HERITAGE
Educational Foundation

Management Report of Fund Performance for the HERITAGE PLANS

For the years ended December 31, 2017 and 2016

AND

Audited Financial Statements for the HERITAGE PLANS

Years ended December 31, 2017 and 2016

Management Report of Fund Performance – Heritage Plans

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may receive a copy of the annual financial statements at your request and at no cost by visiting our website at **HeritageRESP.com** or SEDAR at **Sedar.com** or by calling our Customer Service Department at 1.800.739.2101 or by writing to us at 2005 Sheppard Ave. E., Suite 700 Toronto, Ontario M2J 5B4.

Currently, the investments of the Heritage Plans (the "Plans") are limited to specified government bonds, guaranteed investment certificates (including principal protected notes/bank deposit notes), short term investments and corporate debt securities with an approved rating. The investment income earned in the Plans may be invested in exchange-traded equity securities listed on a stock exchange in Canada, such as the TSX, income participation units of exchange. None of these securities require the issuer thereof to call meetings of holders or otherwise carry a right to vote. Accordingly, the Plans' policies and procedures on how to vote on any matter for which the Plans receive, in their capacity as security holders, proxy materials for a meeting of security holders, are limited to exceptional circumstances where creditors of an issuer are given a right to vote in accordance with applicable laws.

Topics Covered in this Report

Management Discussion of Fund Performance

Investment Objective and Strategy

The investment objective of the Plans is to preserve capital while maximizing the long-term rate of return for investors, within guidelines set out in the Statement of Investment Policies & Procedures ("SIPP"). The Plans consist of investments in federal, provincial and corporate bonds, bank deposit notes, principal protected notes and short term investments with an approved credit rating under National Instrument 81-102. The investment income earned in the Plans may be invested in equity securities listed on a stock exchange in Canada, index participation units of exchange-traded funds and money market funds. The Heritage Educational Foundation (the "Foundation") has engaged portfolio advisers, Scotia Institutional Asset Management, a division of 1832 Asset Management L.P. (a wholly owned subsidiary of Scotiabank, "SIAM"), CIBC Wood Gundy, a division of CIBC World Markets ("CIBC Wood Gundy"), Yorkville Asset Management Inc. ("Yorkville"), which during 2017 was a related party, Guardian Capital LP ("Guardian") and TD Asset Management Inc ("TDAM") to achieve its investment objective. As of January 2, 2018, Yorkville is no longer a related party (refer to recent developments below). As per the sub-advisory agreement entered into 2016, TD Wealth is directed to invest the assets held in the account with CIBC Wood Gundy in PPNs on a discretionary basis, all in accordance with the investment policy.

SIAM manages most of the assets in the Plans on a discretionary basis within set parameters established under the prospectus and the SIPP. The investment strategy focuses on structuring a bond portfolio to achieve a superior rate of return by strategically positioning the portfolio on the yield curve and through the optimal selection of credit securities.

CIBC Wood Gundy, SIAM and Yorkville are portfolio advisers responsible for the investments in principal protected notes. The objective of CIBC Wood Gundy, SIAM and Yorkville is to provide subscribers' capital protection while positively exposing the Plans' portfolio to global equities and commodities. The Plans' principal protected notes ("PPNs") strive to ensure that the principal of the note is not at risk. PPNs are an investment that consists of two parts being (i) an investment that promises to return the original amount invested that is guaranteed by a third party guarantor or issuer; and (ii) a market-based investment usually linked to equities or commodities.

Guardian, TDAM and Yorkville are portfolio advisers responsible for the investments in equities. The objective of Guardian, TDAM and Yorkville is to provide a high level of stable income with attractive long-term total return while preserving the real value of the capital invested in equities.

Risk

The Plans is a conservative investment fund suitable for investors focusing on a long term saving program, intended to fund post-secondary education, and generally for those investors having lower tolerance risk. The risk of investing in the Plans and its suitability for investors, remain as discussed in the prospectus of the Plans.

Result of Operations and Financial Market Review

The assets of the Plans topped $2.57 billion as at December 31, 2017. The asset mix for the Plans did not substantially change from the previous year. At December 31, 2017, 71.50% (2016: 64.22%) of the Plans' portfolio was invested in government bonds, corporate debt and short term investments, 5.40% (2016: 10.50%) was invested in principal protected notes and 23.10% was invested in equities (2016: 25.28%). In 2017, the Plans invested 6.70% (2016: 9.01%) of its portfolio through Yorkville.

For the year ended December 31, 2017, the Plans' rate of return was 3.66%, 25 basis points ("bps") lower than the blended benchmark return of 3.91%, which consisted of the FTSE TMX Canada Universe All Government Bond Index return of 1.64% [75% of 2.18%] and the S&P TSX Composite Index return of 2.27% [25% of 9.10%].

During 2017, the global economy displayed the strongest signs of synchronized growth in a decade. This growth was reflected in record corporate earnings, pushing equity markets to new highs. The Canadian equity market (S&P/TSX Composite) was up 9.1%, with all sectors, but Energy, recording positive returns. The US equity market (S&P 500) increased by 21.8%, reflecting both strong corporate profits and low unemployment rates.

The Canadian economy is currently estimated to have grown by 3% in 2017, ending five consecutive years of sub-3% growth. Canada's unemployment rate fell to 5.7%, the lowest level in 40 years, while job growth was 423,000 for the full year of 2017, the best annual increase since 2002. The Canadian dollar appreciated by 6.7% during 2017 versus the US dollar, although the currency's exchange rate with the US dollar was volatile during the year.

Given the stronger-than-expected economic performance around the world, Central Bank actions shifted from extraordinary monetary stimulus and historically low interest rates to more normal levels. The Bank of Canada raised its key policy interest rates twice (25 basis points each time), while the US Federal Reserve bank had three rate hikes during 2017 and announced that it expects three more rate increases in 2018.

North American bond yields generally ended the year modestly higher, while the yield curves in both the US and Canada continued to flatten as short-term rates rose more than longer-term yields during the year. Government of Canada bonds (FTSE TMX Government bond index) returned 2.2%, while Canadian investment grade corporate bonds (FTSE TMX Corporate bond index) were up 3.4%. Credit spreads versus federal bonds for provincial, investment grade corporate and high yield corporate bonds tightened during 2017, as the search for yield in riskier assets continued.

The Plans' PPN portfolio registered a return of 7.96% in 2017. The Heritage PPN portfolio as at December 31, 2017 was $137.32 million (2016 - $261.62 million). The investments in PPNs decreased by 47.51% in 2017, due to the maturity of three PPNs. The remaining PPNs mature between 2018 and 2020.

Recent Developments

Effective January 2, 2018, Knowledge First Financial Inc. ("KFFI") acquired control of all of the outstanding shares of the Heritage Education Funds Inc. (the "Distributor"), resulting in the Distributor being wholly owned by Heritage Amalgamation Corporation which became a wholly owned subsidiary of KFFI. KFFI is incorporated under the laws of Canada and is a wholly owned subsidiary of Knowledge First Foundation ("KFF"). KFF is a not-for-profit organization that sponsors various Knowledge First Education Savings Plans ("KF Plans"). KFFI is the investment fund manager and distributor of the KF Plans. Concurrent with the acquisition of control of the Distributor, certain directors of KFF became the directors of Heritage Educational Foundation (the "Foundation"), resulting in the Foundation and Distributor now being under the common management of KFF.

As a result of the transaction the independent review committee members are Bruce D. Day, Don Hathaway and William McNeill and the members of the investment committee are Donald Hunter, Andrea Bolger and David Forster.

Recently Released Accounting Standards Not Yet Adopted

In July 2014, the International Accounting Standards Board issued IFRS 9, Financial Instruments, to replace International Accounting Standard 39, Financial Instruments – Recognition and Measurement ("IAS 39"). IFRS 9 is effective for fiscal years beginning on or after January 1, 2018. Please refer to note 1(k) of the audited financials of the Plans for more information on IFRS 9.

The Plans do not anticipate any impact on IFRS 9 on its financial statements, although the Plans will do comprehensive impact assessment prior to the reporting of financial statements for fiscal year 2018.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 18, Revenue.

The Foundation is in the process of assessing the full impact of IFRS 15 to the financial statements although the Plans does not anticipate any impact on its revenue and cash flows.

Related Party Transactions

The Plans are sponsored by the Foundation. During the year ended December 31, 2017, the Foundation and the Distributor were under a common management as the beneficial shareholders of the Distributor constituted the board members of the Foundation. As described in the recent developments above the Foundation and the Distributor are under common control of Knowledge First Foundation as of January 2, 2018.

Sales charges are deducted from initial subscribers' contributions and are paid by the Foundation to the Distributor. Account maintenance fees and administrative fees are paid by the Plans to the Foundation. The Foundation, in turn, pays these fees to the Distributor for expenses incurred in assisting to administer the Plans.

In 2011, the Foundation entered into an Investment Management Agreement (the "Agreement") with Yorkville, whereby Yorkville has been appointed as a Portfolio Adviser for the Plans. Yorkville is 50% controlled by Heritage Financial and prior to January 2, 2018, was an affiliate of the Distributor. Yorkville is responsible for managing a portion of the Plans' PPNs for which it receives compensation from the issuers of the PPNs, the amounts of which will vary depending on the term and underlying exposure of each instrument. In 2015, the Agreement was amended to appoint them to manage a portion of the Plans' equity portfolio for which it receives the compensation from the Foundation.

Under the terms of the Agreement, the fees charged by Yorkville are less than or equal to fees charged by similar service providers for similar products. The decision to enter this agreement with Yorkville was referred to the Independent Review Committee (the "IRC") of the Plans for its review in accordance with National Instrument 81-107, Independent Review Committee for Investment Funds (NI 81-107) and the IRC approved the Agreement subject to certain conditions. This arrangement is periodically reviewed by the IRC under the provisions of NI 81-107. For the year ended December 31, 2017, Yorkville received $120,000 (2016 - $358,080) from the issuers of the PPNs for their services provided under the Agreement and received $328,947 (2016 - $322,086) from the Foundation for their services in managing a portion of the equity portfolio under the Agreement.

Financial Highlights

The following table shows selected key financial information of the Plans and its financial performance for the past five years. This information is derived from the Plans' audited financial statements for the fiscal years ended December 31.

Heritage Plans

Financial Hightlights (with comparative numbers)

(in $ thousands)	2017[1]	2016[1]	2015[1]	2014[1]	2013[1]
Statement of Financial Position					
Total Assets	$ 2,566,306	$ 2,523,035	$ 2,439,974	$ 2,431,720	$ 2,238,268
Net Assets	2,519,533	2,483,378	2,405,987	2,400,690	2,068,978
% Change in Net Assets	1.5%	3.2%	0.2%	16.0%	1.0%
Statement of Changes in Net Assets Attributable to Subscribers and Beneficiaries*					
Educational Assistance Payments	$ 83,192	$ 80,020	$ 65,301	$ 53,474	$ 48,789
Government grants and interest paid	45,670	37,333	35,020	25,269	19,943
Statement of Comprehensive Income					
Net Investment Income (loss)	$ 77,726	$ 118,303	$ 23,091	$ 181,811	$ (14,205)
Other					
Total number of Units in Plan	3,773	3,737	3,682	3,576	3,497
% Change in Total Number of Units	0.96%	1.49%	2.96%	2.26%	3.01%

* excluding repayment of sales charges

[1] Based on IFRS financial statements

Fees

Administrative Fees

An annual administrative fee of ½ of 1%, comprising the Plans' administrative and processing fees, was paid to the Foundation and administrator of the Plans pursuant to the Education Savings Plan Contract entered with subscribers. This totaled $12,539,515 for the year 2017. The administration of the Plans includes processing and call centre services related to new agreements, payments, government grants (Canada Education Savings Grant, Canada Learning Bond, Quebec Education Savings Incentive, Saskatchewan Advantage Grant for Education Savings and British Columbia Training and Education Savings Grant), plan modifications, cancellations, maturities and Educational Assistance Payments. The Foundation paid the administrative fees to the Distributor for assisting in the administration of the Plans. The annual administrative fee is calculated as ½ of 1% of the sum of contributions less fees, income in subscribers' accounts, as well as government grants, including income earned thereon.

Portfolio Management Fees

An annual portfolio management fee of $2,712,349 for portfolio advisory services was paid to the portfolio advisers for the year ended December 31, 2017. Portfolio advisers provide advisory and discretionary managed account services with respect to purchasing, selling and otherwise dealing in securities and other investments of the Plans.

The portfolio management fee is calculated on the market value of the assets in the Plans at the end of each quarter based on a graduated fee schedule and is paid on a quarterly basis.

Independent Review Committee Fees

For the year ended December 31, 2017, an annual fee of $56,500, excluding taxes was paid to the Independent Review Committee ("IRC") members for services provided and $11,651 was paid for expenses directly related to the IRC. The IRC for Investment Funds is an initiative of the Canadian Securities Administrators and is created pursuant to requirements of National Instrument 81-107 requiring that each publicly offered investment fund have an IRC. Its role is to oversee all decisions involving an actual or perceived conflict of interest between the Foundation or Distributor and the Plans. The Foundation has appointed its IRC as of May 2007, comprised of three members, all of whom are independent of the Foundation and Distributor. The IRC report for 2017 can be found on SEDAR at www.sedar.com.

Past Performance

Past performance of the Plans is set out in the following chart and compound returns table. Investment returns have been calculated using market values and time-weighted cash flows during the relevant periods.

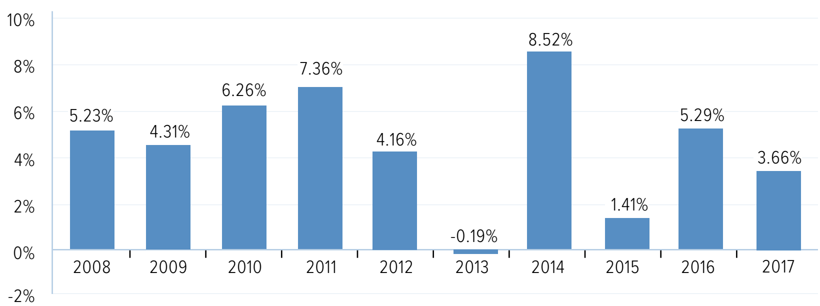
The performance information shown:

- Assumes all income, interest earned, and capital gains distributions are reinvested in the Plans; and
- Is adjusted for the cash flows for administrative and portfolio management fee payments.

Past returns of the Plans do not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following bar chart illustrates the Plans' annual performance in each of the past ten years to December 31.



Annual Compound Returns

The following table illustrates the Plans annual compound returns for the periods shown ended December 31, 2017.

	1 Year[1]	3 Years[2]	5 Years[2]	10 Years[2]
Heritage Plans	3.66%	3.44%	3.70%	4.57%
Benchmark [1&2]	3.91%	4.47%	4.08%	5.00%

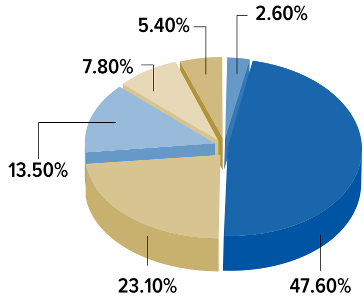
1. Blended return consisting of FTSE TMX Canada Universe All Government Bond Index return of 1.64% [75% of 2.18%] and S&P TSX Composite Index return of 2.27% [25% of 9.10%]
2. FTSE TMX Canada Universe All government Bond index, including the adjusted 1 year index

The FTSE TMX Canada Universe All Government Bond Index is designed to be a broad measure of the Canadian government fixed income market. It represents three main borrower categories: bonds issued by the Government of Canada (including Crown Corporations), Provincial bonds (including provincially guaranteed securities) and Municipal bonds. The Plans' returns are net of fees whereas the FTSE index does not include any fees.

Summary of Investment Portfolio

Portfolio by Category as at December 31, 2017

Sectors	% of Market Value
Federal Bonds	47.60%
Equities	23.10%
Provincial Bonds	13.50%
Corporate Financial Institution Bonds	7.80%
Principal Protected Notes	5.40%
Short-Term Investments	2.60%



Summary of Top Holdings:

The top 25 holdings of the Plans at the end of December 31, 2017 as indicated below. This summary of investment portfolio may change due to its ongoing portfolio rebalancing.

Investment	% of Plans' Portfolio Assets
Canada Government Series WL43 5.75%, 1-Jun-29	17.27%
Canada Government Series G401 0.50%, 1-Feb-19	14.62%
Ontario Province 6.50%, 8-Mar-29	7.31%
Canada Government Series XG49 5.75%, 1-Jun-33	5.32%
Canada Government Series F908 0.50%, 1-Nov-18	3.76%
Canada Housing Trust Series 40 3.80%, 15-Jun-21	2.98%
British Columbia Province 5.7%, 18-Jun-29	2.21%
CIBC HEF Global Risk Controlled Deposit Note, Series 2, 16-Sep-20	2.08%
Hydro Quebec Debentures 11%, 15-Aug-20	1.94%
Canada Housing Trust Series 22 2.35%, 15-Sep-23	1.91%
Canada Housing Trust Series 77 2.35%, 15-Jun-27	1.71%
Royal Bank of Canada Unsecured Series 2.33%, 5-Dec-23	1.54%
Toronto Dominion Bank	1.37%
Royal Bank of Canada 2.03%, 15-Mar-21	1.28%
Bank of Montreal 1.61%, 28-Oct-21	1.19%
Toronto Dominion Bank 1.99%, 23-Mar-22	1.14%
Royal Bank of Canada	1.13%
Bank of Nova Scotia	1.09%
Municipal Finance Authority Debentures 4.60%, 23-Apr-18	1.08%
Manulife Bank of Canada 2.08%, 26-May-22	0.96%
National Bank of Canada Yorkville CDN Growth S-1 Note, 03-Dec-18	0.88%
Manitoba Province Debentures 4.25%, 5-Mar-18	0.83%
Transcanada Corporation Common Shares	0.73%
Canadian Imperial Bank of Commerce Common Shares	0.72%
Pembina Pipelines Corporation Common Shares	0.71%
Top 25 holdings as % of Plans' Portfolio Assets	**75.76%**

THIS PAGE WAS INTENTIONALLY LEFT BLANK.

Management's Responsibility For Financial Reporting

The accompanying financial statements of the Heritage Plans (the "Plans") have been prepared by the management and approved by the Board of Directors of the Heritage Educational Foundation. Management is responsible for the information and representations contained in these financial statements. The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Heritage Educational Foundation, through Heritage Education Funds Inc. (the "Distributor"), a subsidiary controlled as of January 1, 2018 by Knowledge First Foundation, administers the Plans. The Distributor maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. The significant accounting policies, which management believes are appropriate for the Plans, are described in Note 1 to the financial statements. KPMG LLP are the external auditors of the Plans. They have audited the financial statements in accordance with International Financial Reporting Standards to enable them to express to the plan holders their opinion on the financial statements. Their report is set out below.

Toronto, Canada	R. George Hopkinson
March 8, 2018	President & CEO

Independent Auditors' Report

To the Board of Directors of Heritage Educational Foundation

We have audited the accompanying financial statements of Heritage Plans, which comprise the statements of financial position as at December 31, 2017 and 2016, the statements of comprehensive income, changes in net assets attributable to subscribers and beneficiaries and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Heritage Plans as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 8, 2018
Toronto, Canada

Heritage Plans

Statements of Financial Position

December 31, 2017 and 2016

		2017		2016
Assets				
Cash and cash equivalents	$	8,999,794	$	16,233,769
Investments, at fair value (note 3)		2,546,014,879		2,492,521,464
Accrued interest		11,290,972		14,280,250
		2,566,305,645		2,523,035,483
Liabilities				
Accounts payable		699,000		675,000
Due to Heritage Educational Foundation (note 8)		4,280,675		1,273,494
Unclaimed subscribers' contributions (note 9)		39,978,786		35,279,559
Sales charges obligation (note 10)		1,813,757		2,426,960
		46,772,218		39,655,013
Net assets attributable to subscribers and beneficiaries	$	2,519,533,427	$	2,483,380,470
Net assets attributable to subscribers and beneficiaries represented by:				
Accumulated income	$	507,287,399	$	526,658,553
Subscribers' contributions (note 9)		1,394,997,025		1,361,524,260
Government grant contributions		518,282,068		495,598,229
Government grant interest		86,112,847		85,852,710
Sales charges refund (note 6)		12,854,088		13,746,718
	$	2,519,533,427	$	2,483,380,470

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

On behalf of the Board of Directors of Heritage Educational Foundation

Don Hunter
Director

David Forster
Director

Heritage Plans

Statements of Comprehensive Income

Years ended December 31, 2017 and 2016

	2017	2016
Income (loss):		
Interest income	$ 38,032,793	$ 36,803,567
Dividend income	21,368,094	21,299,988
Realized gains, net	36,411,575	22,973,765
Change in unrealized gains (losses)	(5,924,347)	51,731,171
Other	119,421	208,813
	90,007,536	133,017,304
Expenses:		
Administrative fees	12,539,515	12,680,509
Portfolio management fees	2,712,349	2,728,495
Independent Review Committee fees	71,731	62,326
Other	451,705	319,294
Trustee fees	178,723	–
	15,954,023	15,790,624
Net investment income	74,053,513	117,226,680
Decrease in sales charges obligation (note 10)	613,203	1,078,687
Increase in net assets attributable to subscribers and beneficiaries from operations	$ 74,666,716	$ 118,305,367

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

Heritage Plans

Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries

Years ended December 31, 2017 and 2016

	2017	2016
Net assets attributable to subscribers and beneficiaries, beginning of year	$ 2,483,380,470	$ 2,405,987,497
Increase in net assets attributable to subscribers and beneficiaries:		
Subscribers' contributions received, net of sales charges and fees (note 9)	184,372,277	186,995,855
Government grant transactions:		
Received	50,932,385	51,021,510
Transferred in	921,201	969,371
Interest transferred in	7,456	49,146
Quebec Education Savings Incentive interest received	268	292
Interest from other plans	435,538	399,515
Plan adjustments received from Distributor	3,662,833	–
Amounts re-allocated to plans available for Educational Assistance Payments	3,058,870	–
	243,390,828	239,435,689
Decrease in net assets attributable to subscribers and beneficiaries:		
Refund of subscribers' contributions, net of terminations and reinstatements	150,899,511	159,628,016
Educational Assistance Payments:		
Group Plan (note 7)	64,186,180	65,839,225
Self-Determined Plan (note 7)	19,005,572	14,180,369
Repayment of sales charges (notes 5 and 6)	2,143,607	3,366,753
Government grant transactions:		
Paid	27,741,507	24,486,054
Transferred out	1,428,239	1,245,981
Interest transferred out	178,858	213,344
Interest	8,649,422	7,494,576
Net gains on grants	3,997,470	3,603,449
Grant income paid to Designated Educational Institutions	3,674,221	290,316
	281,904,587	280,348,083
Net decrease in net assets attributable to subscribers and beneficiaries from the above items	(38,513,759)	(40,912,394)
Increase in net assets attributable to subscribers and beneficiaries from operations	74,666,716	118,305,367
Net assets attributable to subscribers and beneficiaries, end of year	$ 2,519,533,427	$ 2,483,380,470

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

Heritage Plans

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Increase in net assets attributable to subscribers and beneficiaries from operations	$ 74,666,716	$ 118,305,367
Items not involving cash:		
Change in unrealized losses (gains)	5,924,347	(51,731,171)
Realized gains	(36,411,575)	(22,973,765)
Amortization of bond premiums/discounts	24,986,401	19,644,251
Change in non-cash operating items:		
Decrease (increase) in accrued interest	2,989,278	(401,221)
Decrease in sales charges obligation	(613,203)	(1,078,687)
Increase in due to Heritage Educational Foundation	3,007,181	820,857
Increase in unclaimed subscribers' contributions	4,699,227	5,785,472
Increase in accounts payable	24,000	141,000
Amounts re-allocated to plans available for Educational Assistance Payments	3,058,870	–
Purchases of investments	(3,159,617,734)	(4,667,410,406)
Proceeds from sales of investments	3,111,625,146	4,655,370,979
	34,338,654	56,472,676
Financing activities:		
Subscribers' contributions, net of refunds	33,472,765	27,367,839
Government grants and interest, including transfer-ins	52,295,885	52,439,793
Plan adjustments received from Distributor	3,662,833	–
Payment of Educational Assistance Payments, interest and refund of sales charges to subscribers and beneficiaries	(85,335,359)	(83,386,347)
Government grants and interest paid to beneficiaries and transfer-outs	(41,994,532)	(37,043,363)
Grant income paid to Designated Educational Institutions	(3,674,221)	(290,316)
	(41,572,629)	(40,912,394)
Increase (decrease) in cash and cash equivalents	(7,233,975)	15,560,282
Cash and cash equivalents, beginning of year	16,233,769	673,487
Cash and cash equivalents, end of year	$ 8,999,794	$ 16,233,769
Supplemental cash flow information:		
Interest received	$ 65,583,165	$ 56,280,981
Interest paid (received)	(517,553)	91,549

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

Heritage Plans

Schedule of Investment Portfolio

December 31, 2017

	Interest rate	Maturity date	Face value	Amortized cost	Fair value
Government - federal					
Canada Government Bond	0.50%	11/01/2018	$ 96,440,000	$ 95,891,807	$ 95,676,292
Canada Government Bond	0.50%	02/01/2019	376,410,000	372,743,806	372,223,568
Canada Housing Trust Bond	3.80%	06/15/2021	71,665,000	75,768,491	75,957,232
Canada Housing Trust Bond	2.35%	09/15/2023	48,175,000	49,715,600	48,519,692
Canada Housing Trust Bond	2.35%	06/15/2027	43,750,000	42,967,819	43,577,144
Canada Government Bond	5.75%	06/01/2029	321,475,000	445,911,973	439,763,977
Canada Government Bond	5.75%	06/01/2033	92,260,000	136,486,750	135,375,220
Government - provincial					
Manitoba Province Debentures	4.25%	03/05/2018	21,065,000	21,062,385	21,176,771
Municipal Finance Authority	4.60%	04/23/2018	27,320,000	27,316,748	27,594,457
Ontario Province Debentures	4.40%	06/02/2019	2,685,000	2,704,176	2,784,431
Hydro Québec Debentures	11.00%	08/15/2020	40,135,000	45,011,630	49,308,777
Ontario Province CDA	6.50%	03/08/2029	136,745,000	176,119,939	186,106,526
British Columbia Province Debentures	5.70%	06/18/2029	43,325,000	47,596,227	56,146,947
Corporate financial institution bonds					
National Bank of Canada	1.74%	03/03/2020	14,980,000	14,980,000	14,823,804
Royal Bank of Canada	2.03%	03/15/2021	32,890,000	32,881,999	32,527,684
Bank of Montreal	1.61%	10/28/2021	31,225,000	31,223,806	30,282,224
Toronto Dominion Bank	1.99%	03/23/2022	29,550,000	29,550,000	29,002,586
Manulife Bank of Canada	2.08%	05/26/2022	25,000,000	25,000,000	24,372,400
Royal Bank of Canada	2.33%	12/05/2023	39,925,000	39,925,000	39,220,364
Nova Scotia Bank	2.29%	06/28/2024	17,490,000	17,489,026	17,039,842
Toronto Dominion Bank	3.23%	07/24/2024	12,000,000	12,435,691	12,383,232
Short-term investments					
Royal Bank of Canada	–	01/11/2018	900,000	899,705	899,705
Canada Treasury Bills	–	01/11/2018	2,207,486	2,207,486	2,207,486
Canada Treasury Bills	–	01/25/2018	724,168	724,168	724,168
Canada Treasury Bills	–	02/08/2018	9,859,861	9,859,861	9,859,861
Canada Treasury Bills	–	05/03/2018	53,695,000	53,491,657	53,491,657
Total fixed income and short-term investments			$ 1,591,896,515	$ 1,809,965,750	$ 1,821,046,047

	Interest rate	Maturity date	Face value	Cost	Fair value
Principal protected notes[1]					
JP Morgan Bank CDA Note linked ETF	–	04/02/2018	$ 6,100,000	$ 6,100,000	$ 6,234,810
Bank of Nova Scotia Yorkville CDN S-1	–	08/16/2018	15,048,000	15,048,000	16,849,246
JP Morgan Bank CDA Zero Coupon Notes	–	09/28/2018	8,100,000	8,100,000	9,565,290
National Bank of Canada Yorkville CDN Growth S-1	–	12/03/2018	20,200,000	20,200,000	22,520,980
JP Morgan Bank CDA Zero Coupon PPN Rest	–	03/14/2019	5,200,000	5,200,000	6,849,960
JP Morgan Bank CDA Principal Protected Linked S&P/TSX60	–	03/20/2019	5,200,000	5,200,000	6,004,440
JP Morgan CDA PPN Linked to SP 500	–	10/31/2019	16,130,000	16,130,000	16,423,566
CIBC HEF Global Risk Controlled Notes, Series 2	–	09/16/2020	46,000,000	46,000,000	52,872,400
Total principal protected notes			$ 121,978,000	$ 121,978,000	$ 137,320,692

[1] These principal protected notes are non-interest bearing and provide a payment on maturity that is based on the performance of underlying assets and indices.

Heritage Plans

Schedule of Investment Portfolio (continued)

December 31, 2017

Shares	Description	Average cost	Fair value
	Equities		
2,100	Agnico-Eagle Mines Ltd Common Shares	$ 102,128	$ 121,884
71,700	Agrium Inc.	9,159,474	10,359,216
8,000	Air Canada Variable Voting Shares Common Shares	190,005	206,960
554,200	Algonquin Power & Utilities Corporation Common Shares	6,358,502	7,780,968
93,480	Alimentation Couche-Tard Inc Sub-Voting	5,265,485	6,131,353
141,500	Allied Properties Real Estate Investment Trust Units	4,915,617	5,944,415
404,000	Altagas Ltd Common Shares	14,241,114	11,550,360
1,000	Altus Group Ltd. Common Shares	29,451	36,900
303,000	ARC Resources Common Shares	6,345,858	4,469,250
16,200	Atco Ltd CL ‘I’ N/V	662,658	728,514
9,700	ATS Automation Tooling Systems Inc.	152,513	150,641
131,000	Bank of Montreal	11,116,559	13,177,290
343,050	Bank of Nova Scotia	22,669,696	27,828,216
13,600	Barrick Gold Corporation	344,178	247,248
102,100	BCE Inc. Common Shares New	5,513,556	6,161,735
145,000	BMO equal Weight US Healthcare CAD Hedge Index	6,060,650	7,164,450
12,100	Boardwalk Real Estate Investment Trust	687,390	520,058
25,100	Boyd Group Income Fund Trust Units	1,651,587	2,527,570
145,650	Brookfield Property Partners LP Unit	4,051,482	4,050,525
165,650	Brookfield Renewable Partners LP Units	6,259,705	7,257,125
289,300	CAE Inc.	4,422,371	6,746,476
285,700	Canadian Apartment Prop REIT Trust Unit	8,458,098	10,645,182
149,100	Canadian Imperial Bank of Commerce Common Shares	15,239,161	18,261,768
37,500	Canadian National Railway Co. Common Shares	3,157,817	3,886,875
236,250	Canadian Real Estate Investment Trust - Unit	10,346,083	10,924,200
25,500	Canadian Tire Corporation Ltd Class A Non-Voting	3,815,921	4,179,450
59,600	Canadian Utilities Ltd. N/V CL A Spec	2,124,132	2,226,656
31,000	Canadian Western Bank	1,183,013	1,215,510
44,300	Capital Power Corporation Common Shares	1,036,942	1,084,907
6,500	Cascades Inc.	110,011	88,530
19,300	CCL Industries Inc. CL B N/V	1,173,423	1,120,751
156,300	Canadian Natural Resources Ltd.	6,095,102	7,020,996
179,000	Cenovus Energy Inc. Common Shares	2,285,991	2,054,920
37,200	CGI Group Inc. CL A Sub VTG	2,363,889	2,540,760
373,000	Chartwell Retirement Residences Trust Unit	4,472,361	6,061,250
243,800	Chemtrade Logistics Income Fund Units	4,401,901	4,724,844
66,600	CI Financial Inc. Common Shares	2,003,762	1,980,018
241,050	Cineplex Inc. Common Shares	11,334,658	8,988,754
100	Cogeco Communications Inc. Sub Voting Shares	8,719	8,640
22,300	Cominar Real Estate Investment Trust Units	402,502	320,451
4,000	Constellation Software Inc. Common Shares	1,949,797	3,048,080
93,900	Crombie Real Estate Investment Trust Unit	1,234,675	1,294,881

Heritage Plans

Schedule of Investment Portfolio (continued)

December 31, 2017

Shares	Description	Average cost	Fair value
	Equities (continued)		
71,500	Descartes Systems Group Inc. Common Shares	1,582,001	2,555,410
5,700	Detour Gold Corporation Common Shares	75,917	84,246
6,400	Dollarama Inc. Common Shares	473,433	1,005,120
13,600	Dream Global Real Estate Investment Trust Units	165,933	166,056
5,000	Dream Office Real Estate Investment Trust Units Series A	131,596	110,600
161,600	Emera Inc.	6,903,827	7,587,120
107,400	Empire Company Ltd. Non-Voting Class A Shares	2,895,271	2,625,930
271,600	Enbridge Inc. Common Shares	14,490,052	13,351,856
11,200	Enbridge Income Fund Holdings Inc. Common Shares	331,732	333,312
140,000	Encana Corporation Common Shares	1,855,504	2,347,800
28,800	Endeavour Mining Corporation Common Shares New	664,708	736,992
17,500	Enercare Inc. Common Shares	355,254	358,575
1,900	Enghouse Systems Ltd. Common Shares	105,940	116,527
51,900	Extendicare Inc. Common Shares	428,898	474,366
2,300	Fairfax Financial Holdings Ltd. Sub VTG	1,616,306	1,538,125
18,400	First Capital Realty Inc. Common Shares	366,618	380,512
76,700	Gildan Actiwear Inc. Common Shares	3,129,640	3,114,787
9,400	Goldcorp Inc. Common Shares	177,562	150,682
30,500	Granite REIT Stapled Trust - Trust Units	1,351,989	1,499,685
11,200	Great Canadian Gaming Corporation Common Shares	271,235	377,888
67,000	Great West Lifeco Inc.	2,410,046	2,349,020
274,400	H&R Real Estate Investment Trust Stapled Unit	6,156,641	5,852,952
132,100	Imperial Oil Limited Common Shares	5,857,791	5,182,283
69,300	Innergex Renewable Energy Inc. Common Shares	807,295	997,920
167,300	Intact Financial Corporation Common Shares	15,324,106	17,548,097
90,700	Inter Pipeline Limited Common Shares	2,648,856	2,360,921
83,000	Jean Coutu Group (PJC) Inc. CL A	1,897,658	2,024,370
292,950	Keyera Corp. Common Shares	11,707,264	10,367,500
5,100	Killam Apartment REIT Trust Unit	72,144	72,369
86,100	Laurentian Bank of Canada Common Shares	4,233,951	4,855,179
75,300	Loblaw Companies Ltd.	4,978,674	5,136,966
128,900	Lundin Mining Corporation Common Shares	1,210,760	1,075,026
373,500	Manulife Financial Corporation Common Shares	8,303,281	9,793,170
51,100	Maple Leaf Foods Inc. (New)	1,447,327	1,828,869
39,700	Maxar Technology	3,405,030	3,209,348
53,200	Metro Inc. Common Shares	1,855,585	2,141,300
4,700	Mullen Group Ltd. Common Shares	93,946	73,743
9,300	National Bank of Canada	557,347	583,017
21,400	New Flyer Industries Inc. Common Shares	888,141	1,155,600
27,800	Norbord Inc. Common Shares New	1,150,242	1,182,056
278,500	North West Company Inc. (The) Common Shares	7,442,535	8,360,570
326,650	Northland Power Inc. Common Shares	5,523,955	7,620,745
2,200	Northview Apartment Real Estate Investment Trust Unit	54,166	54,802
184,000	Nuvista Energy Ltd Common Shares	1,462,211	1,475,680

Heritage Plans

Schedule of Investment Portfolio (continued)

December 31, 2017

Shares	Description	Average cost	Fair value
	Equities (continued)		
31,800	Onex Corp Sub Voting	2,497,858	2,928,144
93,900	Open Text Corporation Common Shares	2,757,589	4,196,391
84,000	Parex Resources Inc. Common Shares	1,436,350	1,524,600
113,200	Parkland Fuel Corporation Common Shares	2,641,008	3,037,156
51,200	Pason Systems Inc. Common Shares	1,039,757	927,232
397,700	Pembina Pipeline Corp Common Shares	15,055,980	18,099,327
6,700	Peyto Exploration & Development Corp Com New	209,638	100,701
15,000	Potash Corp of Saskatchewan Inc.	556,254	386,550
200,900	Power Corporation Canada Sub VTG	6,367,399	6,501,124
32,600	Power Financial Corporation	1,118,560	1,124,048
10,800	Premium Brands Holdings Corporation Common Shares	594,941	1,113,264
144,400	Quebecor Inc. CL B SVS	2,446,373	3,419,392
48,000	Restaurant Brands International Inc. Common Shares	2,366,930	3,708,960
323,300	Riocan Real Estate Investment Trust Unit	8,679,208	7,875,588
36,000	Ritchie Brothers Auctioneers Common Shares	1,253,222	1,354,320
213,970	Rogers Communications Inc. CLB NV	11,143,161	13,700,499
279,350	Royal Bank of Canada	22,390,888	28,675,277
8,000	Russel Metals Inc.	168,820	232,480
62,500	Saputo Inc.	2,132,739	2,823,125
441,050	Shaw Communications Inc. CL B Non VTF	11,694,432	12,653,724
27,200	Shawcor Ltd. New Common Shares	903,952	745,008
31,800	Smartcentres Real Estate Investment Trust Units	971,063	981,348
72,700	SNC-Lavalin Group Inc. Common Shares	3,798,696	4,148,143
28,500	SSR Mining	254,917	314,925
10,400	Stella-Jones Inc.	489,892	524,264
142,400	Sun Life Financial Inc.	5,984,932	7,387,712
98,700	Suncor Energy Inc. New Common Shares	4,007,500	4,555,005
17,400	Superior Plus Corporation Common Shares	191,359	206,190
316,600	Telus Corporation Common Shares	13,747,897	15,070,160
8,700	TFI International Inc. Common Shares	241,684	285,621
61,950	Thomson Reuters Corporation	3,159,201	3,394,241
25,600	Torex Gold Resources Common Shares New	684,848	305,408
54,300	Toromont Industries Ltd.	1,981,521	2,991,930
472,050	Toronto Dominion Bank	26,038,151	34,766,483
304,750	TransCanada Corporation Common Shares	15,603,795	18,644,605
315,000	Trican Well Services Co Ltd	1,451,583	1,285,200
19,100	Uni-Select Inc.	605,232	542,058
135,800	Vermilion Energy Inc. Common Shares	6,675,247	6,200,628

Heritage Plans

Schedule of Investment Portfolio (continued)

December 31, 2017

Shares	Description	Average cost	Fair value
	Equities (continued)		
56,400	Waste Connections Inc. Common Shares	3,676,584	5,028,624
102,700	WestJet Airlines VAR VT & Com VT Shares	2,530,240	2,705,118
28,500	Weston George Ltd.	3,050,053	3,111,060
171,650	West Shore Terminals Inv. Corp Common Shares	4,701,266	4,505,813
649,910	Whitecap Resources Inc. Common Shares New	5,729,316	5,810,195
11,700	WSP Global Inc. Common Shares	526,043	700,830
Total equities		$ 523,816,384	$ 587,648,140
Total Investment Portfolio		$2,455,760,134	$2,546,014,879

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

Heritage Plans

Notes to Financial Statements

Years ended December 31, 2017 and 2016

The Heritage Plans (the "Plans") were established by the Heritage Educational Foundation (the "Foundation"), a not-for-profit corporation incorporated under the laws of Canada without share capital. The Foundation was incorporated and organized on December 1, 1986 and continued under the Canada Not-for-profit Corporations' Act on July 28, 2014. The Plans are distributed by Heritage Education Funds Inc. (the "Distributor") a subsidiary that was controlled by Heritage Financial Group Limited ("Heritage Financial") until January 1, 2018 (refer to subsequent event, note 14). During the year ended December 31, 2017, the Foundation and the Distributor were under common management as the beneficial shareholders of the Distributor constituted the board members of the Foundation. As described in subsequent event note 14, the Foundation and the Distributor are under common control of Knowledge First Foundation as of January 1, 2018.

The Plans, the first of which was established on December 19, 1986, provide a savings vehicle for parents, grandparents and others ("subscriber" or "subscribers") to save for a designated child's (the "beneficiary") post-secondary education. The subscriber enters into an Education Savings Plan Contract (the "Contract") in accordance with the prospectus (the "Prospectus") with the Foundation pursuant to which the subscriber subscribes for units in the Plans. The subscribers' contributions and the government grants are invested in government securities, guaranteed mortgages, mortgage-backed securities where all of the underlying mortgages are guaranteed mortgages, cash equivalents, guaranteed investment certificates ("GICs") and other evidences of indebtedness of Canadian financial institutions, where such securities of the financial institutions have an approved credit rating. The income of the Plans is invested in fixed income securities as described above, corporate bonds, provided those corporate bonds have a minimum credit rating of BBB or equivalent, as rated by a designated rating organization; and may be invested in exchange-traded equity securities listed on a stock exchange in Canada, such as the TSX. Unless otherwise defined herein, all capitalized terms have the meanings given to them in the Contract and the Prospectus dated August 4, 2017. The address of the Plans' registered office is 700-2005 Sheppard Avenue East, Toronto, M2J 5B4, Ontario, Canada.

The financial statements were authorized for issue by the Board of Directors of Heritage Educational Foundation on March 8, 2018.

1. Significant accounting policies:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), which are accounted for and presented at fair value.

These financial statements are presented in Canadian dollars, which is the Plans' functional currency.

(a) Financial instruments:

(i) Recognition, initial measurement and classification:

Financial assets and financial liabilities at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss. Financial assets or financial liabilities not recognized at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

1. **Significant accounting policies (continued):**

(a) Financial instruments (continued):

(i) Recognition, initial measurement and classification (continued):

The Plans' investments, including principal protected notes ("PPNs"), have all been designated at FVTPL.

Net assets attributable to subscribers and beneficiaries, including all components within, are classified as a financial liability given the Plans' obligation to settle or redeem the units issued by the Plan to subscribers and beneficiaries with cash.

All other financial assets and financial liabilities are measured at amortized cost, and are classified as loans and receivables and other financial liabilities, respectively.

(ii) Fair value measurement:

When available, the Plans measure the fair value of a financial instrument using the quoted price in an active market for that instrument. The Plans measure instruments quoted in an active market at the closing sale price.

If there is no quoted price in an active market, then the Plans use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the anticipated factors that market participants would take into account in pricing a transaction.

The Plans invest in certain debt obligations issued by Canadian regulated financial institutions that are commonly referred to as PPNs. PPNs have embedded components that change the risk/return profile of the security and whose returns are based on indices or underlying assets rather than typical interest payments or yield. PPNs are carried at their estimated fair value determined using pricing models developed and maintained by the PPN issuers.

Net assets attributable to subscribers and beneficiaries are measured at the distribution amount and are considered to be a residual interest in the assets of the Plans after deducting all of its liabilities.

The fair values of unclaimed subscribers' contributions are not readily determinable. The sales charges obligation is carried at fair value according to the valuation methodology described in note 10.

(iii) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL.

Heritage Plans

1. Significant accounting policies (continued):

(b) Investment transactions and income recognition:

Investment transactions are recorded on a settlement date basis. Realized gains or losses and changes in unrealized gains or losses are recognized in the statements of comprehensive income in the year when such gains or losses occur.

Interest and investment income is recorded on an accrual basis and includes amortization of any premiums or discounts on the purchase of the investments using the effective interest method.

The cost of investments is determined using the average cost method. Average cost includes amortization of premiums and discounts on the Plans' fixed income securities. Realized gains or losses from investments transactions are calculated on an average cost basis.

(c) Subscribers' contributions:

Subscribers' contributions reflect all amounts received from the subscribers and do not include any amounts receivable on subscribed units. Contributions to the Plans are made over a maximum period of 18 years. Subscribers may redeem their plan units at any time.

(d) Fees and insurance premiums:

Sales charges, account maintenance fees and insurance premiums are deducted from the initial subscribers' contribution and subsequent contributions and reflected as part of net contributions. Administration fees are deducted from the Plans' investment income in accordance with the Prospectus.

(e) Government contributions:

Canada Education Savings Grant ("CESG") contributions represent the amount of federal government grants received by the Plans pursuant to the CESG program. The amount of grant received under the program is 20% of annual contributions made into a Registered Education Savings Plan ("RESP") and has an annual maximum of $500 per eligible beneficiary up to December 31st of the year in which the beneficiary turns 17 years of age. An additional CESG amount may be available based on the net family income of the beneficiary and provides for an additional grant of 20% on the first $500 of annual contributions for beneficiaries whose annual family net income does not exceed $45,916* and 10% on the first $500 of annual contributions for beneficiaries whose annual family net income is more than $45,916* but not more than $91,831*. The cumulative lifetime maximum of all CESG is $7,200 per eligible beneficiary.

The Government of Canada will provide a Canada Learning Bond ("CLB") in the amount of $500 for any child born on or after January 1, 2004 together with $25 to help cover the cost of opening an RESP. In addition, the Primary Caregiver ("PCG") must be eligible to receive the Canada Child Benefit ("CCB"). Additional grants of $100 a year will be made automatically for the beneficiary up to age 15, for each year the family qualifies for the CCB. The total CLB available for a beneficiary can amount to $2,000. The PCG must apply for the CCB within 10 years of the beneficiary's birth in order to be eligible for the full CLB entitlement of $2,000.

* This amount is indexed each year based on the rate of inflation.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

1. Significant accounting policies (continued):

(e) Government contributions (continued):

For residents of Québec, the provincial government provides the Québec Education Savings Incentive ("QESI"), which applies to contributions made on or after February 21, 2007 into the RESP, where a child named as a beneficiary is a resident of Québec. The basic credit is 10% of the net annual contribution to a maximum of $250 per year per eligible beneficiary. An additional QESI amount may be available based on the net family income of the beneficiary and provides for an additional grant of 10% on the first $500 of annual contributions for beneficiaries whose annual family net income does not exceed $42,705* and 5% on the first $500 of annual contributions for beneficiaries whose annual family net income is more than $42,705* but not more than $85,405*. The total lifetime maximum is $3,600 per eligible beneficiary.

The Saskatchewan Advantage Grant for Education Savings ("SAGES") is a grant from the Government of Saskatchewan offered to each resident beneficiary who is 17 years of age or under. The SAGES amount is 10% of annual contributions made into an RESP on or after January 1, 2013 and has an annual maximum of $250 per eligible beneficiary. The cumulative lifetime maximum for the SAGES is $4,500 per eligible beneficiary. On March 22, 2017, the government of Saskatchewan announced a temporary suspension of SAGES payments into RESP effective January 1, 2018. This means that SAGES will not be paid on contributions made to an RESP after December 31, 2017.

The government of British Columbia offers the British Columbia Training and Education Savings Grant ("BCTESG") to each resident beneficiary born on or after January 1, 2006. After the beneficiary turns six years of age, the Province of British Columbia will deposit $1,200 into the beneficiary's RESP. To qualify for the BCTESG, a subscriber must open the RESP and complete an application for the BCTESG within the following timeframes: (i) prior to August 15, 2019 for children born in 2006, (ii) prior to August 15, 2018 for children born in 2007 and 2008, (iii) prior to August 15, 2018 for children born between January 1, 2009 and August 15, 2009 or (iv) prior to the beneficiary's ninth birthday for children born on or after August 16, 2009. The beneficiary and the custodial parent/legal guardian must be both residents of British Columbia when applying for the BCTESG and the application must be made between the beneficiary's sixth and ninth birthday. No matching or additional contributions are required.

All grants received by the Plans with respect to a beneficiary are invested by the Plans and will ultimately be paid to the beneficiary in increments if the beneficiary becomes entitled to receive an Educational Assistance Payment ("EAP")/Scholarship Payment. Under various circumstances, including the case where a beneficiary does not become eligible for receipt of an EAP, the government grants must be repaid to the applicable government. After maturity, if a beneficiary does not enroll in eligible studies, the Plans are required to repay the grant, which are attributable to that beneficiary. Earnings on such grants may be withdrawn in cash or rolled over into a registered retirement savings plan in accordance with the provisions of the *Income Tax Act* (Canada). Government grants and accumulated income, therefore, are included in the net assets attributable to subscribers and beneficiaries.

(f) Income taxes:

The Plans are exempt from income taxes under Section 146.1 of the *Income Tax Act* (Canada).

Heritage Plans

1. Significant accounting policies (continued):

(g) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit with RBC Investor & Treasury Services.

(h) Recently issued standards not yet adopted:

IFRS 9, Financial Instruments ("IFRS 9"):

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014, and will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The new single principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Management has completed the assessment of the impact of the adoption on the Plans and does not anticipate any measurement impact on the net assets attributable to subscribers and beneficiaries. Management continues to assess the potential impact on the presentation and disclosures in the Plans financial statements.

2. Critical accounting estimates and judgments:

In preparing these financial statements, management of the Foundation has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The most significant accounting judgments and estimates that the Plans have made in preparing the financial statements are as follows:

Measurement of the estimated fair value of PPNs:

PPNs are valued using pricing models that use both observable and unobservable inputs requiring estimates and assumptions to be made. Changes in assumptions about these factors could affect the reported fair values of the PPNs. Refer to note 3 for more information on the fair value measurement of the Plans' financial instruments.

3. Investments:

The Plans' accounting policy on fair value measurements is discussed in note 1.

Heritage Plans

3. Investments (continued):

Valuation models:

PPNs are valued using external pricing models. The Plans rely on the issuers' valuation models, which are typically developed from recognized valuation methodology. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Assumptions and inputs used in valuation models include risk-free and benchmark interest rates, credit spreads, discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The assumptions and inputs used in the issuers' valuation model are not available to the Foundation or the portfolio managers at December 31, 2017 and December 31, 2016. Accordingly, quantitative information regarding these inputs has not been disclosed.

Although the Plans believe its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Reasonable alternative assumptions could also have an impact on the net assets attributable to subscribers and beneficiaries.

Valuation framework:

The Plans have an established control framework with respect to the measurement of fair values. This framework includes the review and analysis of third-party information used in measuring fair values. When third-party information, such as PPN issuers' price, is used to measure fair value, then the Foundation assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes verifying that the issuer is approved by the Plans for use in pricing the relevant type of financial instrument; understanding and analyzing monthly fair value variances and performing quarterly performance reviews of the PPNs with portfolio managers.

Fair value hierarchy - financial instruments measured at fair value:

The Plans measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the assets that are based on unobservable market data.

The Plans recognize transfers between levels of the fair value hierarchy as at the end of the reporting period during which change has occurred.

The tables below analyze financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statements of financial position. All fair value measurements below are recurring.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

3. Investments (continued):

The face value, cost/amortized cost and fair value of investments by contractual maturity are as follows:

December 31, 2017:

Equities	Cost	Fair value
Level 1		
Equities	$ 523,816,384	$ 587,648,140

Fixed income	Yield	Face value	Amortized cost	Fair value
Level 2				
Government of Canada and federally guaranteed bonds:				
Due within one year	1.46%	$ 96,440,000	$ 95,891,807	$ 95,676,292
Due in one to five years	1.61%	448,075,000	448,512,297	448,180,801
Due after five years	2.15%	505,660,000	675,082,142	667,236,032
		1,050,175,000	1,219,486,246	1,211,093,125
Provincial and provincially guaranteed bonds:				
Due within one year	1.29%	48,385,000	48,379,133	48,771,228
Due in one to five years	2.00%	42,820,000	47,715,806	52,093,208
Due after five years	2.72%	180,070,000	223,716,166	242,253,473
		271,275,000	319,811,105	343,117,909
Corporate financial institution bonds:				
Due in one to five years	2.46%	133,645,000	133,635,805	131,008,698
Due after five years	2.68%	69,415,000	69,849,717	68,643,438
		203,060,000	203,485,522	199,652,136
Short-term investments	0.82%	67,386,515	67,182,877	67,182,877
		$ 1,591,896,515	$1,809,965,750	$1,821,046,047

	Face value	Cost	Fair value
Level 3			
PPNs:			
Mature within one year	$ 49,448,000	$ 49,448,000	$ 55,170,326
Mature in one to five years	72,530,000	72,530,000	82,150,366
	$ 121,978,000	$ 121,978,000	$ 137,320,692
Portfolio total			$2,546,014,879

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

3. Investments (continued):

The face value, cost/amortized cost and fair value of investments by contractual maturity are as follows:

December 31, 2016:

Equities	Cost	Fair value
Level 1		
Equities	$ 585,821,524	$ 630,016,762

Fixed income	Yield	Face value	Amortized cost	Fair value
Level 2				
Government of Canada and federally guaranteed bonds:				
Due in one to five years	1.34%	$ 115,355,000	$ 122,659,053	$ 125,251,448
Due after five years	2.16%	337,740,000	513,886,604	487,601,318
		453,095,000	636,545,657	612,852,766
Provincial and provincially guaranteed bonds:				
Due within one year	0.81%	44,895,000	44,913,428	45,936,938
Due in one to five years	1.25%	91,205,000	97,942,675	106,834,374
Due after five years	2.88%	475,965,000	593,318,954	613,379,375
		612,065,000	736,175,057	766,150,687
Corporate financial institution bonds:				
Due in one to five years	1.90%	126,145,000	126,128,960	126,080,343
Due after five years	2.47%	51,925,000	52,427,063	52,195,317
		178,070,000	178,556,023	178,275,660
Short-term investments	0.35%	43,639,000	43,599,571	43,599,571
		$1,286,869,000	$1,594,876,308	$1,600,878,684

	Face value	Cost	Fair value
Level 3			
PPNs:			
Mature in one to five years	$ 215,656,000	$ 215,656,000	$ 261,626,018
Portfolio total			$2,492,521,464

Heritage Plans

3. Investments (continued):

The reconciliation of financial instruments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	2017	2016
Balance, beginning of year	$ 261,626,018	$ 270,250,689
Realized gains	44,291,656	10,751,329
Change in unrealized gains	(30,627,327)	–
Proceeds from maturity	(137,969,655)	(19,376,000)
Balance, end of year	$ 137,320,692	$ 261,626,018

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

4. Subscribers' contributions and subscribers' accumulated income:

Units acquired by year of eligibility, as well as accumulated income and Subscribers' contributions are as follows:

Year of eligibility	Active and matured units, 2016	Purchased units[1]	Forfeited units[2]	Year of eligibility changes	Active and matured units, 2017	Accumulated income[3]	Subscribers' contributions
Prior to 2017	311,013	–	(101,128)	(22,903)	186,982	$ 56,121,240	$ 14,469,496
2017	175,347	–	(38,546)	19,898	156,699	56,676,218	11,507,537
2018	194,570	7,701	–	(18,596)	183,675	65,271,780	32,731,297
2019	183,576	1,508	(2,655)	21,127	203,556	68,562,010	170,173,908
2020	204,761	55	(823)	154	204,147	55,341,619	152,808,293
2021	204,826	840	(1,061)	16	204,621	45,619,175	139,580,862
2022	201,640	1,179	(1,552)	168	201,435	37,334,162	127,756,224
2023	197,535	1,638	(1,597)	38	197,614	31,001,702	119,414,324
2024	197,635	1,958	(2,593)	45	197,045	25,649,050	109,617,564
2025	201,657	2,673	(2,813)	12	201,529	21,226,594	101,090,088
2026	205,434	4,050	(3,541)	(42)	205,901	16,839,600	92,941,134
2027	206,239	4,467	(4,854)	(8)	205,844	12,948,039	81,376,717
2028	196,246	5,386	(5,190)	53	196,495	9,096,996	66,733,163
2029	194,214	6,259	(5,824)	(31)	194,618	6,519,020	55,647,323
2030	190,108	8,634	(6,636)	46	192,152	4,260,705	44,267,743
2031	179,748	11,154	(5,836)	(4)	185,062	2,565,272	32,751,645
2032	153,855	13,607	(5,796)	(21)	161,645	1,234,747	20,367,405
2033	143,973	18,845	(5,871)	36	156,983	595,324	12,548,928
2034	123,952	27,509	(5,771)	(26)	145,664	211,955	6,437,240
2035	70,481	59,844	(5,013)	170	125,482	26,138	2,342,017
2036	–	68,647	(2,192)	(132)	66,323	5,844	434,117
	3,736,810	245,954	(209,292)	–	3,773,472	517,107,190	1,394,997,025
Sales charges obligation						(1,813,757)	–
Transfer from Discretionary payment account (note 5):							
Prior to 2017 –		$	(4,980,348)				
2017 –			(3,025,687)			(8,006,035)	–
						$ 507,287,398	$ 1,394,997,025

[1] Purchased units comprise new units, additional units, transfers in and transfers from the Unregistered Education Savings Plan.
[2] Forfeited units comprise maturities, terminations, transfers out and EAPs.
[3] Accumulated income represents the income allocated to subscribers' accounts. The accumulated income is used to pay EAPs to eligible beneficiaries under the scholarship option and the self-determined option. Accumulated income is paid to the subscriber in the event the beneficiary does not pursue post-secondary education.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

5. Discretionary payment account:

The discretionary payment account is directed by the Foundation in accordance with the not-for-profit nature of the Foundation. Beneficiaries of plans with a maturity date on or prior to July 31, 2014 (and where the scholarship option has been selected) have received or may still receive a discretionary payment along with their EAPs. Such payments are made to increase the EAPs and/or to return an applicable amount of sales charges previously netted against subscriber contributions based on the scholarship option selected. Interest income applicable to the discretionary payment account is recorded on an accrual basis.

The sources of funding of such payments were:

- all income accruing in the EAP account after the maturity date;
- interest earned on plans that are terminated prior to the maturity date; and
- contributions less fees from inactive plans which are unclaimed five years after the maturity date.

Receipts and disbursements in the discretionary payment account are as follows:

	2017	2016
Receipts:		
Investment and other income	$ 737,833	$ 2,393,206
Disbursements:		
Paid to the Foundation on account of:		
Sales charges	198,163	321,708
EAPs	90,462	171,721
Enhancement Fund transfer[1]	3,023,190	–
Unclaimed refunds paid to subscribers	451,705	319,294
	3,763,520	812,723
	(3,025,687)	1,580,483
Transfer from (to) accumulated income	3,025,687	(1,580,483)
Balance, end of year	$ –	$ –

[1] Amounts re-allocated to the plans available for Educational Assistance Payments.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

6. Sales charges refund account:

The sales charges refund account consists of (i) income earned when a subscriber's plan is cancelled (requested and transferred out) prior to its maturity date, and (ii) income earned on the income forfeited when a subscriber's plan is cancelled (requested and transferred out) prior to its maturity.

For plans with a maturity date on or after July 31, 2015, typically the eligibility year of 2016 or after, sales charges are refunded from the sales charges refund account. The ability to refund sales charges will be affected by the changes in pre-maturity subscriber attrition rates. If the attrition rates decline, the amount of funds available will decline and vice versa. Sales charge refunds are paid at maturity of the relevant plans. Based on the payout option selected, which aligns with the length of the qualified educational program, the sales charge refund, if any, is as follows:

(i) Option 1 - an amount of up to 25% of sales charges associated with the active units in the plan will be paid to the subscriber or to the beneficiary at the subscriber's request, at maturity of the plan;

(ii) Option 2 - an amount of up to 50% of sales charges associated with the active units in the plan will be paid to the subscriber or to the beneficiary at the subscriber's request, at maturity of the plan; and

(iii) Option 3 - an amount of up to 100% of sales charges associated with the active units in the plan will be paid to the subscriber or to the beneficiary at the subscriber's request, at maturity of the plan.

Cumulative receipts and disbursements in the sales charges refund account are as follows:

	2017	2016
Receipts:		
Income from terminated and transferred out plans	$ 20,574,988	$ 19,522,174
Disbursements:		
Sales charges refunded to plans with a maturity date on or after July 31, 2015	(7,720,900)	(5,775,456)
Balance, end of year	$ 12,854,088	$ 13,746,718

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

7. Educational Assistance Payments under the Group Plan:

	Year of eligibility								
	2017	2016	2015	2014	2013	2012	2011	2010	2004
Option 1 - payout in one payment:									
Number of units	13,920.23	1,402.18	109.38	81.88	–	10.32	10.00	–	4.00
First EAP	$ 440	$ 517	$ 564	$ 563	$ –	$ 671	$ 630	$ –	$ 825
	$ 6,124,901	$ 724,927	$ 61,690	$ 46,098	$ –	$ 6,925	$ 6,300	$ –	$3,300
Option 2 - payouts in two payments:									
Number of units:									
First EAP	12,184.15	776.61	63.79	38.00	30.71	57.43	(10.00)	–	–
Second EAP	–	7,839.12	1,545.72	271.91	50.68	80.08	–	–	–
Amount of EAP per unit:									
First EAP	$ 220	$ 259	$ 282	$ 282	$ 286	$ 336	$ 315	$ –	$ –
Second EAP	–	372	487	439	363	422	–	–	–
	$ 2,680,513	$ 3,117,295	$ 770,754	$ 130,085	$ 27,180	$53,090	$(3,150)	$ –	$ –
Option 3 - payouts in three payments:									
Number of units:									
First EAP	89,854.90	5,529.56	304.45	23.74	(85.12)	(67.75)	–	–	(4.00)
Second EAP	–	81,238.94	14,729.83	2,017.89	259.46	42.25	6.00	7.00	–
Third EAP	–	–	45,883.62	16,327.04	3,878.55	582.81	48.58	5.23	–
Amount of EAP per unit:									
First EAP	$ 146	$ 173	$ 188	$ 188	$ 191	$ 224	$ –	$ –	$ 410
Second EAP	–	177	244	220	182	211	238	245	–
Third EAP	–	–	251	313	276	242	310	363	–
	$ 13,118,815	$15,335,906	$ 15,168,104	$5,558,762	$1,101,444	$134,779	$16,488	$3,614	$(1,640)
Total	$21,924,229	$ 19,178,128	$16,000,548	$5,734,945	$1,128,624	$194,794	$19,638	$3,614	$1,660

Total EAPs under the Group Plan paid in 2017	$64,186,180

* Differences may be due to rounding.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

7. Educational Assistance Payments under the Group Plan (continued):

Beneficiaries will be eligible to receive three EAPs in the 2nd, 3rd and 4th year of post-secondary studies respectively, in accordance with the Prospectus dated August 4, 2017. If the beneficiary is enrolled in a qualified program which is less than two years, he or she is entitled to select the Self-Determined Option ("SDO"), which allows the beneficiary to request EAPs at any time prior to the RESP expiry date.

In any given year, the amount of EAPs available to the eligible beneficiaries within the same beneficiary group is typically calculated in August of a given year by adding the following:

(a) income on contributions less sales charges;

(b) income accruing in the EAP account;

(c) a proportion of income from post-maturity attrition within the same beneficiary group; and

(d) funds in the discretionary payment account, if any.

This amount is then pro-rated based on the EAP option chosen by the subscriber and is further disaggregated by the payments within the selected EAP option.

Included in the above table is $13,449,717 of EAPs approved and paid in 2017 relating to prior years of eligibility (2016 - $11,484,000).

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

8. Related party transactions:

Account maintenance and administrative fees are paid to the Foundation. The Foundation pays these fees to the Distributor for expenses incurred in assisting the Foundation with the administration of the Plans. The administration fees are annual fees of 1/2 of 1% of the contributions less fees, income in subscribers' accounts, as well as government grants, including income earned thereon. Account maintenance fee is an annual fee which is deducted quarterly from subscriber's contributions.

The sales charges, account maintenance fee, administrative fee and insurance premiums transactions were determined in accordance with the terms of the Prospectus. The transactions are measured at the exchange amount, which is in accordance with the Contract.

The Foundation has entered into an Investment Management Agreement (the "Agreement") with Yorkville Asset Management Inc. ("Yorkville"), whereby Yorkville has been appointed as one of the Portfolio Advisers for the Plans. Yorkville is responsible for managing a portion of the Plans' PPNs for which it receives compensation from the issuers of the PPNs, the amounts of which will vary depending on the term and underlying exposure of each instrument. Yorkville also is responsible for managing a portion of the Plans' equity portfolio for which it receives compensation from the Foundation.

Under the terms of the Agreement, the fees charged by Yorkville are less than or equal to fees charged by similar service providers for similar products as defined. Prior to January 2, 2018, Yorkville was 50% owned by Heritage Financial and was therefore an affiliate of the Distributor during that time. The decision to enter into this Agreement with Yorkville was referred to the Independent Review Committee (the "IRC") of the Plans for its review in accordance with National Instrument 81-107, Independent Review Committee for Investment Funds ("NI 81-107") and the IRC approved the Agreement subject to certain conditions. This arrangement is periodically reviewed by the IRC under the provisions of NI 81-107. For the year ended December 31, 2017, Yorkville received $120,000 (2016 - $358,080) from the issuers of the PPNs for their services provided under the Agreement and also received $322,086 (2016 - $322,086) from the Foundation for their services in managing a portion of the equity portfolio under the Agreement. As of January 2, 2018, Yorkville is no longer an affiliate of the Distributor (refer to subsequent event note 14).

IRC fees are paid to the IRC members. The fees paid are outlined in the terms of the Prospectus. For the year ended December 31, 2017, the IRC fees paid by the Plans were $71,731 (2016 - $62,326).

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

9. Subscribers' contributions:

The changes in the subscribers' contributions to the Plans are as follows:

	2017	2016
Balance, beginning of year	$ 1,361,524,260	$ 1,334,156,421
Amounts contributed by subscribers	211,806,213	214,992,291
Sales charges	(20,430,459)	(20,771,203)
Refund of subscribers' contributions:		
Unclaimed subscribers' contributions and other refunds	(8,853,763)	(12,680,477)
Contributions on maturing plans	(142,045,749)	(146,947,539)
Insurance premiums	(5,013,607)	(5,182,139)
Account maintenance fees	(1,989,870)	(2,043,094)
	33,472,765	27,367,839
Balance, end of year	$ 1,394,997,025	$ 1,361,524,260

Unclaimed subscribers' contributions represent contribution payments on subscribers' contracts that are two months or more in arrears. The Foundation sends a notice of cancellation to all such subscribers whose payments are two or more months in arrears. Such subscribers' contributions are held by the Plans, pending direction from the subscribers as to the disposition of the amounts. The interest on such subscribers' contributions is forfeited and transferred to the discretionary payment account. If the subscriber fails to provide direction as to the refund of the contributions on cancellation of the Contract within applicable timelines, the refund will be forfeited and transferred to the discretionary payment account as other income depending on the date of the Contract. This is applicable only for plans with a maturity date on or prior to July 31, 2014.

For plans with a maturity date on or after July 31, 2015, subscribers who default in making their contributions on time will not risk having their plan cancelled and losing their contributions. A plan that falls under this scenario will mature under the self-determined option and, under this payout option, subscribers will be entitled to a refund of contributions less applicable fees and beneficiaries will be entitled to receive income and government grants provided they enroll in eligible studies; or, the subscribers withdraw their income as an accumulated income payment.

Heritage Plans

10. Sales charges obligation:

On May 29, 2014, the Foundation obtained a majority vote from the subscribers to revise the structure of the refund of the sales charges. The change affects Plans maturing on or after July 31, 2015. Prior to this change, the Plans had an obligation (in certain instances) and the discretion (in other instances) to repay all or a portion of the sales charges, either at maturity or with EAP payments. As a result of the change, the entitlement to a refund of sales charges or a portion thereof is based on an automatic sharing of attrition income in the Plans. Subscribers who enrolled in the Plans prior to July 2, 2004 and whose plans have a maturity date of July 31, 2014 or prior will receive all or a portion of sales charges paid at maturity of their plan. The amount of refund depends on the scholarship option chosen within 180 days prior to maturity. Subscribers who have enrolled in the Plans on or after July 2, 2004 and whose plans have a maturity date of July 31, 2014 or prior may receive all or a portion of an amount equal to sales charges concurrent with EAPs depending on the option chosen. Sales charges repaid have been historically funded by the discretionary payment account. Subscribers who have enrolled in the Plans on or after July 2, 2004 and whose plans mature after July 31, 2014 will receive a payment as described in note 6. The sales charge obligation represents the value of the sales charges disbursements calculated as the nominal dollar of the sales charges to be returned.

As at December 31, 2017, the Foundation determined that the sales charges obligation for Plans with maturity date of July 31, 2014 or prior was $1,813,757 (2016 - $2,426,960).

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

11. Financial risk management:

The investment objective of the Plans is to preserve capital while maximizing the long-term rate of return for subscribers. The Plans are affected by changes in economic environments and capital markets and, as a result, the Plans face various financial risk factors in the course of their normal investment activities. These financial risk factors include primarily credit risk, liquidity risk and market risk. In order to proactively address these risks, management has engaged third-party portfolio advisers to assist in investing the subscribers' contributions less fees, government grants and the investment income earned thereon. Management and the portfolio advisers perform periodic reviews of the investment portfolio to comply with the stated investment objectives.

(a) Credit risk:

Credit risk is the risk of financial loss to the Plans if the issuer of a debt fails to meet its contractual obligations. This risk is mitigated by the Plans' investment strategy of investing in those debt securities with an approved credit rating, as defined in Section 1.1 of National Instrument 81-102 and is further detailed in the Investment Risks section of the Prospectus dated August 4, 2017. The Plans' credit risk exposure is as follows:

	Percentage of total portfolio	
Debt instruments by credit rating	2017	2016
AAA	52.2	29.8
AA	3.3	5.4
AA-	6.6	6.5
A+	12.0	29.0
A	1.5	1.4
A-	0.7	0.6
BBB+	–	2.0
Subtotal	76.3	74.7
Equities	23.7	25.3
Total	100.0	100.0

The Plans' maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position.

The Plans' activities may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed. For the majority of transactions, the Plans mitigate this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

11. Financial risk management (continued):

(a) Credit risk (continued):

The Plans' cash and cash equivalents are held mainly with RBC Investor & Treasury Services, which is rated AA- (2016 - rate AA-), based on the rating agency ratings. The Foundation monitors the financial position of RBC Investor & Treasury Services on a quarterly basis.

(b) Liquidity risk:

Liquidity risk is the risk that the Plans could encounter difficulty in meeting the obligations associated with their financial liabilities. The Plans minimize this risk by: (i) maintaining sufficient cash and cash equivalents; (ii) selecting investments for the portfolio that includes those which are active in the market and can be readily sold; and (iii) ensuring cash will be available with the anticipated payout dates applicable to the subscribers. The unclaimed contributions on cancellations from subscribers are due on demand, as disclosed in note 8. The maturities of financial liabilities related to subscribers' contributions and sales charges obligation are disclosed in notes 8 and 9, respectively. All other financial liabilities mature within 180 days.

(c) Market risk:

Market risk is the risk that changes in market prices could affect the Plans' income or the value of their investment holdings. The Plans' portfolio advisers attempt to mitigate this risk by periodically reviewing the market conditions and the performance of the portfolio and by making necessary changes to the portfolio in accordance with the Plans' investment objectives. Management has identified two main market risk factors: interest rate risk related to the fixed income portfolio and the pricing risk related to the PPNs, which are outlined in note 3 and in the Investment Risks section of the Prospectus dated August 4, 2017.

(i) Interest rate risk:

Interest rate risk is that the changes in interest rates could affect the value of fixed income securities held in the Plans' investment portfolio. A rise in interest rates may have a negative effect on the prices of fixed income securities while a decrease in interest rates may have a positive effect on the price of fixed income securities held by the Plans:

Interest rate risk	Risk criteria	2017	2016
Fixed income	25 bps change in interest rate	$ 24,500,000	$ 32,500,000

(ii) Pricing risk:

Pricing risk is the risk that the fair value of equity securities (Level 1 investments as detailed in note 3) and equity linked notes (Level 3 investments as detailed in note 3) could fluctuate because of changes in market prices.

Heritage Plans

Notes to Financial Statements (continued) Years ended December 31, 2017 and 2016

11. Financial risk management (continued):

(c) Market risk (continued):

(ii) Pricing risk (continued):

Pricing risk – equities:

Pricing risk	Risk criteria		2017		2016
Equities	1% change in S&P/TSX	$	4,814,088	$	6,300,168

Pricing risk – PPNs:

PPNs are categorized as Level 3 investments (note 3) as some or all of the significant inputs into the models used to value these notes may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. However, the change in underlying indices are provided by the portfolio managers, which has been used to determine the pricing risk for PPNs noted below.

Pricing risk	Risk criteria		2017		2016
PPNs	1% change in underlying indices of different types	$	610,000	$	750,000

As at December 31, 2017, none of the Plans' net assets (2016 - none) attributable to subscribers and beneficiaries were invested in an open ended fixed income mutual fund.

In practice, actual trading results may differ from the above sensitivity analyses and differences may be material.

12. Capital management:

The capital of the Plans is represented by subscribers' units with no par value. The units of the Plans are entitled to subscribers' contributions, government contributions and accumulated income, if any. At maturity or forfeiture, subscribers will be entitled to a payout, as outlined in the Plans' Prospectus. Restrictions on subscribers' contributions are outlined in the Plans' Prospectus and defined by the *Income Tax Act* (Canada). Restrictions on payment from the Plans are also outlined in the Plans' Prospectus and is dependent on whether the beneficiary qualifies for the payments under the Plans. The relevant movements are shown on the statements of changes in net assets attributable to subscribers and beneficiaries. The Plans endeavour to invest subscribers' contributions and government grants received in appropriate investments while maintaining sufficient liquidity to meet subscribers' obligation.

Heritage Plans

13. Subsequent event:

Effective January 1, 2018, Knowledge First Financial Inc. ("KFFI") acquired control of all of the outstanding shares of the Distributor, resulting in the Distributor being wholly owned by Heritage Amalgamation Corporation which became a wholly owned subsidiary of KFFI. KFFI is incorporated under the laws of Canada and is a wholly owned subsidiary of Knowledge First Foundation ("KFF"). KFF is a not-for-profit organization that sponsors various Knowledge First Education Savings Plans ("KF Plans"). KFFI is the investment fund manager and distributor of the KF Plans. Concurrent with the acquisition of control of the Distributor, certain directors of KFF became the directors of the Foundation, resulting in the Foundation and Distributor now being under the common management of KFF.

FOR MORE INFORMATION CONTACT:

Heritage Education Funds Inc.
2005 Sheppard Ave. E., Suite 700,Toronto, ON M2J 5B4.
Phone: 416.502.2500. Toll-free: 1.800.739.2101
Fax: 416.502.2555. Email: CustomerCare@HeritageRESP.com

Heritage RESPs are scholarship plans issued under the sponsorship of the Heritage Educational Foundation. Units of the Heritage RESPs are offered by prospectus only, a copy of which can be obtained from the registered dealer Heritage Education Funds Inc. at HeritageRESP.com. These securities may not be appropriate for all investors and are subject to certain risk factors. See the prospectus for details.

Heritage Education Funds™ is the trade name of Heritage Education Funds Inc.

HeritageRESP.com

1062-HST-HP-ENG/03.18