Knowledge First Financial

Heritage Plans

(Education savings program provided by Heritage Educational Foundation)

Financial Statements

For the years ended December 31, 2018 and December 31, 2017

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Heritage Plans (the "Plans") have been prepared by management and approved by the Board of Directors of Heritage Educational Foundation. The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

Heritage Educational Foundation, through Knowledge First Financial Inc., which administers the Plans, 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 believe are appropriate for the Plans are described in Note 3 to the financial statements.

PricewaterhouseCoopers LLP is the independent auditor of the Plans. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Board of Directors of Heritage Educational Foundation their opinion on the financial statements. Their report follows.

R. George Hopkinson
President and Chief Executive Officer
Mississauga, Ontario
April 17, 2019

Independent auditor's report

To the Board of Directors of Heritage Educational Foundation

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heritage Plans (the Plan) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Plan's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to subscribers and beneficiaries for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Comparative information

The financial statements of the Plan for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on March 8, 2018.

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Other information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 18, 2019

HERITAGE PLANS
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and December 31, 2017
All amounts in Canadian dollars

	2018	2017
Assets		
Current Assets		
Cash	4,915,651	8,999,794
Investments (Note 5)	2,505,409,591	2,546,014,879
Government grants receivable	3,541,442	-
Due from Heritage Educational Foundation (Note 8)	13,430,434	-
Accrued interest and dividends	13,584,324	11,290,972
	2,540,881,442	2,566,305,645
Liabilities		
Current Liabilities		
Accounts payable and other liabilities	460,127	699,000
Due to Heritage Educational Foundation (Note 8)	-	4,280,675
Unclaimed subscribers' contributions (Note 6)	-	39,978,786
Sales charges obligation (Note 9)	1,059,338	1,813,757
	1,519,465	46,772,218
Net assets attributable to subscribers and beneficiaries (Note 6)	2,539,361,977	2,519,533,427

Approved by the Board of Directors of Heritage Educational Foundation

_____________________________, Director _____________________________, Director

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

HERITAGE PLANS
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2018 and December 31, 2017
All amounts in Canadian dollars

	2018	2017
Income		
Interest income	50,190,728	38,032,793
Dividend income	26,053,092	21,368,094
Other income	-	119,421
Other changes in fair value of investments:		
Net realized gains on investments	1,542,585	36,411,575
Net change in unrealized gains or (losses) on investments	(51,473,492)	(5,924,347)
Total income (net)	26,312,913	90,007,536
Expenses		
Administration fees (Note 8)	13,756,571	12,539,515
Investment counsel fees	2,664,958	2,712,349
Other expenses	-	451,705
Independent review committee fees (Note 8)	31,581	71,731
Trustee fees	148,283	178,723
Transaction costs	37,746	-
Total expenses	16,639,139	15,954,023
Increase in net assets attributable to subscribers and beneficiaries	9,673,774	74,053,513

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

HERITAGE PLANS
STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO SUBSCRIBERS AND BENEFICIARIES
For the years ended December 31, 2018 and December 31, 2017
All amounts in Canadian dollars

	2018	2017
Net assets attributable to subscribers and beneficiaries, beginning of period	2,519,533,427	2,483,380,470
Subscribers' contributions		
Contributions and transfers in	191,855,833	184,372,277
Return of subscribers' contributions and transfers out	(162,948,384)	(150,899,512)
	28,907,449	33,472,765
Reclassification of subscribers' contributions (Note 6)	39,978,786	-
	68,886,235	33,472,765
Government grants		
Government grant contributions	60,338,589	51,861,311
Government grant repayments and transfers	(8,644,651)	(1,428,239)
Government grant payments to beneficiaries	(27,994,288)	(27,741,507)
	23,699,650	22,691,565
Accumulated income		
Increase in net assets attributable to subscribers and beneficiaries	9,673,774	74,053,513
Education Assistance Payments – Group Plan	(54,484,908)	(61,127,310)
Education Assistance Payments – Self-Determined Plan	(15,693,842)	(19,005,574)
Payments of government grant income to beneficiaries	(10,887,114)	(12,401,599)
Repayment of sales charges	(1,365,245)	(1,530,403)
	(72,757,335)	(20,011,373)
Net assets attributable to subscribers and beneficiaries, end of year	2,539,361,977	2,519,533,427

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

HERITAGE PLANS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and December 31, 2017
All amounts in Canadian dollars

	2018	2017
Cash flows from (used in) operating activities		
Increase in net assets attributable to subscribers and beneficiaries	9,673,774	74,053,513
Adjustments for:		
Net change in unrealized losses (gains)	51,473,492	5,924,347
Net realized gains on investments	(1,542,585)	(36,411,575)
Amortization of bond discounts/premiums	12,774,980	24,986,401
Amounts re-allocated to plans available for EAPs	-	3,058,870
Decrease (increase) in accrued interest	(2,293,352)	2,989,278
Change in sales charge obligation	(754,419)	(613,204)
Increase (Decrease) in due to/from Heritage Educational Foundation	(17,711,108)	3,007,181
Increase in unclaimed subscribers' contributions	-	4,699,227
Increase (decrease) in accounts payable and other liabilities	(238,874)	24,000
Purchase of investments	(4,445,784,967)	(3,159,617,734)
Proceeds from sale or maturity of investments	4,423,684,368	3,111,625,146
Net cash flow from operating activities	29,281,309	33,725,450
Cash flows from (used in) financing activities		
Subscribers' contributions	191,855,833	184,372,277
Return of subscribers' contributions	(162,948,384)	(150,899,512)
Government grants	56,797,146	52,295,885
Government grants paid to beneficiaries and transfer-outs	(27,994,288)	(18,449,796)
Government grant repayments and transfers	(8,644,651)	(10,719,950)
Plan adjustments received from HEFI	-	3,662,833
Income payments to beneficiaries		
Education Assistance Payments	(71,543,994)	(84,722,155)
Government Grants	(10,887,114)	(12,824,786)
Income payments to educational institutions from government grants	-	(3,674,221)
Net cash used in financing activities	(33,365,452)	(40,959,425)
Net (decrease) increase in cash	(4,084,143)	(7,233,975)
Cash, beginning of period	8,999,794	16,233,769
Cash, end of period	4,915,651	8,999,794

Supplementary Information		
*Interest received **	*46,886,827*	*65,583,165*
*Dividends received **	*26,996,284*	*21,275,848*
-* Included in operating activities		

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

HERITAGE PLANS
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2018
All amounts in Canadian dollars

Bond Name	Coupon %	Maturity Date	Par Value $	Cost $	Fair Value $
FEDERAL (59.0%)					
GOVERNMENT OF CANADA	2.00%	2028-06-01	184,710,000	176,946,417	185,273,366
GOVERNMENT OF CANADA	5.75%	2029-06-01	130,005,000	174,206,586	175,639,355
GOVERNMENT OF CANADA	5.75%	2033-06-01	86,115,000	121,600,914	125,381,718
GOVERNMENT OF CANADA	5.00%	2037-06-01	166,510,000	228,159,744	238,525,575
CANADA HOUSING TRUST	3.80%	2021-06-15	71,665,000	74,595,084	74,657,730
CANADA HOUSING TRUST	2.35%	2023-09-15	48,175,000	49,448,148	48,312,299
CANADA HOUSING TRUST	1.20%	2020-06-15	43,000,000	42,510,238	42,563,120
CANADA HOUSING TRUST	2.35%	2027-06-15	43,750,000	43,052,104	43,311,188
CANADA HOUSING TRUST	2.35%	2028-03-15	186,875,000	181,347,294	184,404,513
CANADA HOUSING TRUST	2.65%	2028-03-15	242,765,000	239,932,541	245,500,962
CANADA HOUSING TRUST	2.65%	2028-12-15	112,435,000	109,910,029	113,594,205
				1,441,709,099	1,477,164,031
PROVINCIAL (11.3%)					
HYDRO-QUEBEC	11.00%	2020-08-15	40,135,000	43,170,991	45,817,715
PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	43,325,000	47,246,240	54,481,621
PROVINCE OF ONTARIO	4.40%	2019-06-02	2,685,000	2,690,872	2,713,380
PROVINCE OF ONTARIO	6.50%	2029-03-08	136,745,000	172,703,997	179,689,767
				265,812,100	282,702,483
CORPORATE (8.1%)					
BANK OF MONTREAL	2.89%	2023-06-20	32,000,000	31,997,765	31,975,520
BANK OF NOVA SCOTIA	3.10%	2028-02-02	17,540,000	17,534,733	17,395,383
MANULIFE BANK OF CANADA	2.08%	2022-05-26	25,000,000	25,000,000	24,331,875
NATIONAL BANK OF CANADA	1.96%	2022-06-30	15,980,000	15,601,518	15,470,957
ROYAL BANK OF CANADA	2.33%	2023-12-05	39,925,000	39,925,000	38,807,300
ROYAL BANK OF CANADA	2.95%	2023-05-01	33,400,000	33,400,000	33,450,267
TORONTO-DOMINION BANK	3.23%	2024-07-24	12,000,000	12,370,389	12,159,780
TORONTO-DOMINION BANK	1.99%	2022-03-23	29,550,000	29,550,000	28,866,804
				205,379,405	202,457,886
SHORT TERM SECURITIES (2.3%)					
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2019-03-07	45,355,000	45,220,309	45,223,013
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2019-01-24	11,870,000	11,857,315	11,858,011
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2019-01-03	150,000	149,979	149,988
				57,227,603	57,231,012
TOTAL DEBT				**1,970,128,207**	**2,019,555,412**

EQUITIES	# of Shares	Cost $	Fair Value $
COMMUNICATION SERVICES (2.1%)			
BCE INC	108,300	5,842,136	5,840,619
CINEPLEX INC	211,350	9,915,630	5,376,744
COGECO COMMUNICATIONS INC	1,400	92,583	92,092
QUEBECOR INC	144,400	2,446,373	4,150,056
ROGERS COMMUNICATIONS INC	169,650	9,008,472	11,868,714
SHAW COMMUNICATIONS INC	292,250	7,854,477	7,221,498
TELUS CORP	374,800	16,504,064	16,959,700
		51,663,735	51,509,423
CONSUMER DISCRETIONARY (0.3%)			
CANADIAN TIRE CORP	32,400	4,985,762	4,624,776
DOLLARAMA INC	4,320	233,162	140,270
GILDAN ACTIVEWEAR INC	38,300	1,562,780	1,587,152
MAGNA INTERNATIONAL INC	3,700	281,084	229,289
RESTAURANT BRANDS INTERNATIONAL INC	19,600	1,080,686	1,397,872
STARS GROUP INC	3,030	114,424	68,296
UNI SELECT INC	12,100	383,419	234,861
		8,641,317	8,282,516
CONSUMER STAPLES (1.2%)			
ALIMENTATION COUCHE-TARD INC	96,420	5,724,951	6,547,882
COTT CORPORATION	14,620	287,327	277,926
EMPIRE CO LTD	40,300	1,086,401	1,161,849
LOBLAW COS LTD	74,610	4,063,643	4,559,417
MAPLE LEAF FOODS INC	35,600	971,059	972,948
METRO INC	53,200	1,855,585	2,518,488
NORTH WEST CO INC	246,200	6,606,467	7,735,604
PREMIUM BRANDS HLDGS CORP	16,770	1,469,836	1,255,402
SAPUTO INC	44,400	1,515,098	1,740,036
WESTON GEORGE LTD	36,031	3,784,327	3,244,592
		27,364,694	30,014,144
ENERGY (3.0%)			
ARC RESOURCES LTD.	284,700	5,957,698	2,306,070
CANADIAN NATURAL RESOURCES	192,000	8,236,249	6,324,480
CENOVUS ENERGY INC	27,200	369,227	261,120
ENBRIDGE INC	306,611	15,063,491	13,003,373
ENCANA CORP	49,000	756,428	386,120
ENERFLEX LTD	5,300	88,999	84,694
IMPERIAL OIL LTD	78,000	3,457,841	2,698,020
INTER PIPELINE LTD	54,000	1,577,048	1,044,360
KEYERA CORP	297,450	11,769,361	7,677,185

MULLEN GROUP LTD	11,800	200,527	144,078
NUVISTA ENERGY LTD	69,000	551,379	281,520
PARKLAND FUEL CORP	44,600	1,040,539	1,576,164
PASON SYSTEMS INC	44,800	909,788	819,392
PEMBINA PIPELINE CORP	346,160	13,171,362	14,022,942
SHAWCOR LTD	27,200	903,952	450,976
SUNCOR ENERGY INC	20,900	864,343	796,917
TRANSCANADA CORP	342,650	18,831,568	16,704,188
VERMILION ENERGY INC	148,100	7,114,197	4,259,356
WHITECAP RESOURCES INC	775,760	6,759,904	3,374,556
		97,623,901	76,215,511
FINANCIALS (5.7%)			
BANK OF MONTREAL	114,100	9,645,656	10,176,579
BANK OF NOVA SCOTIA	335,650	22,564,918	22,840,983
CI FINANCIAL CORP	139,800	3,918,728	2,415,744
CANADIAN IMPERIAL BANK OF COMMERCE	120,600	12,178,032	12,262,608
CANADIAN WESTERN BANK	5,140	196,151	133,846
FAIRFAX FINL HLDGS LTD	2,500	1,743,410	1,502,450
GREAT WEST LIFECO INC	158,100	5,128,555	4,455,258
INTACT FINL CORP	148,680	13,643,863	14,747,569
LAURENTIAN BANK OF CANADA	17,100	840,889	650,997
MANULIFE FINANCIAL CORP	338,400	7,363,360	6,554,808
NATIONAL BANK OF CANADA	9,300	557,347	521,265
ONEX CORPORATION	13,900	1,091,831	1,033,465
POWER CORP OF CANADA	236,900	7,287,967	5,811,157
POWER FINANCIAL CORP	119,100	3,656,314	3,076,353
ROYAL BANK OF CANADA	268,150	21,945,827	25,055,936
SUN LIFE FINANCIAL INC	98,000	4,112,275	4,438,420
TMX GROUP LTD	11,380	865,434	804,907
TORONTO-DOMINION BANK	401,750	22,209,848	27,262,755
		138,950,405	143,745,100
HEALTH CARE (0.2%)			
CHARTWELL RETIREMENT RESIDENCES	397,800	4,877,853	5,437,926
EXTENDICARE INC	51,900	428,898	329,565
		5,306,751	5,767,491
INDUSTRIALS (1.3%)			
ATS AUTOMATION TOOLING SYSTEMS INC	7,500	117,923	107,925
AIR CANADA	4,200	97,116	109,032
BOYD GROUP INCOME FD	26,040	1,814,610	2,941,218
CAE INC	158,300	2,514,287	3,971,747
CANADIAN NATIONAL RAILWAY	44,800	4,192,339	4,529,728
CANADIAN PAC RY LTD	10,100	2,474,478	2,446,624

FINNING INTL INC	31,800	1,023,104	756,840
MORNEAU SHEPELL INC	9,600	224,068	240,384
NFI GROUP INC	18,330	863,639	623,953
RITCHIE BROS AUCTIONEERS INC	11,900	414,260	531,454
SNC LAVALIN GROUP INC	127,100	7,096,137	5,836,432
TFI INTERNATIONAL INC	14,000	435,647	494,200
TOROMONT INDS LTD	46,700	1,880,158	2,533,942
WSP GLOBAL INC	10,200	458,602	598,434
WASTE CONNECTIONS INC	43,200	2,816,107	4,377,456
WESTJET AIRLINES LTD	14,000	367,084	252,000
WESTSHORE TERMS INVESTMENT CORP	136,250	3,731,707	2,804,025
		30,521,266	33,155,394
INFORMATION TECHNOLOGY (0.4%)			
CONSTELLATION SOFTWARE INC	3,250	2,017,018	2,840,045
DESCARTES SYSTEMS GRP	7,600	168,157	273,828
ENGHOUSE SYSTEMS LTD	1,900	105,940	126,179
GROUPE CGI INC	31,300	2,011,878	2,613,550
OPEN TEXT CORP	92,400	2,947,548	4,111,800
SHOPIFY INC	1,620	296,726	305,840
		7,547,267	10,271,242
MATERIALS (0.5%)			
BARRICK GOLD CORP	10,700	235,739	197,201
CCL INDUSTRIES INC	3,800	231,037	190,228
CASCADES INC	26,400	417,596	270,072
CHEMTRADE LOGISTICS INCOME FD	270,200	4,783,250	2,831,696
GOLDCORP INC	51,300	851,590	685,881
METHANEX CORP	15,300	1,370,309	1,004,598
NORBORD INC	1,200	49,651	43,560
NUTRIEN LTD	96,491	6,302,326	6,187,003
SSR MNG INC	25,500	282,718	420,750
STELLA JONES INC	24,100	1,087,637	954,601
TECK RESOURCES LTD	7,300	263,886	214,547
TOREX GOLD RES INC	18,200	447,112	236,418
ENDEAVOUR MINING CORPORATION	10,800	249,266	241,272
		16,572,117	13,477,827
REAL ESTATE (2.4%)			
BROOKFIELD PROPERTY PARTNERS LP(BM)	258,450	6,836,024	5,691,069
ALLIED PROPERTIES REIT	154,300	5,577,476	6,838,576
ARTIS REAL ESTATE INVT TRUST	31,500	429,411	291,060
BOARDWALK REAL ESTATE INVT TRUST	20,000	1,063,025	756,200
CANADIAN APARTMENT PROP REIT	241,700	7,232,821	10,707,310
COMINAR REAL ESTATE INVT TRUST	22,300	402,502	249,760

CROMBIE REIT	126,400	1,660,267	1,582,528
DREAM OFFICE REIT	8,500	208,631	189,465
DREAM GLOBAL REIT	112,300	1,396,518	1,336,370
FIRST CAPITAL REALTY INC	111,800	2,224,749	2,107,430
GRANITE REIT	81,600	4,008,817	4,341,936
H&R REAL ESTATE INVT TRUST	343,000	7,523,322	7,082,950
INTERRENT REIT	52,000	645,417	678,600
KILLAM APARTMENT REIT	88,700	1,300,797	1,413,878
NORTHVIEW APARTMENT REIT	8,200	207,916	200,736
RIOCAN REAL ESTATE INVT TRUST	498,300	12,807,728	11,859,540
SMARTCENTRES REIT	91,200	2,716,521	2,811,696
		56,241,942	58,139,104
UTILITIES (1.9%)			
BROOKFIELD INFRASTRUCTURE PARTN L.P	3,100	160,730	146,165
BROOKFIELD RENEWABLE PARTNERS	160,490	5,848,024	5,673,322
ALGONQUIN PWR & UTILS CORP	560,800	6,560,562	7,699,784
ALTAGAS LTD	284,900	9,913,737	3,960,110
ATCO LTD	15,100	617,663	583,011
CANADIAN UTILITIES LTD	60,700	2,158,090	1,901,124
CAPITAL POWER CORP	64,300	1,595,648	1,709,737
EMERA INC	194,930	8,269,348	8,520,390
FORTIS INC	174,000	7,390,045	7,918,740
HYDRO ONE LTD	42,300	881,308	856,575
INNERGEX RENEWABLE ENERGY	69,300	807,295	869,022
NORTHLAND POWER INC	308,650	5,223,067	6,697,705
SUPERIOR PLUS CORP	17,400	191,359	168,432
		49,616,876	46,704,117
CANADIAN EQUITY (0.3%)			
BMO EQUAL WEIGHT US HEALTH CARE HEDGED to CAD ETF	179,000	7,898,010	8,572,310
		7,898,010	8,572,310
Total Equities		497,948,281	485,854,179
Less: Transaction costs		(37,746)	
Total Investments		**2,468,038,742**	**2,505,409,591**

HERITAGE PLANS
SUBSCRIBERS’ CONTRIBUTIONS AND SUBSCRIBERS' ACCUMULATED INCOME
As at December 31, 2018
All amounts in Canadian dollars

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

Year of eligibility	Opening Units	Inflows of Units(1)	Outflows of Units(2)	Ending Units	Subscribers' contributions	Education Assistance Payments(3)
Prior to 2017	15,980	-	(3,423)	12,557	$11,653,750	$43,447,248
2017	13,134	-	(4,904)	8,230	$7,628,831	$26,070,321
2018	38,035	-	(20,938)	17,096	$15,913,788	$51,162,752
2019	203,557	1,563.85	(165,797)	39,323	$36,398,525	$57,538,132
2020	204,149	24,043.06	(4,374)	223,817	$184,710,190	$60,284,584
2021	204,619	839.27	(1,901)	203,559	$155,056,928	$43,223,985
2022	201,437	1,188.04	(1,746)	200,879	$144,373,033	$34,915,465
2023	197,614	1,589.09	(2,179)	197,026	$135,828,927	$28,275,687
2024	197,045	2,096.31	(2,608)	196,535	$126,028,301	$23,074,109
2025	201,528	2,599.54	(3,903)	200,225	$117,360,360	$18,628,127
2026	205,902	3,264.84	(4,258)	204,908	$109,404,636	$14,383,234
2027	205,845	3,722.34	(4,692)	204,875	$97,267,902	$10,796,798
2028	196,495	4,658.50	(5,074)	196,079	$80,921,662	$7,344,205
2029	194,616	5,829.55	(6,815)	193,631	$68,733,207	$5,101,975
2030	192,150	6,163.06	(6,634)	191,679	$56,676,831	$3,305,534
2031	185,062	8,583.22	(7,264)	186,381	$43,763,580	$1,992,028
2032	161,645	8,840.98	(6,632)	163,854	$29,525,138	$1,004,270
2033	156,983	12,130.57	(7,605)	161,508	$20,853,447	$527,385
2034	145,664	14,128.75	(7,453)	152,340	$12,736,236	$185,874
2035	125,482	24,293.19	(5,389)	144,385	$6,684,404	$30,140
2036	66,322	53,780.47	(3,208)	116,894	$2,192,479	$8,221
2037	-	46,444.53	-	46,445	$171,105	$1,852
	3,313,264	225,759	(276,797)	3,262,226	$1,463,883,260	$431,301,926
	Sales Charge Obligation (Note 9)					($1,059,338)
					$1,463,883,260	$430,242,588

(1) Unit Inflows comprise of new units, additional units, transfers in, transfers from the unregistered Education Savings Plans and year of eligibility changes.

(2) Unit outflows comprise of matured units, terminated units, transfers out and year of eligibility changes.

(3) Reflects total of EAP account. The accumulated income is used to pay EAPs to eligible beneficiaries under the scholarship option and self-determined plan.

HERITAGE PLANS
SCHEDULE OF EDUCATIONAL ASSISTANCE PAYMENTS
As at December 31, 2018
All amounts in Canadian dollars

Educational Assistance Payments under the Group Plans are as follows:

	Year of eligibility								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Option 1 - payout in one payment:									
Number of units	12,247	1,571	260	102	-	7	17	-	-
First EAP	$ 377	$ 440	$ 517	$ 564	$ 563	$ 571	$ 671	$ 630	$ 690
	$ 4,617,043	$ 691,407	$ 134,384	$ 57,274	$ -	$ 3,997	$ 11,253	$ -	$ -
Option 2 - payouts in two payments:									
Number of units:									
First EAP	13,530	1,041	219	20	48	31	6	–	-
Second EAP	-	9,670	1,273	323	75	41	23	–	-
Amount of EAP per unit:									
First EAP	$ 189	$ 220	$ 259	$ 282	$ 282	$ 286	$ 336	$ 315	$ 345
Second EAP	-	259	372	487	439	363	422	475	490
	$ 2,557,206	$ 2,733,535	$ 530,439	$ 163,191	$ 46,360	$ 23,905	$ 11,519	$ –	$ -
Option 3 - payouts in three payments:									
Number of units:									
First EAP	81,900	5,184	480	2	(16)	(38)	(20)	-	-
Second EAP	-	75,681	9,641	2,491	238	27	3	-	–
Third EAP	-	–	67,288	18,596	4,205	655	176	-	7
Amount of EAP per unit:									
First EAP	$ 126	$ 146	$ 173	$ 188	$ 188	$ 191	$ 224	$ 210	$ 230
Second EAP	-	156	177	244	220	182	211	238	245
Third EAP	-	–	169	251	313	276	242	310	363
	$ 10,319,350	$ 12,563,107	$ 13,161,170	$ 5,275,816	$ 1,365,452	$ 178,456	$ 37,503	$ -	$ 2,541
Total	$ 17,493,599	$ 15,988,049	$ 13,825,993	$ 5,496,281	$ 1,411,812	$ 206,358	$ 60,275	$ -	$ 2,541
Total EAPs under the Group Plans paid in 2018									$ 54,484,908

HERITAGE PLANS
NOTES TO THE FINANCIAL STATEMENTS
As at December 31, 2018 and December 31, 2017

1. General information

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 were distributed by Heritage Education Funds Inc. (“HEFI”) a subsidiary controlled by Heritage Financial Group Limited (“HFGL”) until January 2, 2018 as described below. During the year ended December 31, 2017, the Foundation and HEFI were under common management as the beneficial share holders of HEFI constituted the board members of the Foundation.

The Plans consist of trusts established under the laws of Ontario and the laws of Canada. Formerly known as the Heritage Scholarship Trust Plans, the Plans were established on December 19, 1986 and the Canada Trust Company was originally appointed as trustee pursuant to a trust agreement of the same date. Since that time, the plan changed its name to the Heritage Plans and RBC Investor Services Trust was appointed as a trustee pursuant to an amended and restated trust indenture between the Foundation and the trustee dated as of June 20, 2003. Effective November 1, 2018, The Bank of Nova Scotia Trust Company became the trustee pursuant to an amended and restated trust indenture of that date.

Effective January 2, 2018 (the “Acquisition Date”), Knowledge First Financial Inc. (“Knowledge First Financial”, a wholly-owned subsidiary of Knowledge First Foundation) acquired 100% of the outstanding shares of Heritage Amalgamated Corporation (“HAC” which owned 100% of the common shares of the HEFI), 100% of the Class C shares of HEFI, and 100% of the outstanding shares of CMR Inc. (“CMR”). Concurrent with the acquisition, certain directors of Knowledge First Foundation became the directors of the Foundation.

On August 28, 2018 (the “Amalgamation Date”), Knowledge First Financial, HEFI, HAC and 10896357 Canada Inc. (formerly CMR) amalgamated. The amalgamated company continued under the name Knowledge First Financial Inc. and Knowledge First Financial is now the manager of the Plans.

The Plans are administered by the Foundation, which is responsible for the co-ordination of the functions provided by the depository, trustee and portfolio advisors. Prior to the Amalgamation Date, this administration was contracted to HEFI, and subsequent to that date, to Knowledge First Financial, which has also been appointed as distributor of the Plans to offer enrollment to subscribers.

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 Plans 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 28, 2018. The address of the Plans' registered office is 50 Burnhamthorpe Road West, Suite 1000, Mississauga, Ontario, Canada L5B 4A5.

The financial statements were authorized for issue by the Board of Directors of the Foundation on April 17, 2019.

2. Basis of Accounting

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). The Plans has consistently applied the accounting policies used in the preparation of its financial statements except as stated below.

3. Summary of significant accounting policies

The significant accounting policies followed by the Plans are as follows.

Transition to IFRS 9

Effective January 1, 2018, the Plans adopted IFRS 9 "Financial Instruments". The new standard addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39. It requires financial assets to be classified as amortized cost, fair value, with changes in fair value recognized in profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces a new expected credit loss ("ECL") impairment model.

The adoption of IFRS 9 has been applied retrospectively without restatement of prior periods by the Plans and did not result in a change to the measurement of financial instruments, in either the current or the comparative period. Upon transition to IFRS 9, the Plans' investments previously classified as FVTPL under IAS 39 continued to be categorized as fair value through profit and loss. Financial assets and liabilities previously measured at amortized cost under IAS 39 continue to be measured at amortized cost. There was no material impact on adoption from the application of the new impairment model.

Financial Instruments

The Plans recognize financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit or loss. The Plans' investments are classified at FVTPL, including its investments in equities, ETFs and debt securities. All other financial assets and liabilities, including interest and dividends receivable, amounts receivable for investments sold, government grants receivable, other receivables, amounts payable for securities purchased and accounts payable and other liabilities, and principal payable to subscribers are measured at amortized cost. The Plans' obligation for net assets attributable to subscribers and beneficiaries is presented at the distribution amount, which is the residual amount of assets of the Plans after deducting all of its liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. For equities & exchange traded funds, the Plans use the last traded market price where the last traded price falls between that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, Knowledge First Financial determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. For bonds, the Plans use mid prices provided by independent security pricing vendors. The Plans' policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer. The fair value of financial assets and liabilities that are not quoted in an active market is determined using valuation techniques. The use of valuation techniques for financial instruments that are not quoted in an active market requires the Manager to make assumptions that are based on market conditions existing as at the date of the financial statements. Changes in these assumptions as a result of changes in market conditions could affect the reported fair value of financial instruments.

Income recognition, transaction costs and expenses

Interest income from investments in bonds and short-term investments is recognized at the effective interest rate. Interest receivable is recorded in the Statement of Financial Position based on the debt instruments' stated rates of interest. Dividends are recognized as income on the ex-dividend date. The cost of investments is determined using the average cost method. Average cost includes amortization of premiums and discounts on the Plans' debt securities.

Impairment of financial assets

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost. With respect to financial assets at amortized cost, the Plans consider both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement dates, all loans and receivables are due to be settled within the short term. The Plans consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Plans to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

Foreign currency
The financial statements are presented in Canadian dollars, which is the Plans' functional and presentation currency.

Cash
Cash is comprised of demand deposits with financial institutions.

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 Plans units at any time.

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 Plans' investment income in accordance with the Prospectus.

Government contributions
Government grants represent contributions received from federal and provincial governments. Government grants are recognized upon receipt of an eligible contribution to a registered education savings plan by a subscriber to the Plan. 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"). 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. Forfeited income on returned government grants becomes immediately payable to a qualified educational institution. Government grants and accumulated income, therefore, are included in the net assets attributable to subscribers and beneficiaries.

Taxation
The income on Subscribers' contributions is currently exempt from income taxes under the Income Tax Act (Canada) prior to the maturity of the Plans. EAPs, comprising government grants and all accumulated income, made to qualified nominees will be included in their income for the purposes of the Income Tax Act (Canada). The amounts deposited by subscribers are not deductible to the subscribers for tax purposes and are not taxable when returned to subscribers or their designated nominees.

Interests in Unconsolidated Structured Entities
A structured entity is an entity that has been designed so that voting or similar rights are not dominant factors in deciding who controls the entity, or when voting rights relate to administrative tasks only and the relevant activities are directed by means of a contractual arrangement. The Plans invest in exchange traded funds ("ETFs") and asset-backed securities which are disclosed on the Schedule of Investment Portfolio. The Plans have determined that these investments are unconsolidated structured entities. The Plans' investments in unconsolidated structured entities are recorded at FVTPL. The ETFs finance their operations by issuing redeemable shares which are puttable at the holder's option and entitle the holder to a proportional stake in the ETF's net asset value. The ETFs are domiciled in Canada and listed on the Toronto Stock Exchange. The asset-backed securities include Canada Housing Trust bonds which are secured by and payable from mortgage loans on real property and guaranteed by the Government of Canada, through CMHC. These investments are included in "Investments" in the Statements of Financial Position. The Plans' maximum exposure to loss from its interest in these securities is equal to the total cost value of its investments.

4. Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant judgments and estimates that the Plans have made in preparing the financial statements.

Investment entity status
A significant judgment made in preparing the Plans' financial statements relates to the determination that the Plans meet the definition of an investment entity as described in IFRS 10, Consolidated financial statements. The Plans' objective is to

invest subscribers' contributions to maximize investment returns over the long term for the purpose of generating investment income. Fair value is the primary measurement used to evaluate the performance of substantially all investments.

Classification and measurement of financial instruments

In classifying and measuring financial instruments held by the Plans, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. In making this judgment, the Plans have assessed its business model for managing the portfolio and the contractual cash flow characteristics and determined the investments are managed on a fair value basis, and that fair value is used to assess performance and make investment decisions. The contractual cash flows of the Plans' debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Plans' business model's objective. Consequently, all investments are measured at FVTPL.

Measurement of fair value of PPNs

Principal Protected Notes ("PPNs") were valued using pricing models that used both observable and unobservable inputs requiring estimates and assumptions to be made. Changes in assumptions about these factors could have affected the reported fair values of the PPNs. As of December 31, 2018, the Plans did not hold any PPNs.

5. Financial Instruments Risks

The Plans' investment activities expose it to a variety of risks associated with financial instruments, as follows: credit risk, liquidity risk and market risk (including price risk, currency risk and interest rate risk). The Plans do not conduct any significant activities in currencies other than the Canadian dollar. The Plans' overall risk management approach includes investment guidelines, objectives, and limits which are designed to ensure that risk is mitigated through allocation of investments across different market sectors, maturity segments and issuers. The Plans engage third party investment managers and monitor the investments for compliance with the stated investment guidelines and relevant securities and tax regulations. Oversight responsibility and authority rests with the Foundation's Board of Directors and its Investment Committee. An Independent Review Committee is also in place.

Credit risk

The Plans are exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash on hand is kept on deposit at a Canadian Schedule I bank and Northern Trust. The majority of the credit risk to which the Plans are exposed arises from its investments in debt securities. The debt instruments held by the Plans are issued or guaranteed by federal, provincial, or municipal governments along with corporate debt instruments with an investment grade credit rating at the time of acquisition. The Plans may also be exposed to indirect credit risk through its holdings in ETFs.

The fair value of debt investments includes consideration of the credit worthiness of the debt issuer. The carrying amount of cash, receivables and debt investments represents the maximum credit risk exposure as at December 31, 2018 and December 31, 2017. The analysis below summarizes the credit quality of the Plans' debt portfolio as at December 31, 2018 and December 31, 2017. Credit ratings are obtained from Standard & Poor's, Moody's and DBRS. Where one or more rating is obtained for a security, the lowest rating has been used.

	Percentage of Fixed Income Investments (%) As At	
Credit Rating	**December 31, 2018**	**December 31, 2017**
"AAA"	78.1	68.4
"AA"	9.7	13.0
"A"	12.2	18.6
"BBB"	-	-
Total	100	100

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Plans have current exposure to the subscribers' contributions and government grant balances as subscribers can cancel or terminate their agreement at any time at which point the full balance would become immediately payable to the subscribers or the government. The Plans are also exposed to agreement maturities and obligations with respect to EAPs and the accumulated income account. Therefore, the Plans invest the majority of its assets in investments that are traded in an active market and can be easily liquidated. In addition, the Plans endeavours to retain adequate cash positions to maintain adequate liquidity.

Maturity Profile

EAPs (accumulated income and government contributions) are paid over three years upon submission of required documentation by subscribers and beneficiaries to the Foundation. Subscriber's principal is paid upon maturity of a respective agreement. See Schedule of Educational Assistance Payments for details of maturity with respect to principal and accumulated income.

If a subscriber cancels an agreement, the subscriber's principal and associated government contributions are due upon demand. The income on subscriber's principal will remain in accumulated income. Forfeited income on returned government grants becomes immediately payable to a qualified educational institution.

All other liabilities of the Plans are due within three months.

Concentration Risk
The table below summarizes this Plans' concentration risk as a percentage of investments as at December 31, 2018.

	Percentage of Investments (%) As at
Concentration	**December 31, 2018**
<u>Fixed Income</u>	
Federal	59.0
Provincial	11.3
Corporate	8.1
Short term investments	2.3
<u>Equities</u>	
Communication Services	2.1
Consumer Discretionary	0.3
Consumer Staples	1.2
Energy	3.0
Financials	5.7
Healthcare	0.2
Industrials	1.3
Information Technology	0.4
Materials	0.5
Real Estate	2.4
Utilities	1.9
TSX-listed ETF (US healthcare stocks)	0.3
Total	100

Market risk
The Plans' investments are subject to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The following include sensitivity analyses, as applicable, that show how the net assets attributable to subscribers and beneficiaries would be affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Plans hold securities with fixed interest rates that expose the Plans to interest rate risk. As at December 31, 2018, had prevailing interest rates increased or decreased by 25 basis points, assuming a parallel shift in the yield curve, with all other variables held constant, net assets of the Plans would have decreased or increased, respectively, by approximately $38 million (approximately 1.5% of the total investment portfolio) (2017 - $25 million, approximately 1% of the total investment portfolio). In practice, actual results may differ from this analysis and the difference could be material. The Plans manage interest rate risk through its portfolio managers by diversifying in various investments, as well as through Investment Committee oversight.

The table below summarizes the Plans' exposure to interest rate risk as at December 31, 2018 and December 31, 2017, by remaining term to maturity.

31-Dec-18	**Within 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Short term investments				
Banker's acceptance	-	-	-	-
Promissory Note	-	-	-	-
Treasury Bill	57,231,012	-	-	57,231,012
Term Deposits	-	-	-	-
Government guaranteed instruments				
Federal	-	165,533,149	1,311,630,882	1,477,164,031
Provincial	2,713,380	45,817,715	234,171,388	282,702,483
Municipal	-	-	-	-
Corporate	-	172,902,723	29,555,163	202,457,886
Total	59,944,392	384,253,587	1,575,357,433	2,019,555,412
Percentage of total	3.0%	19.0%	78.0%	100.0%

31-Dec-17	**Within 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Short term investments				
Banker's acceptance	-	-	-	-
Promissory Note	-	-	-	-
Treasury Bill	66,283,172	-	-	66,283,172
Term Deposits	899,705	-	-	899,705
Government guaranteed instruments				
Federal	95,676,292	448,180,801	667,236,032	1,211,093,125
Provincial	48,771,228	52,093,208	242,253,473	343,117,909
Municipal	-	-	-	-
Corporate	-	131,008,698	68,643,438	199,652,136
Total	211,630,397	631,282,707	978,132,943	1,821,046,047
Percentage of total	11.6%	34.7%	53.7%	100.0%

b) Other price risk

The Plans are exposed to other price risk, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Financial instruments held by the Plans are susceptible to market price risk arising from uncertainties about future prices of those instruments. The Plans' exposure to other price risk arises primarily from its investments in equity securities and ETFs. As at December 31, 2018, if the investment in equities and ETFs had increased or decreased by 5%, with all other variables held constant, the net assets attributable to subscribers and beneficiaries would have increased or decreased by approximately $24.3 million (2017 - $4.8 million based on 1% increase or decrease in the investment in equities).

c) Currency risk

The Plans are not exposed to any currency risk based on investments portfolio.

Capital risk management

The capital of the Plans is represented by the net assets attributable to subscribers and beneficiaries. The capital of the Plans can change on a daily basis as the Plans are subject to ongoing contributions and cancellations. In addition, EAPs and maturities occur at specified times during the year. The Plans are not subject to externally imposed capital requirements. The Plans' objective, when managing capital risk, is to safeguard subscribers' contributions and government grants received and earn income on those amounts in order to pay EAPs to qualified beneficiaries. The Plans endeavour to invest subscribers' contributions, government grants received, and income earned in appropriate investments while maintaining sufficient liquidity to meet maturities, EAPs, cancellations and expenses in accordance with its investment objectives and risk management policies as described above. In order to manage the Plans' capital, the Plans' policy is to perform the following:

- Monitor the level of daily subscriber contributions and withdrawals relative to the liquid assets and adjust the amount of cash invested accordingly.
- Monitor the level of expected future payments for maturities and EAPs based on maturity and student applications received, and historical beneficiary qualification rates, and adjust the investment portfolio accordingly.
- Invest in securities which are traded in an active market and can be easily liquidated.

There has been no change with respect to the overall capital risk management strategy during the year.

Fair value measurement

The Plans classify fair value measurement within a hierarchy which gives the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3	Inputs are unobservable for the asset or liability.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table illustrates the classification of the Plans' assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2018 and December 31, 2017.

As at December 31, 2018	Level 1	Level 2	Level 3	Total
Short-term investments	-	57,231,012	-	57,231,012
Government guaranteed instruments				
Federal	-	1,477,164,031	-	1,477,164,031
Provincial	-	282,702,483	-	282,702,483
Municipal		-		-
Corporate debt instruments	-	202,457,886	-	202,457,886
Equities & ETFs	485,854,179	-	-	485,854,179
Investments at fair value	485,854,179	2,019,555,412	-	2,505,409,591

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Short-term investments	-	67,182,877	-	67,182,877
Government guaranteed instruments				
Federal	-	1,211,093,125	-	1,211,093,125
Provincial	-	343,117,909	-	343,117,909
Municipal		-		-
Corporate debt instruments	-	199,652,136	137,320,692	336,972,828
Equities & ETFs	587,648,140	-	-	587,648,140
Investments at fair value	587,648,140	1,821,046,047	137,320,692	2,546,014,879

All fair value measurements above are recurring. The carrying values of receivable for investments sold, government grant receivable, interest receivable, dividends receivable, other receivables, receivables due from the Foundation, payable for investments purchased, principal payable to beneficiaries and accounts payable and other liabilities and the Plans' obligation for net assets attributable to subscribers and beneficiaries approximate their fair value due to their short-term nature.

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

		2018		2017
Balance, beginning of year	$	137,320,692	$	261,626,018
Realized gains		8,814,230		44,291,656
Change in unrealized gains		(15,342,692)		(30,627,327)
Proceeds from maturity or early termination		(130,792,230)		(137,969,655)
Balance, end of year	$	-	$	137,320,692
Change in unrealized gain (loss) for the year included in net investment income for investments held at year end	$	-	$	(30,627,327)

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and December 31, 2018.

During 2018, all remaining PPNs were either permitted to mature without replacement or were terminated prior to maturity. PPNs were categorized as Level 3 investments as some or all of the significant inputs into the models used to value those notes were not observable in the market and were derived from market prices or rates or were estimated based on assumptions.

Pricing risk	Risk criteria	2018	2017
PPNs	1% change in underlying indices	$ -	$ 610,000

In practice, actual trading results in respect of the PPNs may have differed from the above sensitivity analyses and the difference could have been material.

Investments in unconsolidated structured entities

Underlying Fund As at December 31, 2018	Country of establishment and principal place of business	% Ownership in the underlying Fund	Fair value of the Plans' investment in the underlying Fund
BMO EQUAL WEIGHT US HEALTH CARE HEDGED TO CAD ETF (ZUH)	Canada	2.35%	$8,572,310

Underlying Fund As at December 31, 2017	Country of establishment and principal place of business	% Ownership in the underlying Fund	Fair value of the Plans' investment in the underlying Fund
BMO EQUAL WEIGHT US HEALTH CARE HEDGED TO CAD ETF (ZUH)	Canada	2.41%	$7,164,450

6. Net assets attributable to subscribers and beneficiaries

Net assets attributable to subscribers and beneficiaries are comprised as follows:

	As at	
	December 31, 2018	December 31, 2017
Subscribers' contributions, net of returns	1,463,883,260	1,394,997,025
Government grants	541,981,718	518,282,068
Accumulated income		
Education assistance payment account	430,242,588	507,287,399
Income from government grants	91,765,568	86,112,847
Sales charge refund account	11,488,843	12,854,088
Balance – End of period	2,539,361,977	2,519,533,427

The prior period balance of accumulated income has been adjusted to include income from government grants and the sales charge refund account. This change in presentation was made to align with the current period disclosure.

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

	As at	
	December 31, 2018	**December 31, 2017**
Amounts contributed by subscribers	$ 217,194,306	$211,806,213
Sales charges	(18,607,115)	(20,430,459)
Unclaimed subscribers' contributions and other refunds	(12,922,561)	(8,853,763)
Contributions on maturing plans	(150,025,823)	(142,045,749)
Insurance premiums	(4,790,364)	(5,013,607)
Account maintenance fees	(1,940,994)	(1,989,870)
Net increase in Subscribers' contributions	28,907,449	33,472,765
Reclassification of subscribers' contributions Inactive Plans	39,978,786	-
	68,886,235	33,472,765
Balance – Beginning of period	1,394,997,025	1,361,524,260
Balance – End of period	1,463,883,260	1,394,997,025

In prior years, the subscribers' contributions on inactive plans were presented as 'Unclaimed Subscribers' Contributions' within current liabilities on the Statement of Financial Position. As at December 31, 2018, subscribers' contributions on inactive plans are included in the net assets attributable to subscribers and beneficiaries where such balances are no longer immediately payable or forfeitable.

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:

	December 31, 2018	**December 31, 2017**
Receipts:		
Income from terminated and transferred out Plans	$21,364,474	$20,574,988
Disbursements:		
Sales charges refunded to Plans with a maturity date on or after July 31, 2015	(9,875,631)	(7,720,900)
Balance of sales charge refund account	11,488,843	12,854,088

7. Discretionary payment account

Historically, the Discretionary Payment Account ("DPA") was used by the Plans in accordance with the Foundation's not-for-profit nature. Beneficiaries of plans with a maturity date on or prior to July 31, 2014 (and where the scholarship option has been selected) may have received a discretionary payment along with their EAPs. Such payments were made to increase EAPs and/or return an applicable amount of sales charges previously netted against subscriber contributions depending on the scholarship option selected. The cumulative balance of inflows and outflows through the DPA as at December 31, 2017 since the DPA was established was a deficit of $8,006,035.

The sources of funding were:

- Income earned in the Education Assistance Payment account after the maturity date on agreements with pre-2015 maturity;
- Income earned on plans that were terminated prior to the maturity date on agreements with pre-2015 maturity; and
- Principal contributions of inactive plans which were unclaimed five years after the maturity date.

The outflows reducing this cumulative DPA amount were as follows:

- Education Assistance Payment top-ups;
- Sales charges refund on agreements with pre-2015 maturity; and
- Unclaimed refunds paid to subscribers

During fiscal 2018, the cumulative DPA deficit of $8,006,035 as of December 31, 2017 was distributed on a dollar-weighted basis to the Accumulated Income account of each of the years of eligibility with such balances as at December 31, 2017. The principal contributions on inactive plans may no longer be forfeited to the DPA resulting in no further inflows into the DPA.

8. Related party transactions

Account maintenance and administrative fees are paid by the Plans to the Foundation and then by the Foundation to Knowledge First Financial.. The Foundation pays these fees to Knowledge First Financial 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. The total administrative fees of $13,756,571 (2017 - $12,539,515) were payable by the Foundation to Knowledge First Financial from the subscribers' contributions received for the Plans. The account maintenance fee is an annual fee which is deducted quarterly from subscriber's contributions.

As of December 31, 2018, the amount due from the Foundation to the Plans was $13,430,434 (2017 – due to the Foundation from the Plans of $4,280,675 with the amount due from the Foundation representing net subscribers' contributions yet to be settled between the Foundation and the Plans.

Prior to December 2018, the Foundation had an Investment Management Agreement (the "Agreement") with Yorkville Asset Management Inc. ("Yorkville"), whereby Yorkville was appointed as one of the Portfolio Advisers for the Plans. Yorkville was responsible for managing a portion of the Plans' PPNs for which it received compensation from the issuers of the PPNs, the amounts of which varied depending on the term and underlying exposure of each instrument. Yorkville was also responsible for managing a portion of the Plans' equity portfolio for which it received compensation from the Foundation.

Under the terms of the Agreement, the fees charged by Yorkville were less than or equal to fees charged by similar service providers for similar products. At the time of entering into the Agreement until January 2, 2018, Yorkville was 50% owned by an affiliate of HEFI. The decision to enter into that 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 was periodically reviewed by the IRC under the provisions of NI 81-107. For the year ended December 31, 2018, Yorkville received Nil (2017 - $120,000) from the issuers of the PPNs for their services provided under the Agreement and also received $348,342 (2017 - $322,086) from the Plans for their services in managing a portion of the equity portfolio under the Agreement. Effective the Acquisition Date, Yorkville was no longer an affiliate of HEFI.

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, 2018, the IRC fees paid by the Plans were $31,581 (2017 - $71,731).

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 sales charges. The change affects agreements maturing on or after July 31, 2015. Prior to this change, the Plans 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 Plans. Subscribers who enrolled in the Plans prior to July 2, 2004 and whose agreements 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 agreements 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. The refund of sales charges was historically funded from the DPA (Note 7). The sales charge obligation represents the value of the sales charge disbursements calculated as the nominal dollar of the sales charges to be returned. As at December 31, 2018, the Plans determined the sales charges obligation for plans with maturity date prior to July 31, 2015 to be $1,059,338 (2017 - $1,813,757) and such amount is recorded as current liability in the Statements of Financial Position with a corresponding reduction to the Education Assistance Payment account.