HERITAGE Educational Foundation®

HERITAGE PLANS

(Education savings program provided by Heritage Foundation)

Financial Statements

For the six months ended June 30, 2018

Unaudited semi-annual financial statements

The auditor has not reviewed the Plan's June 30, 2018 financial statements. The Foundation appoints an independent auditor to audit the Plan's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the interim financial statements, this must be disclosed in an accompanying notice.

HERITAGE PLANS

Statements of Financial Position
(unaudited)

As at June 30, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 11,151,894	$ 8,999,794
Investments, at fair value (note 3)	2,627,882,765	2,546,014,879
Accrued interest	13,067,608	11,290,972
	2,652,102,267	2,566,305,645
Liabilities		
Accounts payable	675,000	699,000
Due to Heritage Educational Foundation (note 7)	2,636,135	4,280,675
Unclaimed subscribers' contributions (note 8)	43,046,714	39,978,786
Sales charges obligation (note 9)	1,210,724	1,813,757
	47,568,573	46,772,218
Net assets attributable to subscribers and beneficiaries	$ 2,604,533,694	$ 2,519,533,427
Net assets attributable to subscribers and beneficiaries represented by:		
Accumulated income	$ 494,345,809	$ 507,287,399
Subscribers' contributions (note 8)	1,465,184,368	1,394,997,025
Government grant contributions	540,265,304	518,282,068
Government grant interest	91,210,013	86,112,847
Sales charges refund (note 5)	13,528,200	12,854,088
	$ 2,604,533,694	$ 2,519,533,427

On behalf of the Board of
the Heritage Education Foundation:

_______________________ Director

_______________________ Director

HERITAGE PLANS

Statements of Comprehensive Income
(unaudited)

For the six months ending June 30, 2018 and 2017

		2018		2017
Income (loss):				
Interest income	$	20,769,573	$	18,814,207
Dividend income		15,164,544		10,948,477
Realized gains (losses)		(4,087,984)		6,590,063
Change in unrealized gains (losses)		(17,002,149)		23,354,298
Other		(27,425)		88,940
		14,816,559		59,795,985
Expenses:				
Administrative fees		7,100,808		6,439,412
Portfolio management fees		1,308,523		1,360,948
Independent Review Committee fees		11,825		37,392
Other fees		-		301,761
Trustee Fees		44,600		-
		8,465,756		8,139,513
Net investment income		6,350,803		51,656,472
Decrease in sales charges obligation (note 9)		603,033		172,977
Increase in net assets attributable to subscribers and beneficiaries from operations	$	6,953,836	$	51,829,449

See accompanying notes to financial statements.

HERITAGE PLANS

Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries

(unaudited) For the six months ended June 30, 2018 and 2017

	2018	2017
Net assets attributable to subscribers and beneficiaries, beginning of period	$ 2,519,533,427	$ 2,483,380,470
Increase in net assets attributable to subscribers and beneficiaries:		
Subscribers' contributions received net of sales charges and fees (note 8)	88,134,405	88,372,507
Government grant transactions:		
Received	25,644,185	25,764,582
Transferred in	640,185	458,199
Interest transferred in	1,389	4,116
Quebec Education Savings Incentive interest received	2,462	48
Interest from other plans	393,434	231,407
	114,816,060	114,830,859
Decrease in net assets attributable to subscribers and beneficiaries:		
Refund of subscribers' contributions net of terminations and reinstatements	17,947,063	16,444,752
Educational Assistance Payments:		
Group Plan (note 6)	6,045,484	6,891,361
Self-Determined Plan	6,613,440	7,549,350
Repayment of sales charges (note 5 and 6)	202,468	88,265
Recovery of sales charges (note 4)	(92,515)	(88,791)
Government grant transactions:		
Paid	3,548,751	3,595,699
Transferred out	752,383	772,454
Interest	1,375,283	1,367,028
Interest transferred out	89,664	103,137
Net gains on grants	287,608	323,378
	36,769,629	37,046,633
Net increase in net assets attributable to subscribers and beneficiaries from the above items	78,046,431	77,784,226
Increase in net assets attributable to subscribers and beneficiaries from operations	6,953,836	51,829,449
Net assets attributable to subscribers and beneficiaries, end of period	$ 2,604,533,694	$ 2,612,994,145

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

HERITAGE PLANS

Statements of Cash Flows
(unaudited)

For the six months ended June 30, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Increase in net assets attributable to subscribers and beneficiaries from operations	$ 6,953,836	$ 51,829,449
Items not involving cash:		
Change in unrealized losses (gains)	17,002,149	(23,354,298)
Realized (gains) losses	4,087,984	(6,590,063)
Amortization of bond premiums/discounts	7,688,390	12,946,959
Change in non-cash operating items:		
Decrease (increase) in accrued interest	(1,776,637)	2,344,506
Decrease in sales charges obligation	(603,034)	(172,977)
Increase in due to Heritage Educational Foundation	(1,644,539)	(1,667,138)
Increase in unclaimed subscribers' contributions	3,067,927	1,747,716
Increase (decrease) in accounts payable	(24,000)	24,000
Purchase of investments	(2,474,488,121)	(990,182,415)
Proceeds from sale of investments	2,363,841,714	866,474,523
	(75,894,331)	(86,599,738)
Financing activities:		
Subscribers' contributions, net of refunds	70,187,342	71,927,755
Government grants and interest, including transfer-ins	26,681,655	26,458,352
Payment of Educational Assistance Payments, interest and refund of sales charges to subscribers and beneficiaries	(12,768,877)	(14,440,185)
Government grants and interest paid to beneficiaries and transfer-outs	(6,053,689)	(6,161,696)
	78,046,431	77,784,226
Increase (decrease) in cash and cash equivalents	2,152,100	(8,815,512)
Cash and cash equivalents, beginning of period	8,999,794	16,233,769
Cash and cash equivalents, end of period	$ 11,151,894	$ 7,418,257
Supplemental cash flow information:		
Interest received	$ 26,805,336	$ 34,329,552
Interest received (paid)	2,348	(50,405)

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

HERITAGE PLANS

Schedule of Investment Portfolio
(unaudited)

June 30, 2018

	Interest rate	Maturity date	Face value	Amortized cost	Fair value
Government - federal					
Canada Government Bond	0.50%	11/01/2018	$ 61,445,000	$ 61,304,044	$ 61,249,605
Canada Housing Trust Bond	0.75%	08/01/2019	573,380,000	567,127,051	567,141,051
Canada Housing Trust Bond	3.80%	06/15/2021	71,665,000	75,179,489	74,929,986
Canada Housing Trust Bond	2.35%	09/15/2023	48,175,000	49,581,731	48,034,955
Canada Housing Trust Bond	2.35%	06/15/2027	43,750,000	43,008,831	43,051,838
Canada Housing Trust Bond	2.35%	03/15/2028	186,875,000	181,059,180	183,424,353
Canada Housing Trust Bond	2.65%	03/15/2028	100,460,000	100,498,036	101,174,974
Canada Government Bond	5.75%	06/01/2029	130,005,000	176,240,592	174,793,803
Canada Government Bond	5.75%	06/01/2033	86,115,000	122,756,622	124,695,553
Government - provincial					
Ontario Province Debentures	4.40%	06/02/2019	2,685,000	2,697,463	2,746,371
Hydro Québec Debentures	11.00%	08/15/2020	40,135,000	44,089,300	47,436,721
Ontario Province CDA	6.50%	03/08/2029	136,745,000	174,374,870	181,655,477
British Columbia Province Debentures	5.70%	06/18/2029	43,325,000	47,411,541	55,159,310
Corporate financial institution bonds					
Toronto Dominion Bank	1.99%	03/23/2022	29,550,000	29,550,000	28,733,799
Manulife Bank of Canada	2.08%	05/26/2022	25,000,000	25,000,000	24,252,400
National Bank of Canada	1.96%	06/30/2022	15,980,000	15,544,621	15,441,298
Royal Bank of Canada	2.95%	05/01/2023	33,400,000	33,400,000	33,442,251
Bank of Montreal	2.89%	06/20/2023	32,000,000	31,994,272	31,923,136
Royal Bank of Canada	2.33%	12/05/2023	39,925,000	39,925,000	38,662,092
Toronto Dominion Bank	3.23%	07/24/2024	12,000,000	12,402,778	12,165,072
Bank of Nova Scotia	3.10%	02/02/2028	17,540,000	17,534,278	17,437,952
Short-term investments					
Canada Treasury Bills	–	07/26/2018	3,769,605	3,769,605	3,769,605
Canada Treasury Bills	–	07/26/2018	95,625,000	95,554,237	95,554,238
Canada Treasury Bills	–	07/26/2018	918,000	917,321	917,321
Canada Treasury Bills	–	08/09/2018	1,522,270	1,522,270	1,522,270
Canada Treasury Bills	–	08/23/2018	8,116,179	8,116,179	8,116,179
Total fixed income and short-term investments			$ 1,840,106,054	$ 1,960,559,311	$ 1,977,431,610

	Interest rate	Maturity date	Face value	Cost	Fair value
Principal protected notes [1]					
Bank of Nova Scotia Yorkville CDN S-1	–	08/16/2018	15,048,000	15,048,000	16,688,232
JP Morgan Bank CDA Zero Coupon Notes	–	09/28/2018	8,100,000	8,100,000	9,523,980
National Bank of Canada Yorkville CDN Growth S-1	–	12/03/2018	20,200,000	20,200,000	22,678,540
JP Morgan CDA PPN Linked to SP 500	–	10/31/2019	16,130,000	16,130,000	16,792,943
Total principal protected notes			$ 59,478,000	$ 59,478,000	$ 65,683,695

[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)
(unaudited)

June 30, 2018

Shares	Description	Average cost	Fair value
	Equities		
2,100	Agnico-Eagle Mines Ltd Common	$ 102,128	$ 126,567
6,300	Air Canada Variable Voting Shares Common	149,767	133,875
633,800	Algonquin Power & Utilities Corporation Common	7,381,292	8,049,260
75,180	Alimentation Couche-Tard Inc. Sub-Voting	4,216,273	4,292,778
156,400	Allied Properties REIT Inv Trust Units	5,548,935	6,545,340
425,100	Altagas Ltd. Common	14,771,914	11,541,465
1,000	Altus Group Ltd Common	29,451	29,280
301,600	ARC Resources Common	6,316,537	4,095,728
31,500	Artis Real Estate Investment Trust	429,411	412,965
16,200	Atco Ltd CL 'I' N/V	662,659	657,396
9,700	ATS Automation Tooling Systems Inc.	152,513	186,240
129,100	Bank of Montreal	10,963,920	13,113,978
370,750	Bank of Nova Scotia	24,814,516	27,591,215
7,200	Barrick Gold Corporation	182,212	124,344
102,100	BCE Inc. Common New	5,513,556	5,435,804
145,000	BMO equal Weight US Healthcare CAD Hedge Index	6,060,650	7,386,300
11,100	Boardwalk Real Estate Investment Trust	630,581	506,937
27,940	Boyd Group Income Fund Trust Units	1,939,631	3,269,259
202,050	Brookfield Property Partners LP Unit	5,494,137	5,045,189
179,090	Brookfield Renewable Partners LP Units	6,804,815	7,066,891
286,500	CAE Inc.	4,616,249	7,824,315
273,500	Canadian Apartment Prop REIT Trust Unit	8,206,381	11,659,305
137,700	Canadian Imperial Bank of Commerce Common	14,120,837	15,740,487
34,700	Canadian National Railway Co. Common	2,857,321	3,728,515
10,400	Canadian Pacific Railway Limited Common	2,485,157	2,502,344
37,100	Canadian Tire Corporation Ltd Class A Non-Voting	5,748,225	6,366,360
60,700	Canadian Utilities Ltd. N/V CL A Spec	2,158,090	2,012,205
31,000	Canadian Western Bank	1,183,013	1,074,150
44,300	Capital Power Corporation Common	1,036,942	1,117,246
26,400	Cascades Inc.	417,596	310,728
9,300	CCL Industries Inc. CL B N/V	565,432	598,827
187,000	Canadian Natural Resources Ltd.	7,985,084	8,871,280
65,200	Cenovus Energy Inc Common	885,060	889,980
38,600	CGI Group Inc. CL A Sub VTG	2,462,676	3,213,836
371,300	Chartwell Retirement Residences Trust Unit	4,451,977	5,692,029
270,600	Chemtrade Logistics Income Fund Units	4,821,241	4,048,176
129,300	CI Financial Inc. Common	3,698,859	3,055,359
230,250	Cineplex Inc. Common	10,812,393	6,714,090
100	Cogeco Communications Inc Sub Vtg Shares	8,719	6,507
22,300	Cominar Real Estate Investment Trust Units	402,502	285,886
5,550	Constellation Software Inc Common	3,228,223	5,646,681
14,620	Cott Corp	287,327	318,277
120,000	Crombie Real Estate Investment Trust Unit	1,577,686	1,526,400
43,100	Descartes Systems Group Inc. Common	953,626	1,845,542
10,300	Detour Gold Corporation Common	139,823	121,643
17,820	Dollarama Inc. Common	750,727	907,929
112,300	Dream Global Real Estate Investment Trust Units	1,396,518	1,612,628
8,500	Dream Office Real Estate Investment Trust Units Ser A	208,631	199,155
124,700	Emera Inc. Common	5,348,818	5,335,913

HERITAGE PLANS

Schedule of Investment Portfolio (continued)
(unaudited)

June 30, 2018

Shares	Description	Average cost	Fair value
	Equities (continued)		
74,300	Empire Company Ltd. N/V CL A	2,002,967	1,960,034
298,600	Enbridge Inc. Common	15,180,001	14,028,228
60,800	Enbridge Income Fund Holdings Inc Common	1,711,760	1,958,976
60,000	Encana Corporation Common	926,239	1,030,200
22,500	Endeavour Mining Corporation Common New	519,303	530,775
40,500	Enercare Inc Common	788,472	728,190
1,900	Enghouse Systems Ltd. Common	105,940	145,863
51,900	Extendicare Inc. Common	428,898	375,756
2,500	Fairfax Financial Holdings Ltd. Sub VTG	1,743,410	1,838,400
8,800	Finning International Inc	294,306	285,560
69,400	First Capital Realty Inc. Common	1,381,874	1,433,110
104,900	Fortis Inc	4,365,597	4,404,751
68,900	Gildan Actiwear Inc. Common	2,811,372	2,551,367
78,300	Goldcorp Inc. Common	1,299,795	1,411,749
54,300	Granite REIT Stapled Trust - Trust Units	2,520,332	2,911,566
77,000	Great West Lifeco Inc.	2,744,498	2,484,020
336,200	H&R Real Estate Investment Trust Stapled Unit	7,397,826	6,764,344
105,100	Imperial Oil Limited Common	4,660,513	4,592,870
69,300	Innergex Renewable Energy Inc. Common	807,295	957,033
149,300	Intact Financial Corporation Common	13,654,437	13,908,788
64,300	Inter Pipeline Limited Common	1,877,855	1,584,352
302,250	Keyera Corp Common	12,019,350	11,050,260
54,300	Killam Apartment REIT Trust Unit	747,610	813,414
54,400	Laurentian Bank of Canada Common	2,675,109	2,440,384
64,300	Loblaw Companies Ltd.	4,257,491	4,346,037
30,860	Magna International Inc Common	2,344,391	2,359,247
371,800	Manulife Financial Corporation Common	8,265,778	8,781,916
42,300	Maple Leaf Foods Inc. (New)	1,160,046	1,406,052
12,700	Maxar Technology	1,089,266	838,200
26,600	Methanex Corp	2,382,368	2,472,736
53,200	Metro Inc. Common	1,855,585	2,377,508
9,600	Morneau Shepell Inc Common	224,068	260,640
11,800	Mullen Group Ltd. Common	200,527	182,310
9,300	National Bank of Canada	557,347	587,016
37,330	NFI Group Inc	1,758,846	1,830,663
27,800	Norbord Inc common New	1,150,242	1,502,868
277,700	North West Company Inc.(The) Common	7,421,827	8,142,164
325,350	Northland Power Inc. Common	5,502,379	7,980,836
4,200	Northview Apartment Real Estate Investment Trust Unit	107,826	110,334
126,791	Nutrien Limited	7,430,166	9,068,092
170,000	Nuvista Energy Limited common	1,358,469	1,547,000
26,200	Onex Corp Sub Voting	2,057,983	2,525,418
93,500	Open Text Corporation Common	2,756,545	4,325,310
94,000	Parex Resources Inc Common	1,662,932	2,329,320
87,300	Parkland Fuel Corporation Common	2,036,749	2,814,552
51,200	Pason Systems Inc. Common	1,039,757	1,100,800
385,200	Pembina Pipeline Corp Common	14,658,068	17,530,452
200,600	Power Corporation Canada Sub VTG	6,356,598	5,903,658
61,800	Power Financial Corporation	2,069,810	1,899,114
13,270	Premium Brands Holdings Corporation Common	1,177,991	1,500,571

HERITAGE PLANS

Schedule of Investment Portfolio (continued)
(unaudited)

June 30, 2018

Shares	Description	Average cost	Fair value
	Equities (continued)		
144,400	Quebecor Inc.CL B SVS	2,446,373	3,884,360
18,700	Restaurant Brands International Inc. Common	922,116	1,482,349
458,600	Riocan Real Estate Investment Trust Unit	11,875,567	11,075,190
33,700	Ritchie Brothers Auctioneers Common	1,173,155	1,511,108
199,070	Rogers Communications Inc. CLB NV	10,453,893	12,427,940
281,450	Royal Bank of Canada	22,718,632	27,855,107
8,000	Russel Metals Inc.	168,820	214,160
44,400	Saputo Inc.	1,515,098	1,937,616
332,350	Shaw Communications Inc. CL B Non VTF	8,945,729	8,893,686
27,200	Shawcor Ltd. New Common	903,952	693,600
10,000	Shopify Inc CLG VTG	1,831,645	1,917,100
86,800	Smart Real Estate Investment Trust Units	2,581,967	2,650,004
126,000	SNC-Lavalin Group Inc. Common	6,991,185	7,315,560
31,100	SSR Mining	281,028	403,367
29,530	Stars Group Inc Common	1,115,163	1,406,218
14,700	Stella-Jones Inc	692,533	703,689
132,300	Sun Life Financial Inc.	5,561,532	6,984,117
91,800	Suncor Energy Inc. New Common	3,783,854	4,911,300
17,400	Superior Plus Corporation Common	191,359	220,632
66,500	Teck Resources Ltd CL B Sub VTG	2,403,895	2,226,420
364,400	Telus Corporation Com	15,929,347	17,013,836
12,600	TFI International Inc Common	375,256	510,678
59,550	Thomson Reuters Corporation	3,036,030	3,157,937
11,380	TMX Group Limited Common	865,434	979,135
21,200	Torex Gold Resources Common New	553,888	247,828
57,200	Toromont Industries Ltd.	2,346,645	3,248,960
438,550	Toronto Dominion Bank	24,202,699	33,360,499
292,550	TransCanada Corporation Common	14,876,814	16,637,319
12,100	Uni-Select Inc.	383,419	252,648
156,900	Vermilion Energy Inc. Common	7,536,918	7,430,784
51,800	Waste Connections Inc. Common	3,376,721	5,126,128
59,900	WestJet Airlines VAR VT & Com VT Shares	1,485,744	1,084,190
29,200	Weston George Ltd.	3,123,114	3,131,992
170,850	West Shore Terminals Inv. Corp Common	4,679,355	4,071,356
713,860	Whitecap Resources Inc. Common New	6,277,530	6,346,215
10,200	WSP Global Inc. Common	458,602	705,024
Total equities		$ 534,592,857	$ 584,767,460
Total Investment Portfolio		$ 2,554,630,168	$ 2,627,882,765

See accompanying notes to financial statements.

HERITAGE PLANS

Notes to Financial Statements
(unaudited)

For the six months ended June 30, 2018

The Heritage Plans (the "Plan") 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. Prior to August 28, 2018, the Plan was distributed by Heritage Education Funds Inc. ("HEFI").

Effective January 1, 2018, Knowledge First Financial Inc. ("KFFI") acquired control of all of the outstanding shares of HEFI. KFFI is incorporated under the laws of Canada and is a wholly owned subsidiary of Knowledge First Foundation ("KFF"). Concurrent with the acquisition of HEFI, certain directors of KFF became the directors of the Foundation, resulting in the Foundation being under the common management of KFF as of January 1, 2018. 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. Effective August 28, 2018, HEFI and KFFI amalgamated under the Canada Business Corporations Act and the resulting entity will operate under the name Knowledge First Financial Inc. ("KFFI" or the "Distributor").

The Plan, 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 Plan. 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 Plan 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 28, 2018. The address of the Plan's registered office is 50 Burnhamthorpe Road West, Mississauga, Ontario, Canada.

The financial statements were authorized for issue by the Board of Directors of the Foundation on August 29, 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 presented at fair value.

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

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

1. Significant accounting policies (continued):

(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 at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue.

The Plan's 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 Plan's obligation to settle or redeem the units issued by the Plan 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 Plan measures the fair value of a financial instrument using the quoted price in an active market for that instrument. The Plan measures instruments quoted in an active market at the closing sale price.

If there is no quoted price in an active market, then the Plan uses 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 factors that market participants would take into account in pricing a transaction.

The Plan invests 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. PPNs are carried at 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 Plan after deducting all of its liabilities.

The fair values of subscribers' contributions are not readily determinable. The sales charges obligation is carried at fair value according to the valuation methodology described in note 9.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

1. Significant accounting policies (continued):

(a) Financial instruments (continued):

(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.

(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 Plan's 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 Plan 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. Administration fees are deducted from the Plan's 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 Plan 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

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

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited) For the six months ended June 30, 2018

1. Significant accounting policies (continued):

(e) Government contributions (continued):

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. The primary caregiver must be eligible to receive the Canada Child Benefit ("CCB"). A CLB administration fee of $25 will be paid with the first $500 into the RESP to help cover the cost of opening an RESP. In each subsequent year that the primary caregiver remains eligible for the CCB until the year the child turns 15 years of age, the Government of Canada will contribute an additional $100 towards CLB, on an annual basis. The total CLB available for a beneficiary can amount to $2,000. The primary caregiver 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.

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 RESPs effective January 1, 2018.

The government of British Columbia offers the new 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

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

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

1. Significant accounting policies (continued):

(e) Government contributions (continued):

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 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 Plan with respect to a beneficiary are invested by the Plan 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 Plan is 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 Plan is exempt from income taxes under Section 146.1 of the *Income Tax Act* (Canada).

(g) Cash and cash equivalents:

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

(h) Recently adopted standards:

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.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

1. Significant accounting policies (continued):

(h) Recently adopted standards (continued):

Management has completed the assessment of the impact of the adoption on the Plan and noted no measurement impact on the net assets attributable to subscribers and beneficiaries.

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 Plan has made in preparing the financial statements are as follows:

(a) Measurement of 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 Plan's financial instruments.

3. Investments:

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

Valuation models:

PPNs are valued using external pricing models. The Plan relies 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 June 30, 2018 and December 31, 2017. Accordingly, quantitative information regarding these inputs has not been disclosed.

Although the Plan believes 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.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2017

3. Investments (continued):

Valuation framework:

The Plan has 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 Plan for use in pricing the relevant type of financial instrument; understanding and analyzing monthly fair value variances and performing quarterly performance review of the PPNs with portfolio managers.

Fair value hierarchy - financial instruments measured at fair value:

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

The following table analyzes 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)
(unaudited)

For the six months ended June 30, 2018

3. Investments (continued):

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

June 30, 2018:

Equities	Cost	Fair value
Level 1		
Equities	$ 534,592,857	$ 584,767,460

Fixed income	Yield	Face value	Amortized cost	Fair value
Level 2				
Government of Canada and federally guaranteed bonds:				
Due within one year	1.45%	$ 61,445,000	$ 61,304,044	$ 61,249,605
Due in one to five years	1.86%	693,220,000	691,888,271	690,105,992
Due after five years	2.39%	547,205,000	623,563,261	627,140,521
		1,301,870,000	1,376,755,576	1,378,496,118
Provincial and provincially guaranteed bonds:				
Due within one year	1.89%	2,685,000	2,697,463	2,746,371
Due in one to five years	2.20%	40,135,000	44,089,300	47,436,721
Due after five years	2.88%	180,070,000	221,786,411	236,814,787
		222,890,000	268,573,174	286,997,879
Corporate financial institution bonds:				
Due in one to five years	2.90%	175,855,000	175,413,893	172,454,977
Due after five years	3.09%	29,540,000	29,937,056	29,603,024
		205,395,000	205,350,949	202,058,001
Short-term investments	0.95%	109,951,054	109,879,612	109,879,612
		$ 1,840,106,054	$ 1,960,559,311	$ 1,977,431,610

	Face value	Cost	Fair value
Level 3			
PPNs:			
Mature within one year	$ 43,348,000	$ 43,348,000	$ 48,890,752
Mature in one to five years	16,130,000	16,130,000	16,792,943
	$ 59,478,000	$ 59,478,000	$ 65,683,695
Portfolio total			$ 2,627,882,765

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

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

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

3. Investments (continued):

	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

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

	June 30, 2018	December 31, 2017
Balance, beginning of period	$ 137,320,692	$ 261,626,018
Net gains included in net investment income	8,701,320	44,291,656
Changes in unrealized gains (losses)	(9,136,997)	(30,627,327)
Proceeds from maturity	(71,201,320)	(137,969,655)
Balance, end of period	$ 65,683,695	$ 137,320,692
Change in unrealized gain (loss) for 6 months included in net investment income for investments held at end of period	$ (9,136,997)	$ (30,627,327)

There were no transfers between Level 1 and Level 2 during the period ended June 30, 2018 and the year ended December 31, 2017.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

4. Discretionary payment account:

The discretionary payment account is directed by the Foundation in accordance with the not-for-profit nature of the Foundation. Interest income applicable to the discretionary payment account is recorded on an accrual basis. 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;
- income earned on income 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:

	Six months ended June 30, 2018	Six months ended June 30, 2017
Receipts:		
Investment and other income	$ 66,755	$ 1,151,130
Sales charges recovered	92,515	88,791
	159,270	1,239,921
Disbursements:		
Paid to the Foundation on account of:		
EAPs	9,577	15,800
Unclaimed refunds paid to subscribers	162,439	347,371
	172,016	363,171
	(12,746)	876,750
Transfer from (to) accumulated income	12,746	(876,750)
Balance, end of period	$ –	$ –

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

5. 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, the remaining amount of sales charges is 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 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 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 subscriber's request, at maturity of the plan.

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
Receipts:		
Income from terminated and transferred out Plans	$ 24,451,568	$ 20,611,800
Disbursements:		
Sales charges refunded to Plans with a maturity date on or after July 31, 2015	(7,923,368)	(5,863,721)
Balance, end of period	$ 13,528,200	$ 14,748,079

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

6. Educational Assistance Payments under the Group Plan:

Beneficiaries will be eligible to receive three EAPs in the 2^{nd}, 3^{rd} and 4^{th} year of post-secondary studies respectively, in accordance with the Prospectus dated August 28, 2018. 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 calculated in late August by adding the following:

(a) income on contributions less sales charges and fees;

(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.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited) For the six months ended June 30, 2018

7. 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 Plan. The administration fees are annual fees of ½ 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 Plan. Yorkville is responsible for managing a portion of the Plan's 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 Plan's 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 as defined. Prior to January 2, 2018, Yorkville was 50% owned by Heritage Financial Group Limited which at that time indirectly owned 100% of HEFI and controlled the Foundation, and, therefore Yorkville was an affiliate of HEFI and the Foundation during that time. The decision to enter into this Agreement with Yorkville was referred to the Independent Review Committee (the "IRC") of the Plan 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. Prior to January 2, 2018, this arrangement was periodically reviewed by the IRC under the provisions of NI 81-107. For the period ended June 30, 2018, Yorkville received Nil (2017 - $120,000) from the issuers of the PPNs for their services provided under the Agreement and also received Nil (2017 - $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 or the Foundation.

IRC fees are paid to the IRC members. The fees paid are outlined in the terms of the Prospectus. For the period ended June 30, 2018, IRC fees paid by the Plan were $11,825 (2017- $37,392).

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

8. Subscribers' contributions:

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
Balance, beginning of period	$ 1,394,997,025	$ 1,361,524,260
Amounts contributed by subscribers	100,971,044	101,747,870
Sales charges	(9,477,097)	(9,897,286)
Refund of subscribers' contributions:		
Unclaimed subscribers' contributions and other refunds	(6,756,614)	(5,922,644)
Contributions on maturing plans	(11,190,449)	(10,522,108)
Insurance premiums	(2,403,790)	(2,502,445)
Account maintenance fees	(955,751)	(975,632)
	70,187,342	71,927,755
Balance, end of period	$ 1,465,184,368	$ 1,433,452,015

The maturity analysis of outstanding subscribers' contributions as at June 30, 2018 is as follows:

Due within one year	$ 214,881,901
Due between one and five years	683,812,261
Due over five years	566,490,206
Balance, end of period	$ 1,465,184,368

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 Plan, pending direction from the subscribers as to the disposition of the amounts. The income 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

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

9. 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 Plan maturing on or after July 31, 2015. Prior to this change, the Plan had an obligation (in some cases) and the discretion (in other cases) 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 Plan. Subscribers who enrolled in the Plan 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 Plan 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 Plan on or after July 2, 2004 and whose plans mature on or after July 31, 2015 will receive a payment as described in note 5. 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 June 30, 2018, the Foundation determined that the sales charges obligation for plans with maturity date of July 31, 2014 or prior was $1,210,724 (December 31, 2017 - $1,813,757).

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

10. Financial risk management:

The investment objective of the Plan is to preserve capital while maximizing the long-term rate of return for subscribers. The Plan is affected by changes in economic environments and capital markets and, as a result, the Plan faces 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 Plan if the issuer of a debt fails to meet its contractual obligations. This risk is mitigated by the Plan's 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 28, 2018. The Plan's credit risk exposure is as follows:

	Percentage of total portfolio	
Debt instruments by credit rating	June 30, 2018	December 31, 2017
AAA	40.2	52.2
AA	2.2	3.3
AA-	9.2	6.6
A+	13.9	12.0
A	2.5	1.5
A-	–	0.7
Subtotal	68.0	76.3
Equities	32.0	23.7
Total	100.0	100.0

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

10. Financial risk management (continued):

(a) Credit risk (continued):

The Plan's 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 Plan's 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 Plan mitigates 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.

The Plan's cash and cash equivalents are held mainly with RBC Investor & Treasury Services, which is rated AA- (December 31, 2017 - 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 Plan could encounter difficulty in meeting the obligations associated with their financial liabilities. The Plan minimizes 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 Plan's income or the value of their investment holdings. The Plan's 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 Plan's 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.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

10. Financial risk management (continued):

(c) Market risk (continued):

(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 Plan's 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 Plan:

Interest rate risk	Risk criteria	June 30, 2018	December 31, 2017
Fixed income	25 bps change in interest rate	$ 24,230,000	$ 24,500,000

(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.

Pricing risk - equities:

Pricing risk	Risk criteria	June 30, 2018	December 31, 2017
Equities	1% change in S&P/TSX	$ 4,952,316	$ 4,814,088

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	June 30, 2018	December 31, 2017
PPNs	1% change in underlying indices	$ 390,000	$ 610,000

As at June 30, 2018, none of the Plan's net assets (December 31, 2017 - 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 difference may be material.

HERITAGE PLANS

Notes to Financial Statements (continued)
(unaudited)

For the six months ended June 30, 2018

11. Capital management:

The capital of the Plan is represented by subscribers' units with no par value. The units of the Plan 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 Plan's Prospectus. Restrictions on subscribers' contributions are outlined in the Plan's Prospectus and defined by the *Income Tax Act* (Canada). Restrictions on payment from the Plan are also outlined in the Plan's Prospectus and is dependent on whether the beneficiary qualifies for the payments under the Plan. The relevant movements are shown on the statements of changes in net assets attributable to subscribers and beneficiaries. The Plan endeavours to invest subscribers' contributions and government grants received in appropriate investments while maintaining sufficient liquidity to meet obligations to subscribers.

IMPORTANT REMINDER

If you have not provided the Heritage Educational Foundation (the Foundation) with your beneficiary's Social Insurance Number (SIN), please note that it must be provided to the Foundation no later than 24 months from your plan's start date. Once we receive the SIN, your plan can become registered and can start collecting the Canada Education Savings Grant (CESG) and other grants depending on your net taxable income or your province of residence. If you have not yet applied for one, please visit your nearest Service Canada office or go to ServiceCanada.gc.ca for more information on how you can apply for your beneficiary's SIN.

YOUR PRIVACY MATTERS TO US

The Foundation is committed to protecting your privacy in accordance with our Privacy Policy, which can be found on our website at HeritageRESP.com/privacy. When you enroll in a Heritage Plan, we collect personal information about you and your beneficiary, which is used to administer your plan to the extent required by law. Certain information will be disclosed to the federal and applicable provincial government to register your plan under the Income Tax Act and to apply for federal and provincial grants, where applicable. We may also use your name and contact information (including email address, if provided) to advise you of relevant additional products and services offered by Heritage. We may also share your contact information (including email address, if provided) with certain trusted business partners, some of which may be affiliates of the Foundation, in order to offer products and services that we believe will be of value to you. Subject to the exceptions noted above, all information is kept strictly confidential. If you prefer not to receive future communications from us or our partners about the opportunities offered through Heritage please let us know by calling 1.800.739.2101 or emailing us at CustomerCare@HeritageRESP.com.

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Educational Foundation

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