a minimum charge of \$1,000 and maximum charge of \$20,000.

A shareholder wanting us to repurchase a minimum of 2,000 Class “B” Shares (“**Repurchased Shares**”) must provide us with a written notice of repurchase (“**Repurchase 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 Repurchase Notice, the holder of the Repurchased Shares shall continue to have all rights with respect to the Repurchased Shares until the Repurchase Amount is paid. If we accept such repurchase, any Repurchased Shares shall be repurchased by us for the Repurchase Amount within 90 days after the receipt of the Repurchase Notice. The “**Repurchase Amount**” to be paid by us for each Repurchased Share shall be equal to the net book value of the Class “B” Share plus all distributions declared on the Class “B” Share but unpaid plus interest at the prime interest rate of the Bank of Canada on such unpaid distributions from the date of declaration of the unpaid distribution until the date of payment of the Repurchase Amount. Accordingly, if you provide, for example, notice respecting the repurchase of your 2,000 Class “B” Shares before January 30<sup>th</sup> (January 31<sup>st</sup> in a leap year), you will receive on or before the following April 29<sup>th</sup> (if you provided the Repurchase Notice on January 29<sup>th</sup> or January 30<sup>th</sup> in a leap year) a cheque from us for:

- \$1,790 (\$2,000 less \$200 + \$10 GST) if you have held your Class “B” Shares for at least two years by April 29<sup>th</sup>;
- \$1,710 (\$2,000 less \$80 (4%) less \$200 + \$10 GST) if you have held your Class “B” Shares for at least one year but less than two years by April 29<sup>th</sup>; or
- \$790 (\$2,000 less \$1,000 (minimum charge) less \$200 + \$10 GST) if you have held your Class “B” Shares for less than one year by April 29<sup>th</sup>.

Any repurchase is subject to the discretion of our director. The most likely scenarios where our director would use her discretion to reject a repurchase application is where the repurchase is made when we are, or it would result in us being, insolvent or it the repurchase 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.

### *Compassionate Early Repurchase or if no Spouse survives*

We may consider, under special circumstances, applications for early repurchase 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 repurchase is at our sole discretion (which discretion may be delegated to our Manager) and is otherwise dependent upon applicable law permitting such early repurchase.

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.

#### *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.

#### *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.

#### *Transferability*

Our Class “B” Shares are subject to restrictions on transfer:

- (a) contained in our Articles (our corporate charter); and
- (b) imposed by applicable securities legislation (see Item 12 – Resale Restrictions).

Our Articles provide that a shareholder cannot transfer any of their Class “B” Shares without the consent of our board of directors. This restriction does not apply to a transfer of Class “B” Shares to the shareholder’s Registered Retirement Savings Plan (“RRSP”), Registered Retirement Income Fund (“RRIF”), Deferred Profit Share Plan (“DPSP”), Registered Pension Plan (“RPP”), Registered Education Savings Plan (“RESP”), Tax Free Savings Account (“TFSA”), registered disability savings plan (“RDSP”), independent savings plan or other savings plan created by a province or the Canadian government (collectively, “Registered Plans”) or a Registered Plan owned by the shareholder’s spouse.

The Tax Act requires MICs to have no fewer than 20 shareholders and no one shareholder (including the shareholder’s spouse and children under 18, and companies controlled by any of them and the shareholder) to hold more than 25% of its issued shares. Accordingly, our Articles also prohibit any transfer of shares or any other action which would result in us not qualifying as a MIC under the Tax Act.

#### *Conversion*

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

#### *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 distributions 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.

#### *Additional Restrictions on Ownership*

The Tax Act imposes significant penalties on investments by RRSPs and TFSAs 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 Class "B" Shares.**

## **5.2 Subscription Procedure**

### *Subscription Form*

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

### *Submitting Subscriptions*

Deliver the signed Subscription Agreement and your funds to our selling agent as follows:

**Drake Financial Ltd.**  
2190 McCallum Road  
Abbotsford, BC V2S 3P3

**If you are resident in Alberta or Saskatchewan**, your subscription, together with all your other subscriptions in the preceding 12 months pursuant to offerings carried out by offering memoranda, is limited to an aggregate of:

- \$10,000 if you are not an "eligible investor" (as that term is used in Schedules 1 and 2 of Appendix I of the Subscription Agreement);
- \$30,000 if you are an "eligible investor"; or
- \$100,000 if you are an "eligible investor" and have received advice from a portfolio manager, investment dealer or exempt market dealer that the investment is suitable.

The foregoing restrictions may not apply if you are an accredited investor or a family, close personal friend or close business associate investor (as those terms are used in Schedules 1 and 2 of Appendix I of the Subscription Agreement) in which event you may be required to provide further documentation to confirm your status to invest.

All subscription funds will be held (as required by law) for at least two business days after receipt. Closing will occur shortly thereafter, and the shares will be issued and a written confirmation sent to you of the shares held by you. No share certificates will be issued unless requested or you subscribe for your shares through a Registered Plan and the financial institution administering your Registered Plan requires a share certificate.

There are no conditions that must be met by us before any closing occurs, however, we may, in our sole discretion, change the minimum and maximum subscription amounts by investors or accept or reject any subscription. If a subscription is not accepted, in whole or in part, we will return all or part of your subscription funds, without interest or deduction, as applicable.

Any "OM marketing materials" (as that term is defined in National Instrument 45-106 *Prospectus Exemptions* of the Canadian Securities Administrators and generally being a written communication other than a term sheet intended for prospective Subscribers under this Offering Memorandum that contains material facts relating to us, our Shares and the offering) related to each distribution under this Offering Memorandum and delivered or made reasonably available to a prospective Subscriber before the termination of the distribution is, and is deemed to be, incorporated by reference into this Offering Memorandum. Notwithstanding the foregoing, OM marketing materials incorporated by reference as

described above are no longer incorporated by reference, and no longer form part of this Offering Memorandum, to the extent to which such materials have been superseded by a statement or statements contained in (i) an amendment to the Offering Memorandum, or an amended and restated Offering Memorandum, or (ii) subsequent OM marketing materials delivered to or made reasonably available to a prospective Subscriber.

#### *Method of Payment*

For share subscriptions through a Registered Plan, funds are transferred from your trustee. For all other subscriptions, a certified cheque or bank draft payable to “Hera Investment Funds Inc.” equal to \$1.00 multiplied by the number of Class “B” Shares to be purchased is required.

#### *Two Day Cancellation Period*

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

#### *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.

**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 Plan, in which case the original share certificates are sent to the financial institution administering your Registered Plan. See Item 8.2 – Eligibility for Investment by Registered Plans. We will provide you with a copy of your share certificate for your records on your request.

The 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 the 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 10 – Risk Factors.**

## ITEM 6: REPURCHASE REQUESTS

During our last two financial years and subsequent period up to the date of this Offering Memorandum, we repurchased the following Class “B” Shares (and no Common Shares) at a price of \$1.00 per share using our net income and not using any subscription funds:

| Financial Year ended April 30 <sup>th</sup> | Number of Shares                                                     |                                                            |                                            |                                                                              |
|---------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------|------------------------------------------------------------------------------|
|                                             | subject to Repurchase Requests Outstanding as at May 1 <sup>st</sup> | requested to be Repurchased during Financial Year / Period | repurchased during Financial Year / Period | subject to Repurchase Requests Outstanding at end of Financial Year / Period |
| 2022                                        | 0                                                                    | 3,963,189                                                  | 3,963,189                                  | 0                                                                            |
| 2023                                        | 0                                                                    | 6,168,158                                                  | 6,168,158                                  | 0                                                                            |
| 2024*                                       | 0                                                                    | 2,565,000                                                  | 2,565,000                                  | 0                                                                            |

\* Three month financial period ended July 31, 2023.

## ITEM 7: CERTAIN DIVIDENDS OR DISTRIBUTIONS

We have not, during our last two financial years, or any subsequent interim financial period, paid dividends or distributions that exceeded our cash flow from operations.

## ITEM 8: INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

### 8.1 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.**

### 8.2 Description of Income Tax Consequences

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

This summary is based upon the facts set out in this Offering Memorandum, the current provisions of the Tax Act, the regulations made under the Tax Act (the “**Tax Regulations**”), all specific proposals to amend the Tax Act and the Tax Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Offering Memorandum and the current published administrative practices of Canada Revenue Agency. This summary assumes that all such tax proposals will be enacted as currently

proposed but does not take into account or anticipate any other changes in law whether by legislative, government or judicial action and does not take into account tax legislation or considerations of any province, territory or foreign jurisdiction.

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

#### *The Tax Act’s MIC Criteria*

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

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

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

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

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

The income tax consequences will not be the same for all investors but may vary depending on a number of factors including the province or provinces in which the investors resides or carries on business, whether shares acquired by him will be characterized as capital property, and the amount his taxable income would be but for his participation in the 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" 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 distributions (other than capital gains distributions) which we pay during the year or within 90 days after the end of the year to the extent that such distributions 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 distributions can be paid by us. However, as a MIC we may declare a capital gains distribution equal to the gross amount of our capital gains and are entitled to deduct a portion of such distribution from our taxable income. As discussed below, a capital gains distribution 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 distributions 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 distributions and capital gains distributions each year in sufficient amounts to reduce our taxable income to nil.

### *Class “B” Shareholders*

#### Distributions

Taxable distributions, except capital gains distributions, received by a shareholder, are taxable in the hands of the shareholder as interest and not as dividends. Capital gains distributions 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 distributions 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 distributions (dividends) paid on their Class “B” Shares from their taxable income.

#### 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 repurchase 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 repurchase 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 distribution) 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 on certain investment income, including amounts in respect of interest and taxable capital gains. The refundable tax is to be added to such corporate shareholder’s non-eligible refundable dividend tax on hand account and will be eligible for a refund upon subsequent payment of taxable dividends by the corporate shareholder.

### **8.3 Eligibility for Investment by Registered Plans**

The Class “B” Shares may be qualified investments for Registered 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 Registered Plan or of any other person who does not deal at arm’s length with that person. Registered Plans will generally not be liable for tax in respect of any distributions 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 Registered Plan. When a Registered Plan holds a non-qualified investment, the holder of the Registered Plan may be subject to a tax of 50% of the fair market value of the investment at the time it was acquired or at any time if the investment becomes a non-qualified investment. This tax is potentially refundable if the non-qualified investment is disposed of in the calendar year in which the tax arose or within a period the Canada Revenue Agency considers reasonable. Additionally, while a RRSP, RRIF or TFSA holds a non-qualified investment at any time during a particular year, the holder will also be subject to an additional tax under Part I of the Tax Act that is based on income earned from the non-qualified investment. RESPs which hold non-qualified investments can have their registration revoked.

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

**Not all securities are eligible for investment in Registered Plans. If you intend to hold the Class “B” Shares in a Registered Plan, you should consult your own professional tax advisors to obtain advice on their eligibility for investment in Registered Plans.**

## **ITEM 9: COMPENSATION PAID TO SELLERS AND FINDERS**

We sell our Class “B” Shares in British Columbia through Drake Financial Ltd. of Abbotsford, British Columbia. Drake is an arm’s length private company registered as an Exempt Market Dealer in British Columbia, Alberta, Saskatchewan and Ontario.

Pursuant to an Agency Agreement dated August 18, 2020, Drake acts as our non-exclusive agent to sell the Class “B” Shares in British Columbia on a “best efforts” basis. We pay Drake a fee of \$300 per investor per year for such services.

We may also pay commissions and fees to other exempt market dealers and registered securities dealers in consideration of their sale of our Class “B” Shares to qualified investors. Such commissions and fees will be negotiated on a case-by-case basis and may involve up-front cash commissions, “trailing” fees (paid over time while the investor continues to hold our Class “B” Shares) and other fees, the amounts of which will not exceed commissions and fees normally paid in the securities industry. Such commissions and fees may be paid from our income or deducted, for fixed fees and commissions, from the subscription funds provided by an investor and, for trailing fees, from income distributions paid to such investor.

## **ITEM 10: 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 the 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 the offering include the following:

### *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.

### *Taxation Consequences of an Investment in our shares*

As a MIC, we may deduct taxable dividends (distributions) paid from our income, but **the normal gross-up and dividend tax credit rules will not apply to dividends (distributions) paid by us on the Class “B” Shares. Instead, the dividends (distributions) 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 (distributions) we pay on the Class “B” Shares would be subject to the normal gross-up and dividend (distribution) 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.

### *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 the offering or in the future. Furthermore, the Class “B” Shares are subject to onerous resale restrictions under applicable securities legislation. See Item 11 – 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.

### *Repurchase (Retraction) Liquidity*

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

Repurchase of our Class “B” Shares is subject to us having access to sufficient excess cash or other liquid assets to pay the Repurchase Amount for such shares, the restrictions set out in our Articles and compliance with applicable corporate and securities legislation. Repurchase of the Class “B” Shares is also subject to the obligation of our director 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.

### *Absence of Involvement in Appointment of Management*

The Class “B” Shares being sold under the 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 director, officers and employees and of our Manager, and that they will be bound by the decisions of our director, officers and employees. It would be inappropriate for subscribers unwilling to rely on these individuals to this extent to purchase Class “B” Shares.

#### *Lack of Separate Legal Counsel*

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

## **8.2 Issuer Risk**

Risks that are specific to us include the following:

#### *MIC Tax Designation*

Under our Articles, our director is 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 (distributions) paid by us on the Class “B” Shares would cease to be deductible from our income for that year. As well, our Articles grant our director the discretion to reject any applications for stock distributions or share subscriptions, transfers, or repurchases where, in the view of the director, 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.**

#### *Reliance on our Manager*

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

#### *Key Personnel*

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

#### *Conflict of Interest*

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

#### *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 the offering, we may have insufficient funds available to it to carry out our business plan, and subscribers may receive a little or no return on their shares. Certain uninsurable or uninsured events may also occur which

can substantially reduce our ability to carry on business in a profitable manner, including natural or man-made disasters.

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

### **8.3 Industry Risk**

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

#### *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 returns associated with our mortgages reflect the greater risks involved in making these types of loans as compared to long-term conventional mortgages.

#### *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.

#### *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.

#### *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.

### *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.

### *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.

### *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.

### *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 Registered Plans such as RRSPs, RRIFs, TFSAs and RESPs. While it is not anticipated the provisions of the Tax Act respecting such Registered 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 Registered Plan.

### *Risk of Dealing with Trustees*

We will deal with the trustees of Registered Plans as necessary but we will not undertake any responsibility for the administration of any self-directed Registered Plans by such trustees. The trust company of your Registered 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 Registered Plan.

### *COVID-19 Pandemic and Possible Similar Future Outbreaks*

From time to time, different regions of the world have experienced outbreaks of various viruses, such as the Middle East Respiratory Syndrome (MERS), Severe Acute Respiratory Syndrome (SARS), H1N1 influenza virus (swine flu) and avian flu.

Most recently, it has been the 2019 coronavirus disease (“**COVID-19**”) pandemic resulting from infection by a novel coronavirus (known as “SARS-CoV-2”) infections. The pandemic resulted in many countries imposing restrictions, such as quarantines, closures, cancellations and travel restrictions, some of which have been relaxed or removed. Nevertheless, the pandemic has continued and the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time.

The COVID-19 pandemic (or any other local, regional, national or international outbreak of any contagious disease, including MERS, SARS, H1N1 influenza virus or avian flu) could result in a significant decline in economic activity in Canada, a reduction in home purchases and financings, a decrease in the willingness of homeowners to borrow and staff shortages for our Manager. The COVID-19 pandemic may affect our borrowers’ businesses and income, and thereby their ability to meet their payment obligations to us. All of these occurrences may have a material adverse effect on our business, financial condition and results of operation.

To date, the COVID-19 pandemic has not had a material adverse impact on our operations, however, the future impact of the COVID-19 pandemic remains uncertain and cannot be predicted. There is no assurance that the pandemic will not have an adverse impact on our future financial performance and the returns paid to you.

## **ITEM 11: REPORTING OBLIGATIONS**

**We are not required to send you any documents on an annual or ongoing basis.**

### **11.1 Corporate Requirements**

The *Business Corporations Act* (British Columbia) requires us to hold a general meeting of our Common Shareholders (but not of our Class “B” Shareholders since the Class “B” Shares are non-voting) in in each calendar year and, prior to or at the meeting, to provide our Common Shareholders (but not our Class “B” Shareholders) with audited financial statements for the previous financial year and, if the previous financial year ended more than six months before the issuance of such financial statements, to also provide audited financial statements for a financial period ending within such six month period. Nevertheless, we mail or electronically deliver such financial statements to both our Common Shareholders and Class “B” Shareholders together with a letter to shareholders reporting on our previous year’s business.

From time to time, we may send out on our own accord, or in response to a request from one or more shareholders, further information to all shareholders such as a reporting letter and interim financial statements.

#### **11.2.1 Corporate and Securities Information**

We are not a “reporting issuer” under Canadian securities legislation and our Class “B” Shares are not publicly traded, nor will we become a reporting issuer or our Class “B” Shares become publicly traded following the completion of the offering. 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 and 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. Such financial statements and certain other information are available on our website or from us at the phone number and e-mail address set out on the front cover. Some securities information about this and previous offerings is available from British Columbia Securities Commission at [www.bcsc.bc.ca](http://www.bcsc.bc.ca).

## **ITEM 12: RESALE RESTRICTIONS**

The Class "B" Shares offered by 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 [Class "B" Shares] unless you comply with an exemption from the prospectus and registration requirements under securities legislation. For information about these restrictions, you should consult a lawyer.

### **12.1 Restricted Period**

Unless permitted under securities legislation, you cannot trade the securities [Class "B" Shares] before the date that is four months and a day after the date on which we become a reporting issuer in any province or territory in Canada.

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

## **ITEM 13: PURCHASERS' RIGHTS**

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

### **13.1 Two Day Cancellation Right**

You can cancel your agreement to purchase these securities [Class "B" Shares]. 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 [Class "B" Shares].

### **13.2 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 [Class "B" Shares]; 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 [Class “B” Shares].

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 [Class “B” Shares]. 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 [Class “B” Shares].

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

### **13.3 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 [Class “B” Shares]; 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 [Class “B” Shares] and will not include any part of the damages that we prove does not represent the depreciation in value of the securities [Class “B” Shares] resulting from the misrepresentation. We have a defence if we prove that you knew of the misrepresentation when you purchased the securities [Class “B” Shares].

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 [Class “B” Shares]. 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 [Class “B” Shares].

## **ITEM 12: FINANCIAL STATEMENTS**

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

**HERA INVESTMENT FUNDS INC.**

**FINANCIAL STATEMENTS**

**April 30, 2023 and 2022**

## **Table of Contents**

### **INDEPENDENT AUDITORS' REPORT**

### **FINANCIAL STATEMENTS**

|                                              |      |
|----------------------------------------------|------|
| Statement of Financial Position              | 1    |
| Statement of Loss and Comprehensive Loss     | 2    |
| Statement of Changes in Shareholders' Equity | 3    |
| Statement of Cash Flows                      | 4    |
| Notes to Financial Statements                | 5-18 |

# **Independent Auditors' Report**

**To the shareholders of Hera Investment Funds Inc.**

## *Opinion*

We have audited the financial statements of Hera Investment Funds Inc. (the "Company"), which comprise the statement of financial position as at April 30, 2023 and 2022, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## *Basis for Opinion*

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

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

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

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

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

## *Auditors' Responsibilities for the Audit of the Financial Statements*

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

July 17, 2023  
Burnaby, BC

*Fairhall Zhang & Associates Ltd.*  

---

Fairhall Zhang & Associates Ltd.  
Chartered Professional Accountants

# HERA INVESTMENT FUNDS INC.

## Statement of Financial Position

As At April 30

| ASSETS                                              |           | <u>2023</u>              | <u>2022</u>                 |
|-----------------------------------------------------|-----------|--------------------------|-----------------------------|
| <b>CURRENT</b>                                      |           |                          |                             |
| Cash and cash equivalents                           | \$        | 1,854,179                | \$ 769,420                  |
| Interest and other receivable (Note: 5)             |           | 264,518                  | 177,809                     |
| Mortgage receivable (net) (Note: 5)                 |           | 28,562,852               | 25,970,952                  |
| Prepaid expenses                                    |           | <u>6,801</u>             | <u>6,731</u>                |
|                                                     |           | 30,688,350               | 26,924,912                  |
| Leasehold improvement                               |           | 6,014                    | 14,028                      |
| Right of use assets (Note: 4)                       |           | <u>43,693</u>            | <u>118,161</u>              |
| <b>TOTAL ASSETS</b>                                 | <b>\$</b> | <b><u>30,738,057</u></b> | <b><u>\$ 27,057,101</u></b> |
| <b>LIABILITIES</b>                                  |           |                          |                             |
| <b>CURRENT</b>                                      |           |                          |                             |
| Accounts payable & accrued liabilities              | \$        | 26,740                   | \$ 52,450                   |
| Distribution payable (Note: 6)                      |           | 371,533                  | 233,456                     |
| Deferred revenue                                    |           | 342,222                  | 220,356                     |
| Lease liabilities - current portion (Note: 8)       |           | 51,423                   | 65,116                      |
| Preferred shares (Note: 6 & 9)                      |           | <u>29,976,244</u>        | <u>26,419,067</u>           |
|                                                     |           | 30,768,162               | 26,990,445                  |
| CEBA government loan (Note: 10)                     |           | -                        | 30,000                      |
| Lease liabilities - long term (Note: 8)             |           | <u>-</u>                 | <u>52,870</u>               |
|                                                     |           | <u>30,768,162</u>        | <u>27,073,315</u>           |
| <b>SHARE CAPITAL</b>                                |           | 150                      | 150                         |
| <b>DEFICIT</b>                                      |           | <u>(30,255)</u>          | <u>(16,364)</u>             |
|                                                     |           | <u>(30,105)</u>          | <u>(16,214)</u>             |
| <b>TOTAL LIABILITIES &amp; SHAREHOLDER'S EQUITY</b> | <b>\$</b> | <b><u>30,738,057</u></b> | <b><u>\$ 27,057,101</u></b> |

**APPROVED ON BEHALF OF THE BOARD:**

(signed) Qin (Stella) Liao, Director July 17, 2023

The accompanying notes are an integral part of these financial statements

# HERA INVESTMENT FUNDS INC.

## Statement of Loss and Comprehensive Loss

Years Ended April 30

|                                                         | <u>2023</u>               | <u>2022</u>               |
|---------------------------------------------------------|---------------------------|---------------------------|
| <b>REVENUE</b>                                          |                           |                           |
| Interest                                                | \$ 2,614,411              | \$ 1,965,873              |
| Lending fee                                             | 413,611                   | 280,590                   |
| Other income                                            | <u>23,454</u>             | <u>17,900</u>             |
|                                                         | <u>3,051,476</u>          | <u>2,264,363</u>          |
| <b>EXPENSES</b>                                         |                           |                           |
| Accretion expense on lease liability                    | 554                       | 8,176                     |
| Advertising & promotion                                 | 47,177                    | 7,696                     |
| Amortization                                            | 82,482                    | 71,648                    |
| Donation                                                | -                         | 100                       |
| Licenses, dues and subscriptions                        | 25,728                    | 21,076                    |
| Office expenses                                         | 23,061                    | 25,295                    |
| Professional fees (Note: 9)                             | 298,120                   | 301,357                   |
| Provision for mortgages receivable                      | 59,600                    | 24,000                    |
| Salaries & benefits (Note: 9)                           | 124,277                   | 100,963                   |
| Travel expenses                                         | <u>6,476</u>              | <u>2,827</u>              |
|                                                         | <u>667,475</u>            | <u>563,138</u>            |
| <b>NET INCOME BEFORE INCOME TAX</b>                     | <b>2,384,001</b>          | <b>1,701,225</b>          |
| <b>Income taxes expenses</b>                            |                           |                           |
| Provision for current income taxes                      | -                         | -                         |
| <b>Income before distributions</b>                      | <b>2,384,001</b>          | <b>1,701,225</b>          |
| <b>Distributions declared to preferred shareholders</b> | <b>(2,379,892)</b>        | <b>(1,696,709)</b>        |
| <b>Distributions declared to common shareholders</b>    | <u><b>(18,000)</b></u>    | <u><b>(18,000)</b></u>    |
| <b>Net loss and total comprehensive loss</b>            | <b>\$ <u>(13,891)</u></b> | <b>\$ <u>(13,484)</u></b> |

The accompanying notes are an integral part of these financial statements

# HERA INVESTMENT FUNDS INC.

## Statement of Changes in Shareholders' Equity Years Ended April 30

|                                          | Number of<br>Common Shares<br>issued and<br>outstanding | Common Shares | Deficit     | Total       |
|------------------------------------------|---------------------------------------------------------|---------------|-------------|-------------|
| Balance, April 30, 2021                  | 150                                                     | \$ 150        | \$ (2,880)  | \$ (2,730)  |
| Net loss and total<br>comprehensive loss | -                                                       | -             | (13,484)    | (13,484)    |
| Balance, April 30, 2022                  | 150                                                     | 150           | (16,364)    | (16,214)    |
| Net loss and total<br>comprehensive loss | -                                                       | -             | (13,891)    | (13,891)    |
| Balance, April 30, 2023                  | 150                                                     | \$ 150        | \$ (30,255) | \$ (30,105) |

# HERA INVESTMENT FUNDS INC.

## Statement of Cash Flows

Years Ended April 30

|                                                                 | <u>2023</u>         | <u>2022</u>        |
|-----------------------------------------------------------------|---------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                     |                    |
| Income before distributions                                     | \$ 2,384,001        | \$ 1,701,225       |
| <b>ADJUSTMENT FOR NON-CASH ITEMS</b>                            |                     |                    |
| Amortization                                                    | 82,482              | 71,648             |
| Accretion expense on lease liability                            | -                   | 8,176              |
| Provision for mortgages receivable                              | <u>59,600</u>       | <u>24,000</u>      |
|                                                                 | <u>2,526,083</u>    | <u>1,805,049</u>   |
| Increase in accounts receivable                                 | (86,709)            | (115,359)          |
| Increase in prepaid expenses and deferred charges               | (70)                | (188)              |
| Increase (decrease) in accounts payable and accrued liabilities | 112,367             | (9,057)            |
| Increase (decrease) in deferred revenue                         | 121,867             | 87,242             |
| Mortgage issued                                                 | (20,089,500)        | (22,669,700)       |
| Mortgage repaid                                                 | <u>17,438,000</u>   | <u>13,927,397</u>  |
|                                                                 | 22,038              | (6,974,616)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                     |                    |
| Repayment of government loan                                    | (30,000)            | -                  |
| Repayment of lease liability                                    | (66,564)            | (69,859)           |
| Dividend paid to preferred shareholders                         | (2,379,892)         | (826,565)          |
| Dividend paid to common shareholders                            | (18,000)            | (18,000)           |
| Proceeds from issuance of preferred shares                      | 9,725,335           | 7,123,288          |
| Preferred shares redeemed                                       | <u>(6,168,158)</u>  | <u>(1,963,189)</u> |
|                                                                 | <u>1,062,721</u>    | <u>4,245,675</u>   |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>         | 1,084,759           | (2,728,941)        |
| <b>CASH &amp; CASH EQUIVALENTS, beginning of year</b>           | <u>769,420</u>      | <u>3,498,361</u>   |
| <b>CASH &amp; CASH EQUIVALENTS, end of year</b>                 | <u>\$ 1,854,179</u> | <u>\$ 769,420</u>  |

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

### 1. NATURE OF BUSINESS

Hera Investment Funds Inc. (the "Company") was incorporated on April 1, 2014 pursuant to the British Columbia Business Corporations Act and maintains its head office at 204-38 Fell Avenue, North Vancouver, BC V7P 3S2.

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

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

### 2. BASIC OF PREPARATION

#### (a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's financial statements were authorized and approved for issue by the Board of Directors on July 17, 2023.

#### (b) Basis of measurement

These financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets. These financial statements are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated. These financial statements have been prepared on the basis of IFRS standards and the accounting policies chosen by the Company have been applied consistently to all periods presented.

#### (c) Significant estimates and judgments

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

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

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

### Estimate

#### *Recoverability of mortgages receivable*

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

### Judgment

#### *Classification of preferred shares*

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### **(a) Financial instruments**

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- FVOCI (“Fair value through other comprehensive income”)
- FVTPL (“Fair value through profit or loss”)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Classifications of financial assets are based on the following two criteria:

- The business model under which the financial assets are held;
- The contractual cashflow characteristics of the financial instruments;

#### *(i) Financial assets*

##### *Initial recognition and measurement*

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

### *Subsequent measurement*

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

- **Financial assets at FVTPL**

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

- **Financial assets measured at FVOCI**

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

- **Financial assets measured at amortized cost**

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

### *(ii) Derecognition*

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

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

### *(iii) Financial liabilities*

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

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

### *(iv) Impairment of financial assets*

The Company records an allowance for expected credit loss (“ECL”) for mortgages receivables and other debt financial assets not held at FVTPL.

- **Principles of ECL**

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit losses (12mECL).

The Company’s policies for determining if there has been a significant increase in credit risk.

The 12mECL is the portion of LTECLs that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted effective interest rate (EIR). The ECL allowance is only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

- **Calculation of ECL**

The Company calculates ECL based on a probability-weighted approach to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **PD:** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- **EAD:** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD:** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognized separately. It is usually expressed as a percentage of the EAD.

The mechanics of the ECL method are summarised below:

- **Stage 1:** The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:** For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- **POCI:** POCI assets are financial assets that are credit impaired on initial recognition. The Company only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

- **Past and Forward Looking Information**

In its ECL models, the Company considers a broad range of past and forward looking information, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

- House price indices
- Local real estate market conditions,
- Cost and terms of financing,
- Impact of present or future legislation or regulation,
- Prior encumbrances,
- Adverse changes in the payment status of borrowers

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

- **Presentation of allowance for ECL**

The Company's mortgage receivable, classified as financial assets measured at amortized cost: ECL is recorded as a deduction from the gross carrying amount of the financial assets.

- **Definition of default**

The Company considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Company considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

- **Individual provision for impairment**

For loans that are considered individually impaired on a case-by-case basis, the Company assesses whether an individual provision for loan losses is required at each reporting period end.

- **Collective provision for impairment**

For loans that have not been individually assessed as being impaired, the Company pools them into groups to assess them on a collective basis. Collective provisions are calculated for performing loans. Provisions related to performing loans estimate probable incurred losses that are inherent in the portfolio but have not yet been specifically identified as impaired.

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

- **Write-off**

Mortgage receivable and interest receivable are written off either partially or in their entirety only when the Company has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

**(b) Functional currency**

The functional and the presentation currency of the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 The Effects of Changes in Foreign Exchange Rates.

**(c) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash at banks, on hand, bank overdraft and any short-term investments with an original maturity of ninety days. As at April 30, 2023, the Company did not have any cash equivalents

**(d) Property, plant and equipment**

Property, plant and equipment are initially recorded at cost, including all directly attributable costs to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment are subsequently measured at cost less accumulated amortization and impairment losses. Amortization is provided annually at the following rates and methods over the estimated useful lives of the assets as follows:

- Leasehold improvements: 4 years straight line

Costs incurred subsequently that meet the asset recognition criteria are capitalized. Costs subsequently incurred that do not extend the economic useful life of an asset are considered repairs and maintenance, which are expensed in the period incurred.

**(e) Share capital**

The Company records proceeds from issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

**(f) Preferred shares**

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

**(g) Mortgages receivable**

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

The mortgage receivable is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset which can be estimated reliably.

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

### **(h) Revenue recognition**

Interest income is recognized as earned over the term of the mortgage based on the effective interest rate method. Lending fees are recognized as earned over the term of the mortgage.

### **(i) Leases**

The Company has adopted IFRS 16, Leases. IFRS 16 supersedes IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases-Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal and Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

#### *i. Right-of-use assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

### *ii. Lease liabilities*

At the commencement date, the lease liability is measured as the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease or if that rate cannot readily be determined, the Company's incremental borrowing rate. If the lease terms are subsequently changed, the present value of the lease liability is remeasured using the revised lease terms and applying the appropriate discount rate to the remaining lease payments. The Company recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the remeasurement in profit or loss.

### *Lessor accounting*

At the commencement of a lease, the Company, if acting in capacity as a lessor, will classify the lease as finance lease and recognize a lease receivable at an amount equal to the net investment in the lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset or if the lease is a sublease, by reference to the ROU asset arising from the original lease (the "head lease"). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset or the lease is a short-term lease. Cash received from an operating lease is included in other income in the Company's statement of (loss) income on a straight-line basis over the period the lease.

### **(j) Income taxes**

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

### **(k) Future accounting changes**

There is no other material future accounting changes that is applicable to the Company.

## **4. RIGHT-OF-USE ASSETS**

The Company adopted IFRS 16 on one lease of office on February 1, 2020 for 4 years. As a result of the adoption of IFRS 16, a right-of-use asset of \$254,515 was recognized on February 1, 2020. The Company recognized the amortization on this right-of-use asset over the lease period of 4 years and recorded amortization expense of \$74,468 during the year ended April 30, 2023. The accumulated amortization on this right-of-use asset is \$210,822.

The Company also subleased a portion of the office to a company related director since February 1, 2020 and the sublease was classified as an operating lease since the risks and rewards of the office have not been substantially transferred. The rental income in the amount of \$14,400 collected from the sublease during the year ended April 30, 2023 has been recorded under other income on the Company's financial statements.

The right-of-use asset on the lease above was calculated using a discount rate of 7%.

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements Years Ended April 30

### 5. MORTGAGES RECEIVABLE

The mortgages receivable bear interest at rates ranging from 7.99% to 12.95% per annum, with a weighted average rate of 10.398% (2022 – 9.20%). The mortgages receivable individually mature within the next 12 months and are renewed subject to management review, good standing and credit risk analysis.

As at April 30, 2023, the Company has recognized a provision of expected credit loss (ECL) in the amount of \$(131,600) (2022: \$(72,000)). The principal amount of the mortgages receivable is \$28,694,452 which will be all repaid in a 12-month period. The net mortgage receivable with the provision of ECL is \$28,562,852.

As at April 30, 2023, interest receivable related to mortgages receivable totaled \$222,682 (2022 - \$158,950).

### 6. PREFERRED SHARES

#### Authorized share capital

The Company has authorized an unlimited number of Class "A", "B", "C", and "D" preferred shares with a par value of \$1 each but has only issued Class "B" preferred shares ("preferred shares").

#### Issued share capital

During the year, the Company issued 9,725,335 (2022 – 7,123,288 ) Class B preferred shares at a price of \$1 per share. The Company redeemed 6,168,158 (2022 – 1,963,188) Class B preferred shares at a price of \$1 per share.

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

|                                                               | Number of<br>Preferred Shares | Value of<br>Preferred Shares |
|---------------------------------------------------------------|-------------------------------|------------------------------|
| Balance, April 30, 2021                                       | 20,445,414                    | \$ 20,445,414                |
| Preferred shares subscriptions                                | 7,123,288                     | 7,123,288                    |
| Preferred shares redemptions                                  | (1,963,188)                   | (1,963,188)                  |
| Distributions to shareholders in the form of preferred shares | 813,553                       | 813,553                      |
| Balance, April 30, 2022                                       | 26,419,067                    | 26,419,067                   |
| Preferred shares subscriptions                                | 8,668,798                     | 8,668,798                    |
| Preferred shares redemptions                                  | (6,168,158)                   | (6,168,158)                  |
| Distributions to shareholders in the form of preferred shares | 1,056,537                     | 1,056,537                    |
| Balance, April 30, 2023                                       | 29,976,244                    | \$ 29,976,244                |

During the year ended April 30, 2023, the Company issued 1,056,537 (2022 - 813,553) preferred shares for \$1,056,537 (2022 - \$813,553) as a stock distribution. Cash distributions of \$1,323,355 (2022 - \$883,157) were also declared. The total distributions to preferred shareholders was \$2,379,892 (2022 - \$1,696,709). Distributions to preferred shareholders are presented as an expense in the statements of loss and comprehensive loss.

Distributions payable as at April 30, 2023 and 2022 represent the dividends accrued for the fourth quarter of the respective fiscal year.

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements Years Ended April 30

### 7. COMMON SHARES

#### Authorized share capital

The Company has authorized an unlimited number of common shares with a par value of \$1 each.

#### Issued share capital

As at April 30, 2023, the Company had 150 common shares issued.

During the year ended April 30, 2023, the Company declared and paid dividends of \$18,000 (2022 - \$18,000) to its common shareholders. These dividends are presented as an expense in the statement of loss and comprehensive loss.

### 8. LEASE LIABILITY

The Company recognized lease liability as a result of adoption of IFRS 16 on the lease of office and recognized the lease liability from the lease. The present value of the lease and the accretion expense are calculated using an incremental borrowing discount rate of 7%. A recognition of the lease liability of \$254,515 was made on February 1, 2020 (See Note 4).

The following table presents a reconciliation of the Company's undiscounted cash flows to their present value for its lease payable as at April 30, 2023:

|                                              |    |         |
|----------------------------------------------|----|---------|
| Within 1 year                                | \$ | 52,627  |
| Between 1 year and 2 years                   |    | -       |
| Over 2 years                                 |    | -       |
| Total undiscounted cashflow                  |    | 52,627  |
| Less: accretion                              |    | (1,204) |
| Total discounted amount as at April 30, 2023 | \$ | 51,423  |
| Lease liabilities - current portion          | \$ | 51,423  |
| Lease liabilities - long term                |    | -       |
|                                              | \$ | 51,423  |

### 9. RELATED PARTY TRANSACTIONS

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

- The Company has included in its Offering Memorandum to pay to a director of the Company an annual management fee of 1.5% of the principal mortgage balance. The management fee actually paid for current year is \$195,000 which is less than 1.5% of the principal mortgage balance, the remaining balance was waived by the director.
- The Company paid bookkeeping fees of \$26,000 (2022 - \$25,200) to a company controlled by the director.
- During the year, the Company issued nil (2022 - 200,000) Class B Preferred Shares to the Company's sole director. The preferred shares are issued at a price of \$1 per share.

# **HERA INVESTMENT FUNDS INC.**

## **Notes to Financial Statements**

**Years Ended April 30**

### **10. CEBA GOVERNMENT LOAN**

On April 29, 2020, the Company received government loan of \$40,000 from the Canada Emergency Business Account (“CEBA”) program for the temporary supports to eligible small businesses during the Covid-19 pandemic challenges. \$10,000 of the loan was recognised as income in 2021. The balance of \$30,000 was paid off during the year.

### **11. FINANCIAL INSTRUMENTS**

The Company’s financial assets include cash and cash equivalents, interest and other receivables, mortgage receivable. The Company’s financial liabilities include accounts payables and accrued liabilities, distribution payable, lease liability and redeemable preferred shares.

The carrying amounts for cash and cash equivalents, interest and other receivables, mortgages receivable, accounts payable and accrued liabilities, distribution payable and redeemable preferred shares approximate fair value due to the relatively short period to maturity of these financial instruments.

#### **Fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable. The three levels of the fair value hierarchy are:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company did not have financial instruments measured at the fair value on recurring basis for the years ended April 30, 2023 and 2022.

#### **Financial risk management**

The Company’s financial risks arising from its financial instruments are credit risk, interest rate risk and liquidity risk. The Company’s exposures to these risks and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. Credit risk for the Company is primarily associated with the Company's bank, accounts receivable and mortgages receivables. The Company's credit risk with respect to its bank balance is minimal as it is held with high-credit quality financial institutions. The Company follows a program of credit evaluations of mortgages and has a registered charge on the underlying property. There have been no realized losses to date and there is no overdue accounts receivable and mortgages receivable outstanding as at April 30, 2023 and collection is reasonably assured. The maximum credit risk related to the accounts receivable and mortgages receivables are the balances presented on the statements of financial position.

### *Interest rate risk*

Interest rate risk consists of two components:

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

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

### *Liquidity risk*

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

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the Company's significant commitments (undiscounted) and corresponding maturities as at April 30, 2023:

|                                          | Within 1 year | 1-3 years | Over 3 years | Total         |
|------------------------------------------|---------------|-----------|--------------|---------------|
|                                          | \$            | \$        | \$           | \$            |
| Accounts payable and accrued liabilities | 26,740        | -         | -            | 26,740        |
| Lease liabilities                        | 51,423        | -         | -            | 51,423        |
| CEBA government loan                     | -             | -         | -            | -             |
| <b>Total</b>                             | <b>78,163</b> | <b>-</b>  | <b>-</b>     | <b>78,163</b> |

# HERA INVESTMENT FUNDS INC.

## Notes to Financial Statements

Years Ended April 30

### *Market risk*

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

### *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.

### *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.

## **12. CAPITAL MANAGEMENT**

The Company manages its capital to ensure that it will be able to preserve common and preferred share values, provide preferred shareholders with stable dividends and use leverage in a conservative manner to improve return to preferred shareholders. There have been no changes to the Company's approach to capital management during the year ended April 30, 2023.

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

## **13. SUBSEQUENT EVENTS**

Subsequent to the year ended April 30, 2023 the Company issued 345,000 preferred shares for \$345,000 proceeds.

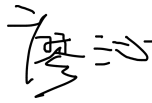
### ITEM 13: DATE AND CERTIFICATE

Dated: August 1, 2023

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

#### **The Issuer**

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

A handwritten signature in black ink, appearing to be 'QIN' followed by a stylized flourish.

**SCHEDULE A**  
**SUBSCRIPTION AGREEMENT**

(For Shares distributed under our Offering Memorandum dated August 1, 2023)

**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:

| <b>Class of Shares</b>                                 | <b>Number of Shares</b><br>(Minimum of 50,000 or 10,000 if held in Registered Plan) | <b>Subscription Price per Share</b> | <b>Total Subscription Amount</b><br>(Minimum of \$50,000 or \$10,000 if held in Registered Plan) |
|--------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------|
| Class “B” Preferred Shares (non-voting and redeemable) | _____                                                                               | \$1.00                              | \$ _____                                                                                         |

**Subscriber Information**

\_\_\_\_\_  
**Name of Subscriber** (if Subscriber is an individual)

\_\_\_\_\_  
Name of Joint Subscriber (if Joint Subscriber is an individual)

\_\_\_\_\_  
**Signature of Subscriber(s)** (if individual(s))

\_\_\_\_\_  
**Company Name** (if Subscriber is a company)

\_\_\_\_\_  
Name & title of Authorized signatory of the company

\_\_\_\_\_  
**Signature of Company’s authorized signatory**

\_\_\_\_\_  
Subscriber’s Social Insurance Number or Business Number

\_\_\_\_\_  
Joint Subscriber’s Social Insurance Number

\_\_\_\_\_  
Subscriber’s Address

\_\_\_\_\_  
City Province Postal Code

\_\_\_\_\_  
Phone Number

\_\_\_\_\_  
E-mail address

\_\_\_\_\_  
Birth Date(s) of Subscriber(s)

\_\_\_\_\_  
Date

**Register the Class “B” Shares as set forth below**

\_\_\_\_\_  
Name(s) of beneficial holder(s)  
or trustee of a self-directed RRSP

\_\_\_\_\_  
RRSP / Brokerage Account reference, if applicable

\_\_\_\_\_  
RRSP / Brokerage & Contact Name, if applicable

\_\_\_\_\_  
RRSP / Brokerage Address

\_\_\_\_\_  
City Province Postal Code

**OFFICE USE ONLY**

ACCEPTED by the Issuer this \_\_\_\_\_ day on \_\_\_\_\_, 202\_\_\_\_.

**HERA INVESTMENT FUNDS INC.**

Per:

\_\_\_\_\_  
Authorized Signatory

\_\_\_\_\_  
Name Position

## TERMS AND CONDITIONS OF SUBSCRIPTION FOR SHARES

### 1. Definitions

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

- (a) **“Agreement”** means this subscription agreement for the purchase of Shares;
- (b) **“Closing”** means the delivery and payment for the Shares, which may incur in stages on different dates;
- (c) **“Closing Date”** means a date on which a Closing occurs, the first such Closing Date being the **“Initial Closing Date”**;
- (d) **“International Subscriber”** means a Subscriber that is outside of Canada, the United States and the United Kingdom and is not a U.S. Subscriber
- (e) **“Issuer”** means Hera Investment Funds Inc.;
- (f) **“Offering Memorandum”** means the offering memorandum of the Issuer dated August 1, 2023, as amended from time to time;
- (g) **“Regulation D”** means Regulation D under the U.S. Securities Act;
- (h) **“Securities Laws”** means the applicable securities laws, regulations, rules, orders and published policy statements of British Columbia, Alberta and Saskatchewan and their Securities Commissions;
- (i) **“Selling Jurisdiction”** means the Provinces of British Columbia, Alberta and Saskatchewan;
- (j) **“Shares”** means the Class “B” Preferred Shares (non-voting and redeemable) of the Issuer;
- (k) **“Subscriber”** means that person or entity or entity whose name is set forth on the first page hereof;
- (l) **“Subscription Price”** means the subscription amount per Share;
- (m) **“Total Subscription Amount”** means the Subscription Price multiplied by the total number of Shares purchased;
- (n) **“Tax Act”** means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time;
- (o) **“United States”** means the United States of America, its territories or possessions, the states of the United States of America and the District of Columbia;
- (p) **“U.S. Person”** has the meaning set out in Rule 902 of the U.S. Securities Act and includes:
  - (i) a natural person resident in the United States;
  - (ii) a partnership or corporation organized or incorporated under the laws of the United States;
  - (iii) an estate of which any executor or administrator is a U.S. Person;
  - (iv) a trust of which any trustee is a U.S. Person;

- (v) a non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit of a U.S. Person;
  - (vi) a discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated or (if an individual) resident in the United States; and
  - (vii) a partnership or corporation organized or incorporated under the laws of any foreign jurisdiction by a U.S. Person principally for the purpose of investing in securities not registered under the U.S. Securities Act, unless it is organized or incorporated and owned, by “Accredited Investors” who are not natural persons, estates or trusts.;
- (q) “**U.S. Securities Act**” means the United States Securities Act of 1933, as amended from time to time; and
- (r) “**U.S. Subscriber**” means a Subscriber that is, or is subscribing for the benefit or account of, a U.S. Person or was offered the Shares or executed this Agreement in the United States.

## **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 204 – 38 Fell Avenue, North Vancouver, British Columbia V7P 3S2 of the documents and funds set out in Section 3 of this Agreement. Notwithstanding receipt of the foregoing, the Issuer retains the right to decline any subscription, without any reason.

## **3. Delivery of Documents and Funds**

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

- (a) page 1 of this Agreement; and
- (b) Appendix I (Risk Acknowledgement – Form NI 45-106F4) to this Agreement; and
- (c) Appendix II (U.S. Accredited Investor Confirmation) to this Agreement, if the Subscriber is a U.S. Subscriber; or
- (d) Appendix III (International Subscriber Confirmation) to this Agreement, if the Subscriber is an International Subscriber.

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

## **4. Representations, Warranties and Covenants by Subscriber**

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

- (a) it has been advised and is fully aware that:
  - (i) the Shares offered hereunder have not been qualified for distribution in Canada by the filing of a prospectus with any securities commission or other securities regulatory authority;

- (ii) the Shares are being offered hereunder in reliance upon specific exemptions from the prospectus and registration requirements in British Columbia;
  - (iii) unless permitted under applicable Securities Laws, residents of British Columbia cannot trade their Shares before the date that is four months and a day after the date that the Issuer becomes a reporting issuer in British Columbia;
- (b) it understands it is solely responsible for obtaining such legal, tax and other advice as is appropriate in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereunder and the Issuer's legal counsel are acting solely for the Issuer and the Subscriber may not rely upon such counsel in any respect;
- (c) if an individual, the Subscriber has attained the age of majority and has the legal capacity and competence to enter into and deliver this Agreement and to perform his or her obligations hereunder;
- (d) if a corporation or other entity, the Subscriber has been duly incorporated or created, as the case may be, and is valid and subsisting under the laws of the Issuer's jurisdiction of incorporation or creation, it has good and sufficient power, authority and right to enter into and deliver this Agreement and to perform the Issuer's obligations hereunder, the person signing this Agreement is a duly authorized signatory of the corporation or other entity and has the authority to act on the Issuer's behalf respecting the Shares and the Issuer is hereby authorized to treat any one such signatory to this Agreement as the authorized agent and signatory of the corporation or other entity in all matters respecting the Shares unless otherwise notified in writing by the corporation or other entity;
- (e) it is resident at the address set forth on the cover page of this Agreement;
- (f) if the Subscriber is an individual resident in Alberta or Saskatchewan, the Subscriber has not, within the preceding 12 months, purchased Shares from the Issuer and securities from other issuers pursuant to offering memoranda aggregating more than
  - (i) \$10,000, if the Subscriber is not an "eligible investor" (as that term is used in Schedules 1 and 2 of Appendix I),
  - (ii) \$30,000, if the Subscriber is an "eligible investor", or
  - (iii) \$100,000, if the Subscriber is an "eligible investor" and has received advice from a portfolio manager, investment dealer or exempt market dealer that the investment is suitable;
- (g) 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;
- (h) it is purchasing the Shares as a principal for the Issuer's own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Shares; it acknowledges that the Issuer is required by law to disclose, on a confidential basis, to certain regulatory authorities, the identity of each subscriber of Shares;
- (i) it has received the Offering Memorandum and:
  - (i) has reviewed, prior to the execution of this Agreement, the Offering Memorandum and the Subscriber fully understands the contents and effect of the Offering Memorandum;

- (ii) it has not received or relied upon any documents, representations, warranties or other information in assessing this investment except the Offering Memorandum and the information contained therein; and
  - (iii) prior to entering into this Agreement, it executed the Risk Acknowledgement (Form NI 45-106F4) attached as Appendix I to this Agreement and, if the Subscriber is a U.S. Subscriber, the U.S. Accredited Investor Confirmation attached as Appendix II to this Agreement or if the Subscriber is an International Subscriber, the International Subscriber Confirmation attached as Appendix III to this Agreement;
- (j) if the Subscriber is an International Subscriber, it has sought and received legal and investment advice respecting its subscription pursuant to this Agreement 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 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 be required to be provided to the Subscriber under such Securities Laws;

- (iii) the Issuer is relieved from certain obligations that would otherwise apply under such Securities Laws; and
  - (iv) the Shares will be subject to resale restrictions with which the Subscriber or the beneficial purchaser, as the case may be, must comply;
- (n) the Issuer is not registered under any securities legislation for the purposes of selling the Shares;
- (o) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Shares;
- (p) there is no government or other insurance covering the Shares;
- (q) there are risks associated with the purchase of the Shares;
- (r) the Issuer has not advised, recommended or otherwise represented to the Subscriber that the Shares are suitable to the Subscriber, with regard to the Subscriber's
  - (i) investment needs and objectives,
  - (ii) financial circumstances, or
  - (iii) risk tolerance;
- (s) unless it has executed the U.S. Accredited Investor Confirmation attached as Appendix II (U.S. Accredited Investor Confirmation) to this Agreement, it is not a U.S. Subscriber;
- (t) if the Subscriber is a U.S. Subscriber, it is
  - (i) an Accredited Investor as set out in the completed Appendix II (U.S. Accredited Investor Confirmation), delivered with this Agreement,
  - (ii) not a party to any contract, undertaking, agreement or arrangement with any person to sell, transfer or pledge to such person, or anyone else, the Shares, or any part thereof, or any interest therein and the Subscriber has no present plans to enter into any such contract, undertaking, agreement or arrangement,
  - (iii) not planning to offer, sell or otherwise transfer any of the Shares and, if it does, it will not offer, sell or otherwise transfer any of the Shares, directly or indirectly, unless the sale is
    - (A) to the Issuer, or
    - (B) made in a transaction that does not require registration under the U.S. Securities Act or any applicable United States state securities laws and regulations governing the offer and sale of securities and the Subscriber has furnished to the Issuer, prior to such sale, an opinion of counsel of recognized standing reasonably satisfactory to the Issuer confirming the compliance of such sale with the U.S. Securities Act and applicable state securities laws of the United States,
  - (iv) not engaging and will not engage in any "directed selling efforts" (as defined in Regulation S under the U.S. Securities Act) in the United States in respect of the resale of the Shares, which includes any activities undertaken for the purpose of,

or that could reasonably be expected to have the effect of, conditioning the market in the United States for the resale of the Shares, and

- (v) not subscribing for the Shares as a result of any form of “general solicitation” or “general advertising” (as those terms are used in Regulation D), including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television, or other form of telecommunications, including electronic display, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising;
- (u) it is aware that the Shares (i) will be “restricted securities” under the U.S. Securities Act since they are being acquired from the Issuer in a transaction not involving a public offering, (ii) have not been and will not be registered under the U.S. Securities Act, and (iii) 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;
- (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 the Subscriber is a U.S. Subscriber, the certificates representing any of the Shares (and all certificates issued in exchange therefor or in substitution thereof) shall bear, upon the issuance thereof, and unless and until such time as the same is no longer required under the applicable requirements of the U.S. Securities Act or applicable state securities laws and regulations of the United States, on the face of such certificates, the following legend:

“THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, (THE “U.S. SECURITIES ACT”) OR ANY APPLICABLE STATE SECURITIES LAW. NO INTEREST THEREIN MAY BE SOLD, DISTRIBUTED, ASSIGNED, OFFERED, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHOUT (A) AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE UNITED STATES STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION, OR (B) AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.”
- (x) 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;

- (y) 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;
- (z) 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;
- (aa) 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 its subscription pursuant to this Agreement;
- (bb) to the best of its knowledge, none of the funds the Subscriber is using to purchase the Shares 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 are being tendered on behalf of a person or entity who has not been identified to the Subscriber;
- (cc) it has read and understands the statutory or contractual rights described in the Offering Memorandum; and
- (dd) it understands and acknowledges that the Issuer's Articles provide that any repurchase of a Share purchased hereunder before the second anniversary of issuance of that Share shall be subject to a 4% early repurchase penalty which the Issuer may, in its sole discretion, waive but if the repurchase is sought within 12 months of the issuance of that Share the Issuer will not waive the 4% early repurchase penalty and early repurchase will be subject to a minimum charge of \$1,000 and a maximum charge of \$5,000.

The Subscriber agrees that the above representations, warranties and covenants will be true and correct both as at the execution of this Agreement and as at 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 subsections 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 and that the contact information of the public officials in the Selling Jurisdictions who can answer questions about this indirect collection of personal information are as follows.

**British Columbia Securities Commission**

P.O. Box 10142, Pacific Centre  
701 West Georgia Street  
Vancouver, British Columbia V7Y 1L2

Inquiries: 604-899-6854  
Toll free in Canada: 1-800-373-6393  
Facsimile: 604-899-6581  
Email: FOI-privacy@bcsc.bc.ca

Public official contact regarding indirect collection of information: **FOI Inquiries**

**Alberta Securities Commission**

Suite 600  
250 - 5<sup>th</sup> Street SW  
Calgary, Alberta T2P 0R4

Telephone: 403-297-6454  
Toll free in Canada: 1-877-355-0585  
Facsimile: 403-297-2082

Public official contact regarding indirect collection of information: **FOIP Coordinator**

**Financial and Consumer Affairs Authority of Saskatchewan**

Suite 601 – 1919 Saskatchewan Drive  
Regina, Saskatchewan S4P 4H2

Telephone: 306-787-5842  
Facsimile: 306-787-5899

Public official contact regarding indirect collection of information: **Director**

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 45-106F4

#### **WARNING!**

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

| <b>1. Risks and other information</b><br>The issuer must delete any rows required to be deleted.<br>The purchaser must initial each statement to confirm understanding.                                                                                                                                                                                                                                                                                                               | <b>Your Initials</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <b>Risk of loss</b><br>You could lose your entire investment of \$ _____.<br>[Instruction: Insert the total dollar amount of the investment.]                                                                                                                                                                                                                                                                                                                                         |                      |
| <b>No approval</b><br>No securities regulatory authority or regulator has evaluated or approved the merits of these securities or the disclosure in the offering memorandum.                                                                                                                                                                                                                                                                                                          |                      |
| <b>Liquidity risk</b><br>You will not be able to sell these securities except in very limited circumstances. You may never be able to sell these securities.                                                                                                                                                                                                                                                                                                                          |                      |
| <b>Repurchase</b><br>You have a right to require the issuer to repurchase the securities, but there are limitations on this right.                                                                                                                                                                                                                                                                                                                                                    |                      |
| <b>You are buying Exempt Market Securities</b><br>They are called <i>exempt market securities</i> because the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections). <i>Exempt market securities</i> are more risky than other securities.                                                                                                                                                          |                      |
| <b>The securities you are buying are not listed</b><br>The securities you are buying are not listed on any stock exchange, and they may never be listed.                                                                                                                                                                                                                                                                                                                              |                      |
| <b>The issuer of your securities is a non-reporting issuer</b><br>A <i>non-reporting issuer</i> does not have to publish financial information or notify the public of changes in its business. You may not receive ongoing information about this issuer.<br><br>For more information on the exempt market, contact your local securities regulator.<br>You can find contact information at <a href="http://www.securities-administrators.ca">www.securities-administrators.ca</a> . |                      |
| <b>Total investment</b><br>You are investing \$ _____ [Instruction: total consideration] in total; this includes any amount you are obliged to pay in future. <b>Hera Investment Funds Inc.</b> will pay \$300 per year per investor of this to <b>Drake Financial Ltd.</b> as a fee or commission.                                                                                                                                                                                   |                      |

|                                                                                                                                                   |       |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>Your name and signature</b>                                                                                                                    |       |
| By signing this form, you confirm that you have read this form and you understand the risks of making this investment as identified in this form. |       |
| First and last name (print):                                                                                                                      |       |
| Signature:                                                                                                                                        | Date: |
| <i>[Instruction: Sign 2 copies of this document. Keep one copy for your records.]</i>                                                             |       |

|                                                                                                                                                                                                                                                                                    |        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>2. Salesperson information</b><br>Below information must be completed by the salesperson                                                                                                                                                                                        |        |
| <i>[Instruction: The salesperson is the person who meets with, or provides information to, the purchaser with respect to making this investment. That could include a representative of the issuer, a registrant or a person who is exempt from the registration requirement.]</i> |        |
| First and last name of salesperson (print):                                                                                                                                                                                                                                        |        |
| Telephone:                                                                                                                                                                                                                                                                         | Email: |
| Name of firm:                                                                                                                                                                                                                                                                      |        |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <b>3. Additional information</b><br>The issuer must complete the required information in this section before giving the form to the purchaser                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |  |
| <b>You have 2 business days to cancel your purchase</b><br>To do so, send a notice to <b>Hera Investment Funds Inc.</b> 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 email or deliver it in person to [name of issuer] at its business address. Keep a copy of the notice for your records.<br><br>Issuer Name: <b>Hera Investment Funds Inc.</b><br>Address: 204 – 38 Fell Avenue, North Vancouver, British Columbia V7P 3S2<br>Fax No.: 604-770-0190<br>E-mail: office@herafunds.com |  |
| <b>You will receive an offering memorandum</b><br>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.                                                                                                                                                                                                                                                                                                                                                                            |  |

## SCHEDULE 1

### *Classification of Investors Under the Offering Memorandum Exemption*

**Instructions:** This schedule must be completed together with the Risk Acknowledgement Form and Schedule 2 by individuals purchasing securities under the exemption (the offering memorandum exemption) in subsection 2.9(2.1) of National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) in Alberta, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan.

| How you qualify to buy securities under the offering memorandum exemption                                                                                                                                     |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Initial the statement under A, B, C or D containing the criteria that applies to you. (You may initial more than one statement.) If you initial a statement under B or C, you are not required to complete A. |  |

| A. You are an eligible investor because: |                                                                                                                                                                                                                                                                                                        | Your initials |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Eligible Investor                        | Your net income before taxes was more than \$75,000 in each of the 2 most recent calendar years, and you expect it to be more than \$75,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)                                                     |               |
|                                          | Your net income before taxes combined with your spouse's was more than \$125,000 in each of the 2 most recent calendar years, and you expect your combined net income to be more than \$125,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.) |               |
|                                          | Either alone or with your spouse, you have net assets worth more than \$400,000. (Your net assets are your total assets, including real estate, minus your total debt including any mortgage on your property.)                                                                                        |               |

| B. You are an eligible investor, as a person described in section 2.3 [ <i>Accredited investor</i> ] of NI 45-106 or, as applicable in Ontario, subsection 73.3 of the <i>Securities Act</i> (Ontario), because: |                                                                                                                                                                                                                                                      | Your initials |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Accredited Investor                                                                                                                                                                                              | Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.) |               |
|                                                                                                                                                                                                                  | Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.           |               |
|                                                                                                                                                                                                                  | Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.                                                                                               |               |
|                                                                                                                                                                                                                  | Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)                                                                            |               |

| C. You are an eligible investor, as a person described in section 2.5 [Family, friends and business associates] of NI 45-106, because: |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Your initials |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Family, Friends and Business Associates                                                                                                | <p>You are:</p> <p>1) <i>[check all applicable boxes]</i></p> <p><input type="checkbox"/> a director of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> an executive officer of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> a control person of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> a founder of the issuer</p> <p>OR</p> <p>2) <i>[check all applicable boxes]</i></p> <p><input type="checkbox"/> a person of which a majority of the voting securities are beneficially owned by, or a majority of the directors are, (i) individuals listed in (1) above and/or (ii) family members, close personal friends or close business associates of individuals listed in (1) above</p> <p><input type="checkbox"/> a trust or estate of which all of the beneficiaries or a majority of the trustees or executors are (i) individuals listed in (1) above and/or (ii) family members, close personal friends or close business associates of individuals listed in (1) above</p> |               |
|                                                                                                                                        | <p>You are a family member of _____ ,<br/> <i>[Instruction: Insert the name of the person who is your relative either directly or through his or her spouse]</i><br/>           who holds the following position at the issuer or an affiliate of the issuer:<br/>           _____.</p> <p>You are the _____ of that person or that person's spouse.<br/> <i>[Instruction: To qualify for this investment, you must be (a) the spouse of the person listed above or (b) the parent, grandparent, brother, sister, child or grandchild of that person or that person's spouse.]</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               |
|                                                                                                                                        | <p>You are a close personal friend of _____ , <i>[Instruction: Insert the name of your close personal friend]</i><br/>           who holds the following position at the issuer or an affiliate of the issuer:<br/>           _____.</p> <p>You have known that person for _____ years.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |               |
|                                                                                                                                        | <p>You are a close business associate of _____ ,<br/> <i>[Instruction: Insert the name of your close business associate]</i><br/>           who holds the following position at the issuer or an affiliate of the issuer:<br/>           _____.</p> <p>You have known that person for _____ years.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               |

| D. You are not an eligible investor. |                                                        | Your initials |
|--------------------------------------|--------------------------------------------------------|---------------|
| Not an Eligible Investor             | You acknowledge that you are not an eligible investor. |               |

## SCHEDULE 2

### *Investment Limits for Investors Under the Offering Memorandum Exemption*

**Instructions:** This schedule must be completed together with the Risk Acknowledgement Form and Schedule 1 by individuals purchasing securities under the exemption (the offering memorandum exemption) in subsection 2.9(2.1) of National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) in Alberta, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan.

#### SECTION 1 TO BE COMPLETED BY THE PURCHASER

##### 1. Investment limits you are subject to when purchasing securities under the offering memorandum exemption

You may be subject to annual investment limits that apply to all securities acquired under the offering memorandum exemption in a 12 month period, depending on the criteria under which you qualify as identified in Schedule 1. Initial the statement that applies to you.

| A. You are an eligible investor. |                                                                                                                                                                                                                                                                                                                                                                 | Your initials |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| <b>Eligible Investor</b>         | As an eligible investor that is an individual, you cannot invest more than <b>\$30,000</b> in all offering memorandum exemption investments made in the previous 12 months, unless you have received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule, that your investment is suitable. |               |
|                                  | Initial one of the following statements:                                                                                                                                                                                                                                                                                                                        |               |
|                                  | You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit of \$30,000 in all offering memorandum exemption investments made in the previous 12 months.                                                                                                                           |               |
|                                  | You confirm that you received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule that the following investment is suitable.                                                                                                                                                                |               |
|                                  | You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit in all offering memorandum exemption investments made in the previous 12 months of \$100,000.                                                                                                                          |               |

| B. You are an eligible investor, as a person described in section 2.3 [ <i>Accredited investor</i> ] of NI 45-106 or, as applicable in Ontario, subsection 73.3 of the <i>Securities Act</i> (Ontario). |                                                                                                                                                                            | Your initials |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| <b>Accredited Investor</b>                                                                                                                                                                              | You acknowledge that, by qualifying as an eligible investor as a person described in section 2.3 [ <i>Accredited investor</i> ], you are not subject to investment limits. |               |

| C. You are an eligible investor, as a person described in section 2.5 [ <i>Family, friends and business associates</i> ] of NI 45-106. |                                                                                                                                                                                                | Your initials |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Family, Friends and Business Associates                                                                                                | You acknowledge that, by qualifying as an eligible investor as a person described in section 2.5 [ <i>Family, friends and business associates</i> ], you are not subject to investment limits. |               |

| D. You are not an eligible investor. |                                                                                                                                                                                                                                                                                                                                                                                                        | Your initials |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Not an Eligible Investor             | <p>You acknowledge that you cannot invest more than <b>\$10,000</b> in all offering memorandum exemption investments made in the previous 12 months.</p> <p>You confirm that, after taking into account your investment of \$ _____ today in this issuer, you have not exceeded your investment limit of \$10,000 in all offering memorandum exemption investments made in the previous 12 months.</p> |               |

| SECTION 2 TO BE COMPLETED BY THE REGISTRANT                                                                                                                                                 |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 2. Registrant information                                                                                                                                                                   |        |
| [Instruction: this section must only be completed if an investor has received advice from a portfolio manager, investment dealer or exempt market dealer concerning his or her investment.] |        |
| First and last name of registrant (please print):                                                                                                                                           |        |
| Registered as:                                                                                                                                                                              |        |
| [Instruction: indicate whether registered as a dealing representative or advising representative]                                                                                           |        |
| Telephone:                                                                                                                                                                                  | Email: |
| Name of firm:                                                                                                                                                                               |        |
| [Instruction: indicate whether registered as an exempt market dealer, investment dealer or portfolio manager.]                                                                              |        |
| Date:                                                                                                                                                                                       |        |

## Appendix II

### U.S. ACCREDITED INVESTOR CONFIRMATION

*(If Subscriber is, or is subscribing for the benefit or account of,  
a U.S. Person or is in the United States)*

The following U.S. Subscriber hereby represents and warrants to the Issuer that the U.S. Subscriber is, or is subscribing for the benefit or account of, a U.S. Person or was offered the Shares or executed this Agreement in the United States and is an “accredited investor” under Rule 501(a) of Regulation D by virtue of the U.S. Subscriber falling into one or more of the categories below as indicated by their initials beside each such category:

- \_\_\_\_\_ (a) A corporation, an organization described in section 501(c)(3) of the United States  
(initial) Internal Revenue Code, or a Massachusetts or similar business trust, partnership, or limited liability company, not formed for the specific purpose of acquiring the Shares, with total assets in excess of US\$ 5,000,000.
- \_\_\_\_\_ (b) A natural person (including an IRA (Individual Retirement Account) owned by such  
(initial) person) whose individual net worth (excluding their primary residence), or joint net worth with that person’s spouse or spousal equivalent (which assets need not be held jointly), exceeds US\$ 1,000,000 (indebtedness secured by the primary residence, up to the estimated fair market value of the primary residence at the date hereof, shall not be included as a liability and if the amount of such indebtedness outstanding at the date hereof exceeds the amount outstanding 60 days before the date hereof, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability).
- \_\_\_\_\_ (c) A natural person (including an IRA owned by such person) who had an individual  
(initial) income in excess of US\$ 200,000 in each of the two most recent years or joint income with that person’s spouse or spousal equivalent in excess of US\$ 300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year.
- \_\_\_\_\_ (d) A trust that (i) has total assets in excess of US\$ 5,000,000, (ii) was not formed for  
(initial) the specific purpose of acquiring the Shares, and (iii) is directed in its purchase of securities by a person who has such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of an investment in the Shares.
- \_\_\_\_\_ (e) A revocable trust which may be revoked or amended by its settlors (creators), each  
(initial) of whom is an Accredited Investor under paragraph(s) \_\_\_\_\_ [*insert one or both of (b) or (c)*].
- \_\_\_\_\_ (f) An entity in which all of the equity owners satisfy the requirements of one or more  
(initial) of the foregoing categories. [*Note: each of the equity owners owning more than 10% of the entity must complete a copy of this Confirmation.*]
- \_\_\_\_\_ (g) An entity, of a type not listed in paragraphs (a), (d), or (e), not formed for the specific  
(initial) purpose of acquiring the Shares, owning investments in excess of US\$ 5,000,000.
- \_\_\_\_\_ (h) A natural person holding in good standing one or more professional certifications  
(initial) or designations or credentials from an accredited educational institution that the United States Securities and Exchange Commission has designated as qualifying an individual for accredited investor status.

Provide details: \_\_\_\_\_

The foregoing representations and warranties are true and accurate as of the date of this certificate and will be true and accurate as of Closing (as defined herein). If any such representations and warranties shall not be true and accurate prior to Closing, the U.S. Subscriber shall give immediate written notice of such fact to the Issuer.

**DATED** this \_\_\_\_\_ day of \_\_\_\_\_, 202\_\_

Sign here if U.S. Subscriber is an **individual**:

\_\_\_\_\_  
Signature of Subscriber

\_\_\_\_\_  
Name of Subscriber

\_\_\_\_\_  
Signature of any Joint Subscriber

\_\_\_\_\_  
Name of any Joint Subscriber

Sign here if U.S. Subscriber is **not an individual**:

\_\_\_\_\_  
Name of Subscriber (corporation, LLC, LP, etc.)

Per:

\_\_\_\_\_  
Signature of authorized representative

\_\_\_\_\_  
Name & Title of Authorized Representative

\_\_\_\_\_  
Signature of Authorized Representative

\_\_\_\_\_  
Name & Title of Authorized Representative

### Appendix III

#### INTERNATIONAL SUBSCRIBER CONFIRMATION

The Subscriber represents and warrants for itself or, if applicable, on behalf of the principal on whose behalf the Subscriber is subscribing as its agent, to the Issuer that:

1. it is resident in a jurisdiction other than Canada, the United States or the United Kingdom;
2. it is knowledgeable of, or has been independently advised (to the extent it has deemed necessary) as to, the securities laws, regulations, rules, orders, rulings, notices, policies and written interpretations (“**Applicable International Laws**”) in the jurisdiction in which the Subscriber is resident (the “**International Jurisdiction**”) applicable to the Subscriber’s acquisition of the Shares;
3. is, to its knowledge, purchasing the Shares pursuant to, or does not require, exemptions from registration, prospectus and any other requirements under the Applicable International Laws;
4. to its knowledge, the Applicable International Laws do not require the Issuer to make any filings with or seek any consents or approvals of or from any securities regulator in the International Jurisdiction in connection with the issue and sale or resale of the Shares purchased by the Subscriber; and
5. to its knowledge, the purchase of the Shares by the Subscriber does not trigger (i) any obligation to prepare and file a prospectus, registration statement or any other document or report in the International Jurisdiction, or (ii) any one-time or ongoing disclosure reporting obligation of the Issuer in the International Jurisdiction.

**THE SUBSCRIBER DOES HEREBY CERTIFY THAT** the foregoing representations and warranties are true and accurate as of the date of this certificate and will be true and accurate as of Closing and if any such representations and warranties shall not be true and accurate prior to Closing, the Subscriber shall give immediate written notice of such fact to the Issuer.

**DATED** this \_\_\_\_\_ day of \_\_\_\_\_, 202\_\_

Sign here if U.S. Subscriber is an **individual**:

\_\_\_\_\_  
Signature of Subscriber

\_\_\_\_\_  
Name of Subscriber

\_\_\_\_\_  
Signature of any Joint Subscriber

\_\_\_\_\_  
Name of any Joint Subscriber

Sign here if U.S. Subscriber is **not an individual**:

\_\_\_\_\_  
Name of Subscriber (corporation, LLC, LP, etc.)

Per:

\_\_\_\_\_  
Signature of authorized representative

\_\_\_\_\_  
Name & Title of Authorized Representative

\_\_\_\_\_  
Signature of Authorized Representative

\_\_\_\_\_  
Name & Title of Authorized Representative