

Management Report of Fund Performance and Audited Financial Statements

Heritage Plans

For the year ended December 31, 2009



Securing Your Child's Future Since 1965

Management Report of Fund Performance – Heritage Plans

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

The investment policies of the Heritage Plans (the “Plans”), as well as those contained in Canadian Securities Administration policy, limit the Plans’ investments to specified government bonds, guaranteed investment certificates (including principal protected notes/bank deposit notes) and corporate debt securities with an approved rating. None of these securities require the issuer thereof to call meetings of holders or otherwise carry a right to vote. Accordingly, the Plans’ policies and procedures on how to vote on any matter for which the Plans receive, in their capacity as security holders, proxy materials for a meeting of security holders, are limited to exceptional circumstances where creditors of an issuer are given a right to vote in accordance with applicable laws.

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Management Discussion of Fund Performance

Investment Objective and Strategy

The investment objective of the Plans is to preserve capital while maximizing the long-term rate of returns for investors, within guidelines set out in the Investment Policy Statement. The Plans consist of investment grade federal, provincial and corporate securities, bank deposit notes, principal protected notes and cash. The Heritage Educational Foundation has engaged its portfolio advisors, Scotia Asset Management L.P., CIBC Wood Gundy and UBS Bank (Canada), to achieve its investment objective.

Scotia Asset Management L.P. (a wholly owned subsidiary of Scotiabank) manages the majority of the portfolio of the Plans on a discretionary basis within set parameters established under the Prospectus and the investment policy statement. The investment strategy focuses on achieving a superior rate of return by strategically positioning the portfolio on the yield curve and selecting optimal credit securities, within well-defined risk parameters.

CIBC Wood Gundy, a division of CIBC World Markets, and UBS Bank (Canada) are additional portfolio advisors to the Foundation and they are responsible for the investments in principal protected notes. The objective of CIBC Wood Gundy and UBS Bank (Canada) is to provide Subscribers' capital protection while positively exposing the Plans' portfolio to increasing global equity and commodity values. The Plans' principal protected notes ensure that the principal of the note is not at risk.

Risk

The Prospectus outlines the investment risks related to the portfolio as well as its suitability for investors. The key risks are interest rate risk, pricing risk, liquidity risk and credit risk. Please refer to the audited financial statements for the year 2009 for an explanation of these risks.

Results of Operations

The assets of the Plans topped \$1.68 billion as at December 31, 2009. The asset mix for the Plans did not change materially from the previous period. At December 31, 2009, 85.6% of the Plans' portfolio was invested in government bonds, corporate debt and short-term notes, and 14.4% was invested in principal protected notes.

For 2009, the Plans' rate of return on the total investment portfolio was 4.31%. The one-year return on domestic bonds was 5.41%, 384 basis points higher than DEX Universe All Government Bond Index ("Index") of 1.57%. The return on the principal protected notes for the same period was -1.51%. The Plans' return, as set out above, reflects that Administration, Advisory and Independent Review Committee fees have been deducted in the calculation.

The year 2008 saw investors pursue a "flight to safety" strategy, shunning non-sovereign securities. This was characterized by the widening of spreads with respect to both Provincial and Corporate bonds. However, 2009 saw a reversal of this behaviour, as investors went from shunning credits to chasing them. In Canada, the year began with the difference in yields on corporate bonds and comparable governments bonds (credit spread) at over 3%, and the yield differential on provincial bonds at nearly 2% above comparable federal issues. Since then, spreads have compressed to 1.3% and 1.2% for corporate and provincial bonds, respectively.

Results of Operations (continued)

The Canadian and American government yield curves are fairly steep, with rates at the short end of the curve remaining at effectively zero and rates at the longer end of the curve substantially higher. Duration in the Plans portfolio was neutral to that of the Index. The overweight in provincial and Schedule I bank bonds was the main driver of outperformance this year as credit spreads, which were both at historic highs, contracted to levels not seen since the spring of 2008, in other words, prior to the events leading up to the credit crisis. The Plans' fixed-income portfolio has adopted a barbell strategy in anticipation of a flattening yield curve.

Recent Developments

Following a rocky start, financial markets staged an impressive recovery in 2009. Long-term assets generated solid returns, with riskier asset classes outperforming their less risky counterparts, longer term bonds outperforming money market instruments and corporate bonds outperforming sovereign debt. On the economic front, unprecedented coordinated action between governments and Central Banks resulted in extremely low interest rates for the entire year. Additionally, many countries ramped up fiscal spending with stimulus policies and/or provided assistance to corporations in financial trouble.

The second quarter of 2009 came as a relief, with global credit markets recovering significantly. The U.S., Canadian and European Central Banks all cut rates aggressively to 1% or less, providing credit markets with a sense of stability. The bond market rebound that gathered steam in the first half of 2009 continued to gain strength in the second half of the year on strong liquidity and growing investor confidence that the financial crisis and recession were over.

However, with persistent low interest rates for cash-like securities and little room for interest rates to move lower, the amount of interest income investors can generate from these investments in the near future may be limited.

Related Party Transactions

The Plans are distributed by Heritage Education Funds Inc. (the "Distributor"), a subsidiary controlled by Heritage Financial Group Limited. The Plans' Sponsor ("Heritage Educational Foundation") and the Distributor are under common management, and the beneficial shareholders of the Distributor constitute the Board members of the Plans' Sponsor.

Membership fees are deducted from the initial Subscribers' contributions and paid to the Distributor.

Depository and Administration fees are paid to the Plans' Sponsor. The Plans' Sponsor pays these fees to the Distributor for expenses incurred in assisting the Plans' Sponsor to administer the Plans.

Financial Highlights

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

Financial Highlights (with comparative numbers)

(in \$ thousands)	2009	2008	2007	2006	2005
Statement of Net Assets					
Total Assets	\$ 1,677,999	\$ 1,522,260	\$ 1,357,285	\$ 1,213,184	\$ 1,076,612
Net Assets	580,455	529,918	459,638	409,519	386,732
% Change in Net Assets	9.5%	15.3%	12.2%	5.9%	27.4%
Statement of Changes in Net Assets					
Educational Assistance Payments*	\$ 30,603	\$ 24,034	\$ 22,495	\$ 17,445	\$ 13,633
Government grants and interest paid	8,508	6,377	4,953	3,252	2,292
Statement of Operations					
Net Investment Income	\$ 64,373	\$ 70,149	\$ 45,500	\$ 42,253	\$ 66,379
Other					
Total number of Units in Plan	2,827	2,636	2,421	2,202	1,948
% Change in Total Number of Units	7.25%	8.88%	9.95%	13.0%	8.7%

*excluding repayment of membership fees.

Management Fees

Administration Fees

An annual administration fee of ½ of 1%, comprising the Plans' administration and processing fees, was paid out to the Heritage Educational Foundation, the sponsor and administrator of the Plans pursuant to the Education Savings Plan Contract. This totaled \$8,172,545 for the year 2009. The administration of the Plans includes processing and call centre services related to new agreements, payments, government grants (CESG, CLB, ACES and QESI), plan modifications, cancellations, maturities and Educational Assistance Payments. The annual administration fee is calculated as ½ of 1% of the sum of: principal; interest in Subscribers' accounts; as well as government grants, including interest earned thereon.

Portfolio Management Fees

An annual portfolio management fee of \$765,743 for portfolio management services was paid to Scotia Asset Management L.P. for the year ended December 31, 2009. Scotia Asset Management L.P. provides advisory and discretionary managed account services with respect to purchasing, selling and otherwise dealing in securities and other investments of the Plans.

The portfolio management fee is calculated on the market value of the portfolio at the end of each quarter based on a graduated fee schedule and is paid on a quarterly basis. This amounted to 5.5 basis points for 2009.

Independent Review Committee Fees

For the year ended December 31, 2009, an annual fee of \$56,500, excluding GST was paid to the Independent Review Committee ("IRC") members for services provided and \$35,132 was paid for expenses directly related to the IRC. The IRC for Investment Funds is an initiative of the Canadian Securities Administrators and is created pursuant to requirements of National Instrument 81-107 requiring that each publicly offered investment fund have an IRC. Its role is to oversee all decisions involving an actual or perceived conflict of interest between the Foundation or Distributor and the Plans. The Foundation has appointed its IRC, comprised of three members, all of whom are independent of the Foundation and Distributor.

Past Performance

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

The performance information shown:

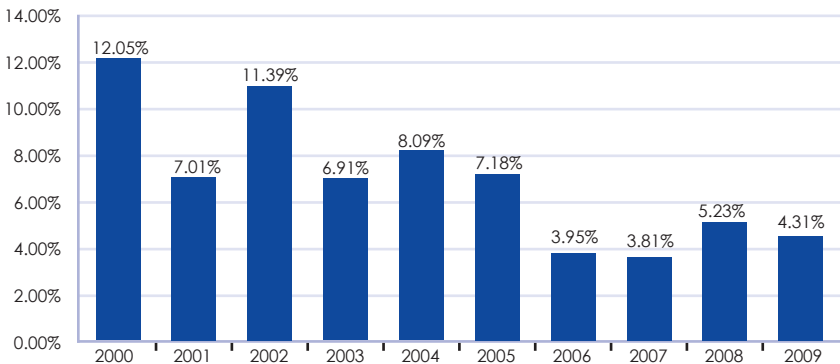
- assumes all income, interest earned and capital gains distributions are reinvested in the Plans; and
- is adjusted for the cash flows for administration and portfolio management fees payments.

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

Year-by-Year Returns

The following bar chart illustrates the Plans' annual compounded returns for the periods shown ended December 31.

Heritage Plans Annual Returns



Annual Compound Returns

The following table illustrates the Plan's annual compound returns for the periods shown ended December 31, 2009.

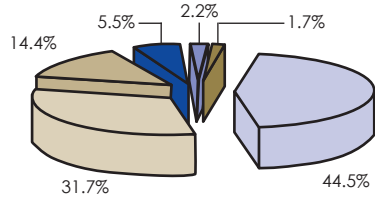
	1 Year	3 Years	5 Years	10 Years
Heritage Plans	4.31%	4.45%	4.89%	6.96%
DEX Universe All Government Bonds Index	1.57%	4.97%	5.09%	6.55%

Investment Returns Year ended December 31, 2009	Returns
Government and corporate Bonds, Bank notes and short-term Investments	5.41%
Principal Protected Notes	(1.51%)
Total Plans	4.31%
DEX Universe All Government Bond Index	1.57%

Summary of Investment Portfolio

Portfolio by Category

Sectors	% of Market Value
Provincial Bonds	44.5%
Federal Bonds	31.7%
Principal Protected Notes	14.4%
Bank Deposit Notes / GICs	5.5%
Short-Term Investments	2.2%
Corporate Bonds	1.7%



The top 25 holdings of the Plans, as at December 31, 2009, are indicated below. This investment portfolio summary may change due to ongoing portfolio transactions.

Investment	% of Plan's Portfolio Assets
Ontario Province CDA 6.50%, 8-Mar-29	17.32%
Canada Housing Trust Bond Series 13 4.05%, 15-Mar-11	16.22%
Canada Housing Trust Bond Series 17 4.80%, 15-Jun-12	13.55%
CIBC HEF Global Risk Controlled Notes Series 1 0.00%, 8-Oct-15	5.96%
Quebec Province Debentures 4.50%, 1-Dec-17	5.18%
Ontario Province Domestic Debentures 4.20%, 8-Mar-18	4.10%
Hydro Quebec Debentures 11.00%, 15-Aug-20	3.72%
Quebec Province CDA 6.0%, 1-Dec-18	3.70%
Province of British Columbia 5.70%, 18-Jun-29	2.90%
CIBC HEF C1 Signature High Income Fund Deposit Notes Series 2, 9-Nov-15	2.76%
Canadian Imperial Bank MTN Deposit Notes 5.00%, 10-Sep-12	2.56%
CIBC HEF AGF International Stock class Deposit Notes Series 2, 9-Nov-15	2.36%
RBC Covered Bond 3.27%, 10-Nov-14	1.92%
Canada Housing Trust Bond Series 23 4.10%, 15-Dec-18	1.90%
Toronto Dominion Bank Ser MTN 4.78%, 14-Dec-16	1.74%
RBC Principal Protected Notes-UBS, 30-Jul-13	1.69%
Municipal Finance Authority Debentures 4.60%, 23-Apr-18	1.69%
Manitoba Province Debentures 4.70%, 22-Sept-17	1.63%
Toronto city Debentures 4.95%, 27-Jun-18	1.58%
Alberta Capital Finance Authority Debentures 4.65%, 15-Jun-17	1.29%
Manitoba Province Debentures 4.25%, 5-Mar-18	1.29%
Royal Bank Canada Tier 2A 5.95%, 18-Jun-14	0.97%
Royal Bank Canada PR/PRT ENH YLD Nt, 27-Nov-14	0.90%
Bank of Montreal S&P/TSX 60 CDN Yr, 26-Nov-14	0.46%
BNP Paribas (CDA) SE 1 Mill, 1-Nov-14	0.30%
Top 25 Holdings as % of Plans' Portfolio Assets	97.69%

Management's Responsibility For Financial Reporting

The accompanying financial statements of the Heritage Plans (the "Plans") have been prepared by the management and approved by the Board of Directors of the Heritage Educational Foundation. Management is responsible for the information and representations contained in these financial statements. The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Heritage Educational Foundation, through Heritage Education Funds Inc. (the "Distributor"), a subsidiary controlled by Heritage Financial Group Limited owned by the senior management team of the Distributor, administers the Plans. The Distributor maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements. The significant accounting policies, which management believes are appropriate for the Plans, are described in Note 1 to the financial statements. KMPG LLP are the external auditors of the Plans. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the planholders their opinion on the financial statements. Their report is set out below.



Toronto, Canada
February 19, 2010

Scott McIndless
Chairman



Onofrio Loduca
Treasurer and Director

Auditors' Report

To the Board of Directors of Heritage Educational Foundation

We have audited the statements of net assets of Heritage Plans as at December 31, 2009 and 2008, the statement of investment portfolio as at December 31, 2009 and the statements of operations and changes in net assets for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Plan as at December 31, 2009 and 2008, its investments as at December 31, 2009 and the results of its operations and the changes in its net assets for the years ended December 31, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 19, 2010

Heritage Plans Statements of Net Assets

December 31, 2009 and 2008

	2009	2008
Assets		
Cash	\$ 7,865	\$ 4,238
Due from the Foundation (note 6)	261,076	-
Investments, at fair value (note 2)	1,663,746,300	1,512,829,762
Accrued interest	13,983,534	9,425,542
	1,677,998,775	1,522,259,542
Liabilities		
Accounts payable	195,000	160,000
Due to the Foundation (note 6)	-	41,109
Principal withdrawals on terminations	21,303,497	16,887,126
Subscribers' contributions (notes 3 and 8)	949,372,800	862,346,230
Membership fee obligation (note 9)	126,673,000	112,907,000
	1,097,544,297	992,341,465
Net assets	\$ 580,454,478	\$ 529,918,077
Net assets represented by:		
Subscribers' accumulated income (note 3)	\$ 261,127,201	\$ 254,255,101
Government grant contributions	273,097,950	236,775,379
Government grant interest	46,229,327	38,887,597
Enhancement fund (note 4)	-	-
	\$ 580,454,478	\$ 529,918,077

See accompanying notes to financial statements.

On behalf of the Board of the
Heritage Educational Foundation


Scott McInless
Director


Onofrio Loduca
Director

Heritage Plans Statements of Operations

Years ended December 31, 2009 and 2008

	2009	2008
Income:		
Interest and investment	\$ 54,727,772	\$ 48,833,968
Other	4,470,884	4,431,712
Realized gains	12,071,077	5,943,056
Unrealized gains	2,135,049	19,063,724
	73,404,782	78,272,460
Expenses:		
Administration fees	8,172,545	7,382,723
Portfolio management fees	765,743	654,089
Independent Review Committee fees	93,432	86,220
	9,031,720	8,123,032
Net investment income	64,373,062	70,149,428
Increase in Membership fee obligation (note 9)	(13,766,000)	(6,952,000)
Increase in net assets from operations	\$ 50,607,062	\$ 63,197,428

See accompanying notes to financial statements.

Heritage Plans Statements of Changes in Net Assets

Years ended December 31, 2009 and 2008

	2009	2008
Net assets, beginning of year	\$ 529,918,077	\$ 459,637,566
Increase in net assets:		
Government grant transactions:		
Received	42,591,505	40,772,131
Transferred in	333,479	293,709
Interest transferred in	921	129
Quebec Education Savings Incentive interest received	1,761	13,218
Interest from other plans	63,496	130,209
	42,991,162	41,209,396
Decrease in net assets:		
Educational Assistance Payments:		
Group Plan (note 5)	27,447,546	21,783,058
Self-Determined Plan	3,155,477	2,251,114
Repayment of Membership fee	3,950,723	3,715,445
Government grant transactions:		
Paid	6,194,756	4,580,477
Transferred out	407,656	405,249
Interest	1,861,670	1,345,672
Interest transferred out	43,995	45,298
	43,061,823	34,126,313
Increase (decrease) in net assets	(70,661)	7,083,083
Increase in net assets from operations	50,607,062	63,197,428
Net assets, end of year	\$ 580,454,478	\$ 529,918,077

See accompanying notes to financial statements.

Heritage Plans Statement of Investment Portfolio

December 31, 2009

Description	Coupon rate	Maturity date	Face value	Amortized cost	Fair value
Government - federal:					
Canada Housing Trust Bond	4.05%	03/15/2011	\$ 260,120,000	\$ 270,188,244	\$ 269,796,479
Canada Housing Trust Bond	4.80%	06/15/2012	211,100,000	219,788,268	225,488,998
Canada Housing Trust Bond	4.10%	12/15/2018	31,035,000	31,687,476	31,597,137
Government - provincial:					
Alberta Capital Finance Authority	4.65%	06/15/2017	20,415,000	20,783,056	21,542,908
Manitoba Province Debentures	4.70%	09/22/2017	25,620,000	25,576,579	27,049,929
Quebec Province Debentures	4.50%	12/01/2017	83,115,000	82,565,123	86,198,317
Manitoba Province Debentures	4.25%	03/05/2018	21,070,000	20,946,047	21,485,184
Ontario Province Domestic Debentures	4.20%	03/08/2018	67,265,000	67,935,110	68,222,743
Municipal Finance Authority	4.60%	04/23/2018	27,320,000	27,231,910	28,082,665
Toronto City Debenture	4.95%	06/27/2018	25,290,000	25,224,741	26,288,727
Quebec Province Medium Term Notes	4.50%	12/01/2018	2,500,000	2,559,175	2,554,555
Quebec Province CDA	6.00%	10/01/2029	54,395,000	59,769,995	61,580,642
Hydro Québec Debentures	11.00%	08/15/2020	40,135,000	59,901,403	61,896,077
Ontario Province CDA	6.50%	03/08/2029	239,350,000	285,772,058	288,088,233
British Columbia Province Debentures	5.70%	06/18/2029	43,425,000	47,341,237	48,225,938
Bank deposit notes/GICs:					
Canadian Imperial Bank of Commerce	5.00%	09/10/2012	40,000,000	40,222,982	42,587,640
Royal Bank of Canada Tier 2A	4.97%	06/05/2014	15,000,000	13,990,621	16,141,080
Royal Bank of Canada Covered Bond	3.27%	11/10/2014	32,000,000	31,995,645	31,987,648
Corporate bonds:					
Toronto Dominion Bank	4.78%	12/14/2016	29,000,000	27,525,747	28,973,523
Principal protected notes:					
RBC Principal Protected UBS Notes	0.00% ⁽¹⁾	07/30/2013	25,000,000	25,074,743	28,151,250
BNP Paribas (CDA) SE 1 Mill	0.00% ⁽¹⁾	11/01/2014	5,000,000	4,999,272	4,958,500
Bank of Montreal S&P/TSX 60	0.00% ⁽¹⁾	11/26/2014	7,762,000	7,760,589	7,680,499
Royal Bank of Canada PR/PRT	0.00% ⁽¹⁾	11/27/2014	15,000,000	15,000,649	15,037,500
CIBC HEF Global Risk Controlled Notes, Series 1	0.00% ⁽¹⁾	10/08/2015	100,000,000	99,988,686	99,231,000
CIBC HEF AGF International Stock Class Deposit Notes, Series 2	0.00% ⁽¹⁾	11/09/2015	41,590,000	41,555,703	39,223,529
CIBC HEF CI Signature High Income Fund Deposit Notes, Series 2	0.00% ⁽¹⁾	11/09/2015	43,650,000	43,682,453	45,889,245
Short-term investments:					
Canada Treasury Bills	-	01/07/2010	3,000,000	2,999,940	2,999,940
Canada Treasury Bills	-	01/21/2010	1,335,000	1,334,907	1,334,907
Canada Treasury Bills	-	02/04/2010	625,000	624,919	624,919
Canada Treasury Bills	-	02/18/2010	7,860,000	7,858,349	7,858,349
Canada Treasury Bills	-	03/04/2010	21,045,000	21,039,107	21,039,107
Canada Treasury Bills	-	01/04/2010	1,930,000	1,929,132	1,929,132
			\$1,541,952,000	\$1,634,853,866	\$1,663,746,300

See accompanying notes to financial statements.

⁽¹⁾ The principal protected notes are non-interest bearing and provide a payment on maturity that is based on the performance of underlying assets. The underlying assets are represented by various equity indices, commodity indices, bonds and mutual funds. The minimum payment upon maturity of the notes is the face value.

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. The Plans, the first of which was established on December 19, 1986, provide a savings vehicle for parents, grandparents and others ("Subscriber" or "Subscribers") to save for a designated child's (the "Beneficiary") post-secondary education. The Subscriber enters into an Education Savings Plan Contract (the "Contract") in accordance with the prospectus (the "Prospectus") with the Foundation pursuant to which the Subscriber subscribes for units in the Plans. The Plans are distributed by Heritage Education Funds Inc. (the "Distributor"), a subsidiary controlled by Heritage Financial Group Limited. The Foundation and the Distributor are under common management, and the beneficial shareholders of the Distributor constitute the Board members of the Foundation. Unless otherwise defined herein, all capitalized terms have the meanings given to them in the Contract and the Prospectus.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

(a) Investments:

Investments in Bonds, Bank Deposit Notes, Guaranteed Investment Certificates ("GICs") and Short-Term Investments are carried at fair value based on closing bid prices.

The Plans invest in certain debt obligations issued by Canadian Chartered Banks that are commonly referred to as principal protected notes ("PPN"). 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 external pricing models of the issuer.

Investment transactions are recorded on a settlement basis. Realized gains or losses and changes in unrealized gains or losses are recognized in the year that such gains or losses occur.

(b) Interest and investment income:

Interest 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.

1. Significant accounting policies (continued):

(c) Subscribers' contributions:

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

(d) Fees and insurance premiums:

Membership fees, Depository fees and Insurance premiums are deducted from the initial Subscribers' contribution and subsequent contributions and Administration fees are deducted from investment income in accordance with the Prospectus.

(e) Government contributions:

Canada Education Savings Grant ("CESG") contributions represent the amount of federal government grants received by the Plans pursuant to the CESG program. The amount of grant received under the program is 20% of annual contributions made into a Registered Education Savings Plan ("RESP") and has an annual maximum of \$500 per eligible Beneficiary who is under 18 years of age. An additional CESG amount may be available based on the net family income of the Beneficiary and provides for an enhanced grant of 40% of annual contributions for Beneficiaries whose annual family net income does not exceed \$38,832* and 30% of annual contributions for Beneficiaries whose annual family net income is between \$38,832* and \$77,664*. 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 after December 31, 2003 who also qualifies for the National Child Benefit Supplement ("NCBS") together with \$25 to help cover the cost of opening an RESP. In each subsequent year that the child remains eligible for the NCBS 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.

For the residents of Alberta, the provincial government has established Alberta Centennial Education Savings Grant ("ACES") of \$500 which will be paid into an RESP for every child born in Alberta on January 1, 2005 or later. Additional grants of \$100 will be paid into the RESPs of eligible Beneficiaries when they turn 8, 11 and 14 provided they are, at that time, enrolled in school in the province of Alberta and have met minimum contribution levels required by the Government of Alberta.

For residents of Quebec, the provincial government introduced the Quebec Education Savings Incentive ("QESI"), which will be paid in the form of a refundable tax credit. This tax credit will apply to contributions made on or after February 21, 2007 into the RESP, where a child named as a Beneficiary is a resident of Quebec. The basic credit is 10% of the net annual contribution to a maximum of \$250 per eligible Beneficiary. Families with income of less than \$76,770* may qualify up to 10% of the first \$500 in RESP contributions to a maximum of \$50 in QESI. The total lifetime maximum is \$3,600 per eligible Beneficiary.

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

1. Significant accounting policies (continued):

(e) Government contributions (continued):

All grants received by the Plans with respect to a Beneficiary are invested by the Plans and will ultimately be paid out to the Beneficiary in increments if the Beneficiary becomes entitled to receive Educational Assistance Payments ("EAP"). Under various circumstances, including the case where a Beneficiary does not become eligible for receipt of an EAP, the government grants and incentives must be repaid. After maturity, under the Self-Determined Option, if a Beneficiary does not enroll in a post-secondary educational program, the Plans are required to repay the grant, referable to that Beneficiary. Earnings on such grants may be rolled over into a registered retirement savings plan in accordance with the provisions of the *Income Tax Act (Canada)*.

(f) Enhancement Fund:

The Enhancement Fund may be used by the Foundation as it may direct, consistent with the not-for-profit nature of the Foundation (note 4). Interest income applicable to the Enhancement Fund is recorded on an accrual basis.

(g) Income taxes:

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

(h) New accounting changes:

The Plans adopted the amendments to The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"). Section 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Plans' investments. The hierarchy of inputs is summarized below:

(i) 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.

(ii) 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).

(iii) Level 3:

Inputs for the assets that are based on unobservable market data.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

1. Significant accounting policies (continued):

(h) New accounting changes (continued):

For the year ended December 31, 2009, the Plans have adopted the CICA's Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 clarifies that credit risk and counterparty credit risk should be considered in determining the fair value of financial instruments. The adoption of EIC-173 did not have an impact on the financial statements of the Plans.

(i) Future accounting changes:

On February 13, 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for all Canadian publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to GAAP, but there may be significant differences on recognition, measurement and disclosures that may materially impact the net assets of the Plans. Management has developed a plan to meet the timetable published by the AcSB for a changeover to IFRS.

The key elements of the plan include disclosures of the qualitative impact in the December 31, 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the December 31, 2010 financial statements and the preparation of December 31, 2011 financial statements in accordance with IFRS.

Based on management's current evaluation of the differences between GAAP and IFRS, management believes there will be no material impact on the net assets of the Plans. However, management is of the view that the conversion to IFRS will result in some additional disclosures and potentially different presentation of certain items.

2. Investments:

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

Term to maturity	2009				2008			
	Face value	Cost/ amortized cost	Fair value	Yield	Face value	Cost/ amortized cost	Fair value	Yield
Level 2:								
Government of Canada and federally guaranteed bonds:								
Due in one to five years	\$ 471,220,000	\$ 489,976,512	\$ 495,285,477	1.82%	\$ 360,720,000	\$ 377,048,106	\$ 393,485,726	3.35%
Due after five years	31,035,000	31,687,476	31,597,137	3.82%	-	-	-	-
	502,255,000	521,663,988	526,882,614		360,720,000	377,048,106	393,485,726	
Provincial and provincially guaranteed bonds:								
Due after five years	649,900,000	725,606,434	741,215,918	4.74%	630,485,000	679,102,894	691,980,451	4.68%
Bank deposit notes/GICs:								
Due in one to five years	87,000,000	86,209,248	90,716,368	4.70%	29,000,000	28,874,050	29,580,377	5.13%
Due after five years	-	-	-	-	58,000,000	58,262,359	58,684,980	5.16%
	87,000,000	86,209,248	90,716,368		87,000,000	87,136,409	88,265,357	
Corporate bonds:								
Due after five years	29,000,000	27,525,747	28,973,523	5.68%	29,000,000	27,313,812	22,458,267	5.70%
Short-term investments								
	35,795,000	35,786,354	35,786,354	0.21%	30,280,000	30,231,156	30,231,155	1.21%
	1,303,950,000	1,396,791,771	1,423,574,777		1,137,485,000	1,200,832,377	1,226,420,956	
Level 3:								
Principal protected notes:								
Due in one to five years	52,762,000	52,835,253	55,827,749	n/a	75,000,000	75,000,000	75,865,000	n/a
Due after five years	185,240,000	185,226,842	184,343,774	n/a	210,240,000	210,240,000	210,543,806	n/a
	238,002,000	238,062,095	240,171,523		285,240,000	285,240,000	286,408,806	
	\$1,541,952,000	\$1,634,853,866	\$1,663,746,300		\$1,422,725,000	\$1,486,072,377	\$1,512,829,762	

Copies of the statement of portfolio transactions (unaudited) of the Plans are available to Subscribers upon request.

The changes in the Plans' Level 3 investments are as follows:

Balance, beginning of year	\$ 286,408,806
Net losses included in net investment income	(3,686,783)
Sale proceeds	(170,312,500)
Purchases	127,762,000
Balance, end of year	\$ 240,171,523
Total unrealized gains for the year included in net investment income for investments held at end of year	\$ 940,623

The valuation methodology for Level 2 and Level 3 investments are described in note 7. The potential impact of a change in underlying assumptions for Level 3 investments is described in note 10.

There were no transfers between Level 2 and Level 3 during the year.

3. Subscribers' contributions and Subscribers' accumulated income:

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

Year of eligibility	Active and matured units, 2008	Purchased units ⁽¹⁾	Forfeited units ⁽²⁾	Year of eligibility changes	Active and matured units, 2009	Accumulated income	Subscribers' contributions
Prior to 2009	82,641	–	(26,992)	(13,138)	42,511	\$ 10,225,774	\$ 433,335
2009	47,535	82	(5,023)	14,875	57,469	32,812,301	5,397,628
2010	60,809	1,386	–	(8,670)	53,525	33,072,548	7,965,422
2011	66,778	287	(584)	6,631	73,112	40,211,280	80,911,250
2012	83,745	69	(644)	(43)	83,127	35,056,934	80,037,445
2013	103,878	836	(1,015)	73	103,772	34,988,704	86,295,341
2014	120,730	1,978	(1,537)	134	121,305	33,026,054	86,599,421
2015	138,084	2,299	(1,545)	55	138,893	30,614,411	85,654,337
2016	155,871	3,328	(2,306)	18	156,911	27,612,540	84,266,517
2017	166,939	4,331	(2,795)	83	168,558	23,614,431	79,419,252
2018	162,241	4,680	(3,642)	(208)	163,071	17,214,644	67,410,982
2019	168,517	5,702	(4,936)	112	169,395	12,950,048	60,563,758
2020	186,753	5,958	(6,077)	1	186,635	10,252,699	57,823,700
2021	186,793	6,134	(6,856)	(34)	186,037	6,931,695	48,716,303
2022	186,572	7,658	(6,864)	37	187,403	4,413,722	40,219,507
2023	175,898	11,168	(7,050)	34	180,050	2,561,769	30,289,580
2024	176,778	13,088	(8,339)	(56)	181,471	1,428,756	22,395,456
2025	170,569	23,363	(8,984)	(78)	184,870	690,751	14,436,082
2026	132,032	49,393	(8,939)	11	172,497	247,797	7,351,680
2027	62,382	84,871	(5,952)	97	141,398	62,936	2,674,483
2028	–	76,786	(2,249)	64	74,601	7,289	510,817
2029	–	29	–	1	30	1	36
2030	1	23	–	1	25	21	468
	2,635,546	303,449	(112,329)	–	2,826,666	357,997,105	949,372,800
Unrealized gain						28,892,434	–
Membership fee obligation						(126,673,000)	–
Transfer from Enhancement Fund (note 4)							
2008 – 558,658							–
2009 – 352,004						910,662	–
						\$261,127,201	\$949,372,800

⁽¹⁾ Purchased units comprise new units, additional units, transfers in and, transfers from the Escrow Plan.

⁽²⁾ Forfeited units comprise maturities, terminations, transfers out and EAPs.

4. Enhancement Fund:

The Enhancement fund consists of: (1) income earned in the Scholarship fund from the Maturity Date to the date that the funds are distributed to eligible Beneficiaries in the form of EAPs; (2) interest earned on the interest forfeited when a Subscriber's plan is terminated prior to the Maturity Date; and (3) savings from Subscribers' plans which are not claimed within a specified number of years from either the early Termination Date or the Maturity Date.

The Enhancement fund may be used as the Foundation may direct, consistent with the not-for-profit nature of the Foundation. It is the intention of the Foundation to use the funds to repay to Subscribers an amount equal to the Membership fee paid, to enhance EAPs and to pay expenses incurred by the Trustee and other administrative expenses.

Receipts and disbursements in the Enhancement fund are as follows:

	2009	2008
Receipts:		
Investment and other income	\$ 5,754,749	\$ 5,839,811
Disbursements:		
Paid to the Foundation to:		
Repay Membership fee	3,950,723	3,715,445
Educational Assistance Payments	1,452,022	1,565,708
	5,402,745	5,281,153
	352,004	558,658
Transfer to accumulated income (note 3)	(352,004)	(558,658)
Balance, end of year	\$ -	\$ -

5. Educational Assistance Payments under the Group Plan:

	Year of eligibility						
	2009	2008	2007	2006	2005	2004	2003
Option 1 - pay-outs in one payment:							
Number of units	3,024.26	286.33	6.32	-	4.00	-	-
Amount of EAP per unit	\$ 750	\$ 815	\$ 740	- \$	800	-	-
	\$ 2,268,195	\$ 233,359	\$ 4,677	- \$	3,200	-	-
Option 2 - pay-outs in two payments:							
Number of units:							
First EAP	2,273.61	169.93	(3.00)	6.00	-	-	-
Second EAP	-	1,302.06	289.58	47.31	15.03	-	-
Amount of EAP per unit:							
First EAP	\$ 375	\$ 410	\$ 390	\$ 400	-	-	-
Second EAP	-	550	560	500	500	-	-
	\$ 852,604	\$ 785,804	\$ 160,995	\$ 26,055	\$ 7,515	-	-
Option 3 - pay-outs in three payments:							
Number of units:							
First EAP	29,422.49	2,524.07	30.23	(6.00)	-	-	-
Second EAP	-	20,125.16	4,368.75	297.83	10.00	5.00	-
Third EAP	-	-	12,881.25	3,543.66	420.65	61.23	8.00
Amount of EAP per unit:							
First EAP	\$ 255	\$ 275	\$ 300	\$ 310	-	-	-
Second EAP	-	280	310	310	350	410	-
Third EAP	-	-	460	470	455	450	500
	\$ 7,502,735	\$ 6,329,164	\$ 7,288,757	\$ 1,755,988	\$ 194,896	\$ 29,604	\$ 4,000
Total	\$10,623,534	\$ 7,348,327	\$ 7,454,429	\$ 1,782,043	\$ 205,611	\$ 29,604	\$ 4,000
Total EAPs under the Group Plan paid in 2009						*\$27,447,546	

*Differences may be due to rounding.

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

For Subscribers enrolled in the Group Plan, the following applies to the refund, if any, of Membership fees:

- (a) Option 1 - Subscribers who have entered into a Contract prior to July 1, 2004 will be refunded an equivalent of \$25 per unit of their Membership fee paid at maturity. For Contracts entered into after July 1, 2004, the refund of the equivalent of \$25 per unit of their Membership fee may occur concurrently with the payment to the Beneficiary of EAPs. Beneficiaries receive one EAP in the second year of enrollment in a qualifying program at a Recognized Institution.
- (b) Option 2 - Subscribers who have entered into a Contract prior to July 1, 2004 will be refunded an equivalent of \$50 per unit of their Membership fee at maturity. For Contracts entered into after July 1, 2004, the refund of the equivalent of \$50 per unit of their Membership fee may occur concurrently with the payment to the Beneficiary of EAPs. Beneficiaries receive EAPs in two instalments over two years starting in the second year of enrollment in a qualifying program at a Recognized Institution.
- (c) Option 3 - Subscribers who have entered into a Contract prior to July 1, 2004 will be refunded an equivalent of \$100 per unit of their Membership fee at maturity. For Contracts entered into after July 1, 2004, the refund of the equivalent of \$100 per unit of their Membership fee may occur concurrently with the payment to the Beneficiary of EAPs. Beneficiaries receive EAPs in three separate instalments over three years starting in the second year of enrollment in a qualifying program at a recognized institution.

Included in the above table is \$4,547,459 worth of EAPs approved and paid in 2009 relating to prior years of eligibility (2008 - \$2,961,312).

6. Related party information:

Membership fees are deducted from the initial Subscribers' contribution and subsequent contributions and are paid to the Distributor. As at December 31, 2009 and 2008, there were no amounts payable to the Distributor.

Depository and Administration fees are paid to the Foundation. The Foundation pays these fees to the Distributor for expenses incurred in assisting the Foundation to administer the Plans. At December 31, 2009, the amount due from the Foundation was \$261,076 (2008 - \$41,109 was due to the Foundation).

The Membership fee, Depository fee, Administration fee and insurance premium transactions were conducted in accordance with the terms of the Prospectus. The transactions are measured at the exchange amount, which is in accordance with the Contract.

7. Fair values:

Investments are recorded at fair value.

The fair value of Bonds, Bank Deposit Notes and GICs are based on closing prices. The fair value of PPNs is determined using external pricing models of the issuers based on the indicative bid prices of embedded securities in the secondary market and the level of volatility of underlying indices.

The fair values of cash, short-term investments, accrued interest, accounts payable, due to (from) the Foundation and principal withdrawals on terminations payable approximate their carrying values due to the short-term nature of these financial instruments.

The fair values of Subscribers' contributions and Membership fee obligation are not readily determinable.

8. Subscribers' contributions:

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

	2009	2008
Balance, beginning of year	\$ 862,346,230	\$ 775,969,423
Amounts contributed by Subscribers	190,500,939	182,304,507
Membership fee	(21,146,039)	(20,919,513)
Principal withdrawal on terminations	(13,298,930)	(9,948,825)
Principal on maturing Plans	(61,642,554)	(57,895,088)
Insurance premiums	(5,425,943)	(5,238,871)
Depository fees	(1,960,903)	(1,925,403)
	87,026,570	86,376,807
Balance, end of year	\$ 949,372,800	\$ 862,346,230

Principal withdrawals on terminations represent Subscribers' contributions where contribution payments on Subscribers' Contracts are three months or more in arrears or where the Subscriber has requested that his/her individual plan be terminated. The Foundation sends a notice of termination to all such Subscribers whose payments are three or more months in arrears. Such Subscribers' contributions are held by the Plans, pending direction from the Subscriber as to the disposition of the amounts. The interest on such Subscribers' contributions is forfeited and transferred to the Enhancement fund. If the Subscriber fails to provide direction as to the refund of the contributions on termination of the Contract, the refund will be forfeited and transferred to the Enhancement fund as other income depending on the purchase date of the Contract.

9. Membership fee obligation:

Subscribers who enrolled in the Plans prior to July 1, 2004 will receive all or a portion, depending on the EAP option chosen, of an amount equal to the Membership fees paid at the time the Subscriber's income in the Plans reach maturity. Subscribers who have enrolled in the Plans after July 1, 2004 may receive all or a portion of an amount equal to Membership fees concurrent with EAPs depending on the option chosen. Membership fees repaid have been historically funded by the Enhancement Fund.

At December 31, 2009, the Foundation used an external actuary to determine the Membership fee obligation taking into account various assumptions, including a discount rate of 4.12% per annum, reduced from the Foundation's best estimate of the average gross rate of return on Plans' assets over the present value period of 5.20%, that represent fees and a provision for adverse deviation. The actuarial present value of the Membership fee disbursements was calculated by taking the active plans at the nominal dollar of the Membership fee to be returned and reducing it for assumed termination rates and a discount rate. The analysis concluded that the actuarial present value of the Membership fee obligation at December 31, 2009 was \$126,673,000 (2008 - \$112,907,000), of which \$6,422,000 represents expected fees due within a year, \$38,962,000 represents expected fees due between one and five years, and \$81,289,000 represents expected fees due in over five years from December 31, 2009. The actuarial present value of Membership fee obligation for units sold prior to July 2004 is \$88,795,000 and for units sold after June 2004 is \$37,878,000.

Actual experience will differ from the assumptions above due to economic and non-economic forces, and the liability will change positively or negatively. The actual/realized obligation will be lower or higher than that estimated in these financial statements based on the difference between the actual/realized underlying assumptions and those assumed. The significant assumptions include the discount rate and termination rates.

10. Risk management:

The investment objectives of the Plans are to preserve its investments while maximizing the long-term rate of returns for Subscribers and are, therefore, affected by a number of economic factors, including changing economic environments and capital markets. As a result, the Plans face various risk factors inherent in its normal investment activities. These risk factors are primarily credit risk, liquidity risk and market risk. In order to proactively address these risks, management has engaged third-party portfolio advisors to assist in investing the Subscribers' contributions, government grants and the investment income earned thereon. Management and the portfolio advisors perform periodic reviews of the investment portfolio to comply with the stated investment objectives.

(a) Credit risk:

Credit risk refers to the ability of the issuer of a debt security to pay interest and repay the principal. As with any debt security, there is an inherent risk that the issuer of a debt will fail to honour its promise to pay interest and repay the principal. This risk is mitigated by the Plans' investment strategy of investing in those debt securities with an approved credit rating, as defined in Section 1.1 of National Instrument 81-102 ("NI 81-102") and is further detailed in the "Risk Factors" section of the Prospectus dated August 14, 2009. All of the Plans' investments are with Canadian issuers. The maximum credit risk exposures of the Plans are detailed in note 2. The entire bond portfolio is of investment grade with most rated as "AAA" or "AA" by Dominion Bond Rating Services Limited ("DBRS") and the minimum rating is "A". All of the issuers of PPNs are rated as "AA" by DBRS.

10. Risk management (continued):

(b) Liquidity risk:

Liquidity risk is a risk that the Plans will encounter difficulty in meeting obligations associated with financial liabilities. The Plans minimize this risk by: (i) maintaining sufficient cash and cash equivalents, (ii) selecting investments for the portfolio that are active in the market and can be readily sold, and (iii) ensuring cash will be available with the anticipated pay-out dates applicable to the Subscribers. The principal withdrawals on terminations payable are short-term as disclosed in note 7. The maturities of financial liabilities related to Subscribers' contributions and Membership fee obligation are disclosed in notes 3 and 9, respectively.

(c) Market risk:

Market risk is the risk that the fair value of investments will fluctuate because of changes in market prices. The Plans' portfolio advisors attempt to mitigate this risk by periodic review of market conditions and the performance of the portfolio and make necessary changes to the portfolio in accordance with the investment objectives. Management has identified two main risk factors: interest rate risk related to the fixed-income portfolio and the pricing risks related to the PPNs and are discussed in detail in the "Risk Factors" section of the Prospectus dated August 14, 2009.

(i) Interest rate risk:

Interest rate risk is the risk that the fair value of fixed-income securities in the investment portfolio will fluctuate because of changes in interest rates. A rise in interest rates may have a negative effect on the bid prices of debt securities while a decrease in interest rates may have a positive effect on the bid price of debt securities held by the Plans. At December 31, 2009, if interest rates had been 25 basis points lower or higher, with all other variables held constant and assuming a parallel yield curve, the net assets of the Plans as at December 31, 2009 would have been higher or lower, respectively, by \$21.6 million (2008 - \$21.0 million) as a result of the change in the value of Level 2 investments. The effect on net assets of the Plans as a result of a change in Level 3 investments due to changes in interest rates is described in 'Pricing risk' below.

(ii) Pricing risk:

Pricing risk is the risk that the fair value of PPNs in Level 3 investments as detailed in notes 2 and 7 will fluctuate because of changes in their valuation assumptions by the issuer. A 1% decrease or increase in the value of underlying indices in the PPNs and if interest rates had been 25 basis points higher or lower, with all other variables held constant and assuming a parallel yield curve, as at December 31, 2009, would result in a decrease or increase of \$2.88 million in the net assets of the Plans as at December 31, 2009 (2008 - \$3.95 million).

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



Securing Your Child's Future Since 1965

2005 Sheppard Ave. E., Suite 700, Toronto, ON M2J 5B4
Phone 416.502.2500 Toll Free 1.800.739.2101 Fax 416.502.2555
Email customer care@heritageresp.com www.HeritageRESP.com