



*Securing Your Child's Future Since 1965*

# Semi-Annual Financial Statements (Unaudited)

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## Heritage Plans

For the six months ended June 30, 2009



# Heritage Plans

Statements of Net Assets  
(unaudited)

As at June 30, 2009 and December 31, 2008

	2009	2008
	(unaudited)	
<b>Assets</b>		
Cash	\$ 7,780	\$ 4,238
Accounts receivable from Foundation	590,158	-
Investments, at fair value (note 2)	1,616,945,124	1,512,829,762
Accrued interest	13,056,131	9,425,542
	1,630,599,193	1,522,259,542
<b>Liabilities</b>		
Accounts payable	180,000	160,000
Due to Foundation	-	41,109
Principal withdrawals on terminations	20,691,951	16,887,126
Subscribers' contributions (note 7)	929,236,095	862,346,230
Membership fee obligation (note 8)	118,400,000	112,907,000
	1,068,508,046	992,341,465
Net assets	\$ 562,091,147	\$ 529,918,077
Net assets represented by:		
Subscribers' accumulated income	\$ 260,303,806	\$ 254,255,101
Government grant contributions	258,734,294	236,775,379
Government grant interest	43,053,047	38,887,597
Enhancement Fund (note 3)	-	-
	\$ 562,091,147	\$ 529,918,077

See accompanying notes to financial statements.

## Heritage Plans

Statements of Operations  
(unaudited)

For the six months ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
	(unaudited)	(unaudited)
Income:		
Interest and investment	\$ 26,403,623	\$ 23,976,180
Other	782,874	703,074
Realized gains	4,385,198	13,592,520
Unrealized losses	(7,850,833)	(12,203,755)
	<u>23,720,862</u>	<u>26,068,019</u>
Expenses:		
Administration fees	3,946,226	3,565,592
Portfolio management fees	371,245	312,129
Independent Review Committee fees	52,237	43,644
	<u>4,369,708</u>	<u>3,921,365</u>
Net investment income	19,351,154	22,146,654
Increase in membership fee obligation (note 8)	(5,493,000)	(6,245,000)
Increase in net assets from operations	<u>\$ 13,858,154</u>	<u>\$ 15,901,654</u>

See accompanying notes to financial statements.

# Heritage Plans

Statements of Changes in Net Assets  
(unaudited)

For the six months ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
	(unaudited)	(unaudited)
Increase in net assets:		
Government grant transactions:		
Received	\$ 22,623,661	\$ 19,081,802
Transferred in	143,028	131,743
Interest transferred in	16	27
QESI interest received	1,710	-
Interest from other plans	31,281	73,956
	<hr/> 22,799,696	<hr/> 19,287,528
Decrease in net assets:		
Educational Assistance Payments:		
Group Plan (note 4)	2,316,081	1,532,651
Self-Determined Plan	1,005,295	571,561
Repayment of membership fees	136,484	125,647
Government grant transactions:		
Paid	596,073	381,985
Transferred out	211,701	209,536
Interest	196,737	122,818
Interest transferred out	22,409	23,489
	<hr/> 4,484,780	<hr/> 2,967,687
Increase in net assets	18,314,916	16,319,841
Increase in net assets from operations	13,858,154	15,901,654
Net assets, beginning of period	529,918,077	459,637,566
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Net assets, end of period	\$ 562,091,147	\$ 491,859,061

See accompanying notes to financial statements.

# Heritage Plans

## Statement of Investment Portfolio (unaudited)

June 30, 2009

Description	Coupon rate	Maturity date	Face value	Amortized cost	Fair value
Government - federal:					
Canada Housing Trust Bond	3.55%	9/15/2010	\$ 165,280,000	\$ 170,694,184	\$ 170,827,127
Canada Housing Trust Bond	4.80%	6/15/2012	276,100,000	289,801,353	296,596,284
Canada Housing Trust Bond	4.55%	12/15/2012	16,725,000	17,085,879	17,879,326
Government - provincial:					
Alberta Capital Finance Authority	4.65%	6/15/2017	20,415,000	20,807,936	21,446,733
Manitoba Province Debentures	4.70%	9/22/2017	25,620,000	25,573,746	26,867,079
Quebec Province Debentures	4.50%	12/1/2017	83,115,000	82,530,125	85,654,413
Manitoba Province Debentures	4.25%	3/05/2018	21,070,000	20,938,407	21,324,968
Ontario Province Domestic Debentures	4.20%	3/08/2018	61,325,000	61,826,370	61,888,577
Municipal Finance Authority	4.60%	4/23/2018	27,320,000	27,226,568	27,501,268
Toronto City Debenture	4.95%	6/27/2018	25,290,000	25,220,867	25,861,529
Quebec Province CDA	6.00%	12/01/2018	52,615,000	57,858,278	58,786,582
Hydro Québec Debentures	11.00%	8/15/2020	40,135,000	60,839,021	62,523,668
Ontario Province CDA	6.50%	3/08/2029	234,115,000	280,621,218	278,982,437
British Columbia Province Debentures	5.70%	6/18/2029	43,425,000	47,442,614	47,767,022
Bank deposit notes/GICs:					
Canadian Imperial Bank of Commerce	5.00%	9/10/2012	40,000,000	40,264,720	42,343,320
Royal Bank of Canada	4.97%	6/5/2014	29,000,000	28,906,257	30,931,139
Royal Bank of Canada Tier 2A	5.95%	6/18/2014	15,000,000	13,876,609	15,593,010
Bank of Montreal	5.45%	7/17/2017	29,000,000	29,344,317	30,607,064
Corporate bonds:					
Toronto Dominion Bank	4.78%	12/14/2016	29,000,000	27,418,909	26,919,714
Principal protected notes:					
CIBC HEF Asset-Linked PEaRL Deposit Notes, Series 1	0.00%(1)	5/17/2011	25,000,000	24,963,593	24,177,500
CIBC HEF Global Index Deposit Notes, Series 1	0.00%(1)	5/17/2012	25,000,000	24,952,662	23,372,500
RBC Principal Protected Notes	0.00%(1)	7/30/2013	25,000,000	25,030,684	26,681,000
CIBC HEF Global Index Minimum Guaranteed Return Deposit Notes, Series 1	0.00%(1)	5/16/2014	75,000,000	75,057,987	78,660,000
CIBC HEF AGF International Stock Class Deposit Notes, Series 2	0.00%(1)	11/9/2015	41,590,000	41,536,665	37,663,904
CIBC HEF CI Signature High Income Fund Deposit Notes, Series 2	0.00%(1)	11/9/2015	43,650,000	43,618,770	41,502,420
Short term:					
Canada Treasury Bills	-	7/23/2009	2,225,000	2,224,733	2,224,733
Canada Treasury Bills	-	8/06/2009	8,245,000	8,243,392	8,243,392
Canada Treasury Bills	-	8/20/2009	4,015,000	4,013,896	4,013,896
Canada Treasury Bills	-	9/17/2009	12,880,000	12,873,792	12,873,792
Canada Treasury Bills	-	10/01/2009	7,235,000	7,230,727	7,230,727
			\$ 1,504,390,000	\$ 1,598,024,279	\$ 1,616,945,124

<sup>(1)</sup> 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 and mutual funds. The minimum payment upon maturity of the notes is the face value.

See accompanying notes to financial statements.

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 post-secondary education. The Subscriber enters into an Education Savings Plan Contract (the "Contract") 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.

## 1. Significant accounting policies:

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

The Plans' accounting policies and its standards of financial disclosure are in accordance with Canadian GAAP. The preparation of financial statements 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.

On December 1, 2006, CICA issued two new accounting standards, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. Section 3862 and Section 3863 replace Section 3861, Financial Instruments - Disclosures and Presentation, and require enhanced disclosures about the nature and extent of risks arising from the financial instruments and how the Plans manage those risks. These new standards became effective for the Plans on January 1, 2008. Note 9 describes the risks associated with financial instruments and the risk management policies of the Plans.

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable to interim and annual financial statements of the Plans for its fiscal year ending December 31, 2009, with retroactive application. The Plans have adopted EIC-173 during the first six months of 2009 and its requirements did not have any impact on the financial statements.

## 1. Significant accounting policies (continued):

(a) Investments:

Investments in bonds 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"). These notes 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 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.

(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 in accordance with the Contract.

## 1. Significant accounting policies (continued):

### (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 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.

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").

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

## 1. Significant accounting policies (continued):

### (e) Government contributions: (continued)

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 to the applicable government. 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, back to the government. 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 3). 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) Future accounting changes:

On February 13, 2008, the CICA Accounting Standards Board 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 Canadian 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 CICA Accounting Standards Board 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 Canadian GAAP and IFRS, management believes there will be no material impact on the net assets of the Plans. Management is of the view that the conversion to IFRS will most likely require some additional disclosures and potentially different presentation of certain items in the financial statements of the Plans.

## Heritage Plans

Notes to Financial Statements (unaudited) (continued)

Six months ended June 30, 2009

### 2. Investments:

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

Term to maturity	June 30, 2009			December 31, 2008			
	Face value	Cost/ amortized cost	Fair value	Face value	Cost/ amortized cost	Fair value	Yield
Government of Canada and federally guaranteed bonds: Due in one to five years	\$ 458,105,000	\$ 477,581,417	\$ 485,302,737	\$ 360,720,000	\$ 377,048,106	\$ 393,485,726	3.35%
Provincial and provincially guaranteed bonds: Due after five years	634,445,000	710,885,150	718,604,276	630,485,000	679,102,894	691,980,451	4.68%
Bank deposit notes/GICs: Due in one to five years	84,000,000	83,047,585	88,867,469	29,000,000	28,874,050	29,580,377	5.13%
Due after five years	29,000,000	29,344,317	30,607,064	58,000,000	58,262,359	58,684,980	5.16%
Corporate bonds: Due after five years	113,000,000	112,391,902	119,474,533	87,000,000	87,136,409	88,265,357	
Principal protected notes: Due in one to five years	29,000,000	27,418,908	26,919,714	29,000,000	27,313,812	22,458,267	5.70%
Due after five years	150,000,000	150,004,926	152,891,000	75,000,000	75,000,000	75,845,000	n/a
	85,240,000	85,155,438	79,166,324	210,240,000	210,240,000	210,543,806	n/a
	235,240,000	235,160,362	232,057,324	285,240,000	285,240,000	286,408,806	
Short-term investments	1,469,790,000	1,563,437,739	1,582,358,584	1,392,445,000	1,455,841,221	1,482,598,607	
	34,600,000	34,586,540	34,586,540	30,280,000	30,231,156	30,231,155	1.21%
	\$ 1,504,390,000	\$ 1,598,024,279	\$ 1,616,945,124	\$ 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.

**3. Enhancement Fund:**

The Enhancement Fund consists of: (1) income earned on 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:

	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
Receipts:		
Investment and other income	\$ 1,818,506	\$ 1,684,834
Disbursements:		
Paid to the Foundation to:		
Repay membership fees	136,484	125,647
EAPs	139,532	442,088
	276,016	567,735
	1,542,490	1,117,099
Transfer to accumulated income	(1,542,490)	(1,117,099)
Balance, end of period	\$ -	\$ -

# Heritage Plans

Notes to Financial Statements  
(unaudited) (continued)

Six months ended June 30, 2009

## 4. Educational Assistance Payments under the Group Plan:

	Year of eligibility				
	2008	2007	2006	2005	2004
Option 1 – pay-outs in one payment:					
Number of units	255.11	4.00	–	–	–
Amount of EAP per unit	\$ 815	\$ 740	–	–	–
	\$ 207,915	\$ 2,960	–	–	–
Option 2 – pay-outs in two payments:					
Number of units:					
First EAP	157.93	(3.00)	6.00	–	–
Second EAP	–	123.50	41.31	10.45	–
Amount of EAP per unit:					
First EAP	\$ 410	\$ 390	\$ 400	\$ –	–
Second EAP	–	560	500	500	–
	\$ 64,751	\$ 67,990	\$ 23,055	\$ 5,225	–
Option 3 – pay-outs in three payments:					
Number of units:					
First EAP	2,452.05	22.23	(6.00)	–	–
Second EAP	–	1,961.49	188.81	–	5.00
Third EAP	–	–	1,014.51	233.74	29.44
Amount of EAP per unit:					
First EAP	\$ 275	\$ 300	\$ 310	\$ –	\$ –
Second EAP	–	310	310	–	410
Third EAP	–	–	470	455	450
	\$ 674,314	\$ 614,730	\$ 533,491	\$ 106,352	\$ 15,298
Total	\$ 946,980	\$ 685,680	\$ 556,546	\$ 111,577	\$ 15,298
Total EAPs under the Group Plan paid in 2009					\$ 2,316,081

\*Differences may be due to rounding.

#### 4. 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 fees paid at maturity. For Contracts entered into after July 1, 2004, the refund of the equivalent of \$25 per unit of their membership fees 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 fees at maturity. For Contracts entered into after July 1, 2004, the refund of the equivalent of \$50 per unit of their membership fees 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 fees at maturity. For Contracts entered into after July 1, 2004, the refund of the equivalent of \$100 per unit of their membership fees 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 \$2,316,081 worth of EAPs approved and paid in 2009 relating to prior years of eligibility (2008 - \$1,532,651).

#### 5. Related party information:

Membership fees are deducted from the initial Subscribers' contribution and subsequent contributions and are paid to the Distributor. As at June 30, 2009 and December 31, 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.

As of June 30, 2009, the amount receivable from the Foundation was \$590,158 (as at December 31, 2008, \$41,109 was payable to the Foundation by the Plans).

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.

## Heritage Plans

Notes to Financial Statements  
(unaudited) (continued)

Six months ended June 30, 2009

### 6. Fair values:

The fair value of investments approximates market value and is disclosed in note 2.

The fair value of bonds and short-term instruments are based on bid 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, accrued interest, accounts payable, due to (from) 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.

### 7. Subscribers' contributions:

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Balance, beginning of year	\$ 862,346,230	\$ 775,969,423
Amounts contributed by Subscribers	90,559,350	87,963,345
Membership fees	(9,810,478)	(9,894,053)
Principal withdrawals on terminations	(7,051,334)	(4,559,417)
Principal on maturing plans	(3,190,209)	(3,145,356)
Insurance premiums	(2,667,513)	(2,579,346)
Depository fees	(949,951)	(929,587)
	66,889,865	66,855,586
Balance, end of period	\$ 929,236,095	\$ 842,825,009

The maturity analysis of outstanding Subscribers' contributions as at June 30, 2009:

Due within one year	\$ 76,864,073
Due between one and five years	311,085,757
Due over five years	541,286,265
Balance, end of period	\$ 929,236,095

## **7. Subscribers' contributions (continued):**

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 Plans send 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. 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.

## **8. 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 June 30, 2009, the Foundation used an external actuary to determine the membership fee obligation taking into account various assumptions, including a discount rate of 4.82% 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 6.0%, 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 June 30, 2009 was \$118,400,000, of which \$5,600,000 represents expected fees due within a year, \$33,000,000 represents expected fees due between one and five years, and \$79,800,000 represents expected fees due in over five years from June 30, 2009. The actuarial present value of membership fee obligation for units sold prior to July 2004 is \$87,400,000 and for units sold after June 2004 is \$31,000,000.

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.

## 9. 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 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 11, 2008. 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.

### (b) Liquidity risk:

Liquidity risk is a risk that the Plans will encounter difficulty in meeting obligations associated with financial liability obligations. 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 6. The maturities of financial liabilities related to Subscribers' contributions and membership fee obligation are disclosed in notes 7 and 8, respectively.

## 9. Risk management (continued):

(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 fixed-income portfolio and the pricing risk related to PPNs and are discussed in detail in the "Risk Factors" section of the Prospectus dated August 11, 2008.

(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 June 30, 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 June 30, 2009 would have been higher or lower, respectively, by \$24.1 million.

(ii) Pricing risk:

Pricing risk is the risk that the fair value of PPNs as detailed in note 2 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 as at June 30, 2009 would result in a decrease or increase of \$0.63 million in the net assets of the Plans as at June 30, 2009.

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



### Social Insurance Number Reminder

Canada Revenue Agency requires that all Registered Education Savings Plans include the Social Insurance Number (SIN) for the designated Beneficiary. Accordingly, it is very important, if you have not already provided us with your child's SIN to do so no later than 24 months from the date you started your plan. Your contributions will be placed in an Escrow Account that mirrors the Registered Plan. In the event that the SIN is not provided, we will have no choice other than to collapse your Plan\*, but you will have 3 years in which to reactivate your Plan as long as the SIN is provided.

\* See prospectus for details.

### Your Privacy Matters to Us

We are committed to meeting and exceeding your needs as it relates to respecting your privacy and the security of the personal information that we have about you. We are also determined to provide you with innovative ways that can help you achieve other benefits for you and your family. If you prefer not to receive future communications from us or our partners about these opportunities, please let us know by calling our Customer Service Department at **1.800.739.2101** by December 31, 2009.



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