Management Report of Fund Performance
For the fiscal year ended December 31, 2018

This MRFP contains financial highlights but does not contain the complete annual financial statements of the Heritage Plans (the "Plans"). You can obtain a copy of the annual financial statements of the Plans at your request, and at no cost, by calling us at 1-800-739-2101 or by writing to us at 50 Burnhamthorpe Road West, Suite 1000, Mississauga, Ontario, L5B 4A5. Alternatively, you can visit our website at www.knowledgefirstfinancial.ca or SEDAR at www.sedar.com.

Currently, the investments of the Plans are limited to specified government bonds, guaranteed investment certificates, short term investments and corporate debt securities with an approved credit rating. The investment income earned in the Plans may be invested in exchange-traded equity securities listed on a stock exchange in Canada, such as the TSX. None of the Plans' fixed income 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. For the Plans' equity securities, the portfolio advisors have been delegated the authority to vote on any matter for which the Plans receive, in their capacity as security holders, proxy materials for a meeting of security holders.

Topics Covered in this Report

Management Discussion of Fund Performance

Investment Objective and Strategy

The investment objective of the Plans is to preserve capital while maximizing the long-term rate of return for investors, within guidelines set out in the Statement of Investment Policies & Procedures ("SIPP"). The Plans' principal contributions and grants are invested in federal, provincial and corporate bonds, bank deposit notes, and short-term investments with an approved credit rating under National Instrument 81-102. The investment income earned in the Plans may be invested in equity securities listed on a stock exchange in Canada and exchange traded funds. The Heritage Educational Foundation (the "Foundation") has engaged portfolio advisers, Scotia Institutional Asset Management, a division of 1832 Asset Management L.P. (a wholly owned subsidiary of Scotiabank, "SIAM"), Yorkville Asset Management Inc. ("Yorkville"), Guardian Capital LP ("Guardian") and TD Asset Management Inc ("TDAM") to achieve its investment objective. As of January 2, 2018, Yorkville is no longer a related party (refer to recent developments below). The portfolio advisors manage the assets of the Plans on a discretionary basis within set parameters established under the prospectus and the SIPP.

SIAM manages most of the assets in the Plans and its investment strategy focuses on structuring a bond portfolio to achieve a superior rate of return by strategically positioning the portfolio on the yield curve and through the optimal selection of credit securities.

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

Risk

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

Results of Operations and Financial Market Review

The assets of the Plans were $2.54 billion as at December 31, 2018 (2017: $2.52 billion). The asset mix for the Plans changed from the previous year largely due to the elimination of principal protected notes ("PPNs") as such notes either matured without being replaced or were terminated prior to maturity, such that no PPNs remained in the portfolio by the end of 2018. At December 31, 2018, 80.70% (2017: 71.50%) of the Plans' portfolio was invested in government bonds, corporate debt and short-term investments, 0% (2017: 5.40%) was invested in PPNs and 19.3% was invested in equities (2017: 23.1%).

For the year ended December 31, 2018, the Plans' rate of return was 0.4%, 1.5% higher than the blended benchmark return of -1.1%, which consisted of the FTSE TMX Canada Universe All Government Bond Index return of 1.5% [75% allocation] and the S&P TSX Composite Index return of -8.9% [25% allocation].

Fiscal 2018 started on a positive note for Canadian financial markets, with strong economic data, including expectations for earnings growth and low unemployment. However, sentiment changed quickly, and during the first quarter equity markets generated negative investment returns for investors. Following that period, positive momentum returned, with equity markets ultimately hitting new all-time highs by mid-July, offset by mildly negative investment returns for investors in Canadian bonds. This positive-growth sentiment did not last however, and financial markets ended 2018 with great uncertainty. Volatility spiked higher towards the end of the year, causing equity markets to retreat and give back their 2018 gains and turn negative for the year as whole. Towards the end of 2018, fixed income markets responded to this uncertainty with a lower and flatter yield curve, resulting in positive investment returns for fixed income investors during this volatile period. In general, Canadian fixed income markets outperformed U.S. and Canadian equity markets during 2018.

S&P/TSX Composite Index ended 2018 in negative territory, returning -8.9%. The TSX was highly impacted by a steep decline in oil prices, with the Energy sector experiencing negative returns of 18.3% during 2018. The best performing equity sector in Canada was Information Technology, up 13% during 2018.

There were many reasons why the equity markets ended the year with negative returns. Concerns about rising interest rates, removal of monetary stimulus, Brexit, a trade dispute between the U.S. and China, and falling oil prices all negatively impacted equity markets and contributed to higher uncertainty.

In fixed income markets, North American yield curves flattened further during 2018, with multiple segments of the yield curve inverting for the first time since 2007, reflecting heightened concerns about the outlook for growth. After maintaining its policy rates at ultra-low levels for most of the past decade, the Bank of Canada hiked its policy rate five times (125 bps in total) since July 2017, and three times alone during 2018. Corporate spreads widened during 2018, suggesting an economy that is nearing the end of a strong economic cycle which started in 2009. Within Canadian fixed income investments, federal bonds outperformed corporate bonds which, in turn, outperformed provincial bonds during 2018.

The Canadian economy grew about 2.1% during 2018, compared to prior year's 3.0% growth. Rising interest rates, stretched household credit, uncertainty about NAFTA, rising concern about a global trade war, falling oil prices and a greater discount for Canadian oil versus global prices for crude, and tighter mortgage rules - all negatively affected the Canadian economy. Canada's elevated household debt compared to historical levels is also a concern for the markets, potentially depressing consumer spending during 2019 and making the economy more sensitive to interest rates.

Recent Developments

Effective January 2, 2018, Knowledge First Financial Inc. ("KFFI") acquired control of all of the outstanding shares of Heritage Education Funds Inc. (the "Distributor"), resulting in the Distributor being wholly owned by KFFI. KFFI is incorporated under the laws of Canada and is a wholly owned subsidiary of Knowledge First Foundation. Knowledge First Foundation is a not-for-profit organization that sponsors various Knowledge First Education Savings Plans ("KFF Plans"). KFFI is the investment fund manager and distributor of the KFF Plans. Concurrent with the acquisition of control of the Distributor, certain directors of Knowledge First Foundation became the directors of Heritage Educational Foundation (the "Foundation"). The amalgamation took place on August 27, 2018, and effective as of this date, KFFI also became the manager and distributor of the Plans.

As a result of the transaction, some members of the independent review committee members were changed effective January 2, 2018. From January 2, 2018 until August 28, 2018, the committee members were Bruce D. Day, Don Hathaway and William McNeill and following the amalgamation described above, the committee members consisted of Ann Harris, Don Hathaway and William McNeill. Following the transaction, the Foundation's investment committee oversaw the investment activities of the Plans, and Donald Hunter and David Forster were formally appointed as of January 18, 2019 to that committee.

During late March 2019, the Plans began to implement changes to its equity portfolio managers, and allocation of types of equities, as approved by the Plans' Investment Committee. By the end of April 2019, the Plans are expected to hold approximately 14% of its total assets in hedged and unhedged US equities by way of passive ETFs (exchange traded funds) provided by BMO Asset Management. Approximately 6% of the Plans' total assets will be invested in Canadian equities managed actively by Connor, Clark & Lunn Investment Management Ltd. The existing Canadian equity managers, Guardian Capital LP, Yorkville Asset Management and TD Asset Management, have been notified of these changes effective not later than April 30, 2019.

Related Party Transactions

The Plans are sponsored by the Foundation. During the year ended December 31, 2018, the Foundation and the Distributor were under a common management as the directors of the Distributor constituted the board members of the Foundation.

Sales charges of $18,607,115 (2017 - $20,430,459) were deducted from initial subscribers' contributions and are paid by the Foundation to the Distributor. Account maintenance fees of $1,940,994 (2017 - $1,989,870) and administrative fees of $13,756,571 (2017 - $12,539,515) were paid by the Plans to the Foundation. The Foundation, in turn, pays these fees to the Distributor for expenses incurred in assisting to administer the Plans.

In 2011, the Foundation entered into an Investment Management Agreement (the "Agreement") with Yorkville, whereby Yorkville was appointed as a Portfolio Adviser for the Plans. At that time, Yorkville was 50% controlled by an affiliate of the Distributor. Prior to December 2018, Yorkville was also 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. In 2015, the Agreement was amended to appoint them to manage a portion of the Plans' equity portfolio for which it received compensation from the Foundation. With the ownership change of the Distributor and related entities to KFFI as of January 2, 2018, Yorkville has not been partly owned by an affiliate of the Distributor since that date.

Under the terms of the Agreement, the fees charged by Yorkville are less than or equal to fees charged by similar service providers for similar products. The decision to enter the 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. Prior to January 2018, this arrangement was periodically reviewed by the IRC under the provisions of NI 81-107.

Financial Highlights

The following table shows key financial and operating data for the Plans and is intended to help you understand the Plans' financial and operating results for the last five fiscal years ended December 31. This information is derived from the Plans' audited annual financial statements.

$ in thousands	2018	2017	2016	2015	2014
Statements of Financial Position					
Total Assets	2,540,881	2,566,306	2,523,035	2,439,974	2,431,720
Net Assets Attributable to Subscribers and Beneficiaries (1)	2,539,362	2,519,533	2,483,378	2,405,987	2,400,690
% Change of Net Assets	0.8%	1.5%	3.2%	0.2%	16.0%
Statement of Changes in Net Assets Attributable to Subscribers and Beneficiaries					
Educational Assistance Payments	70,179	83,192	80,020	65,301	53,474
Government Grant payments, repayments and transfers	36,639	29,170	25,732	21,416	18,717
Statement of Comprehensive Income					
Net Investment Income (2)	59,605	43,566	118,303	23,091	181,811
Other					
Total number of units outstanding	3,262 (3)	3,773	3,737	3,682	3,576
% change in total number of units	(13.54%)	0.96%	1.49%	2.96%	2.26%

(1) "Net Assets" represents total assets less total liabilities.
(2) Net investment income excludes realized gains (losses) on investments and the net change in unrealized gains on investments.
(3) 2018 units outstanding only includes active agreements, whereas prior years reflect both active and matured agreements.

Fees

Administrative Fees

An annual administrative fee of 0.5%, comprising the Plans' administrative and processing fees, was paid to the Foundation and administrator of the Plans pursuant to the Education Savings Plan Contract entered with subscribers. This totaled $13,756,571 for the fiscal year 2018 (2017 - $12,539,515). The administration of the Plans includes processing and call centre services related to new agreements, payments, government grants (Canada Education Savings Grant, Canada Learning Bond, Quebec Education Savings Incentive, Saskatchewan Advantage Grant for Education Savings and British Columbia Training and Education Savings Grant), plan modifications, cancellations, maturities and Educational Assistance Payments. The Foundation paid the administrative fees to the Distributor for assisting in the administration of the Plans. The annual administrative fee is calculated as 0.5% of the sum of contributions less fees, income in subscribers' accounts, as well as government grants, including realized and unrealized income, gains net of losses earned thereon.

Enrolment Fees

The Distributor deducts enrolment fees from subscribers' deposits to the Plans equivalent to $100 per unit purchased. All of the subscribers' deposits to the Plans are applied against the enrolment fee until one half of the total enrolment fee has been paid. Thereafter, one half of subsequent deposits to the Plans are applied against the enrolment fee until the fee is paid in full. Out of the enrolment fees received by the distributor, up to 75% of the enrolment fees are paid out as sales commissions to the licensed sales representatives and branch directors of the distributor.

Account maintenance Fees

Account maintenance fees of $1.9 million (2017 - $2.0 million) were deducted from subscribers' deposits. The account maintenance fee is an annual fee for processing subscribers' deposits. This fee is dependent upon the deposit frequency chosen by the subscriber: monthly, annual or single deposit. Special processing fees are one-time fees for specific transactions in the subscribers' deposit account. Pursuant to the Fund Management Agreement dated October 30, 2006 between the Foundation and the Distributor (now KFFI), 100% of the account maintenance fees collected from subscribers and 100% of special processing fees are paid to KFFI as these fees are directly related to plan administration activities.

Insurance Premiums

Insurance premiums of $4.8 million (2017 - $5.0 million) were deducted from subscribers' deposits prior to depositing the balance into the Plans. The insurance premium for the embedded group life and total disability insurance is calculated at 5% of subscribers' deposits. No premium is deducted for one-time deposits or if the subscriber is under the age of 18 or over the age of 64. Pursuant to the Fund Management Agreement dated October 30, 2006 between the Foundation and the Distributor (now KFFI), 100% of insurance administration-related fees are paid to Financial. Insurance administration fees are estimated to be 20% of the insurance premium.

Investment Counsel Fees

An annual investment counsel fee of $2,664,958 (2017 - $2,712,349) for portfolio advisory services was paid to the portfolio advisers for the year ended December 31, 2018. Portfolio advisers provide advisory and discretionary managed account services with respect to purchasing, selling and otherwise dealing in securities and other investments of the Plans.

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

Independent Review Committee Fees

For the year ended December 31, 2018, a total fee of $31,581 (2017 - $71,731) was paid to the Independent Review Committee ("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.

Past Performance

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

The performance information shown:

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

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

Year-by-Year Returns

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

Annual Compound Returns

The following table illustrates the Plans annual compound returns for the periods shown ended December 31, 2018.

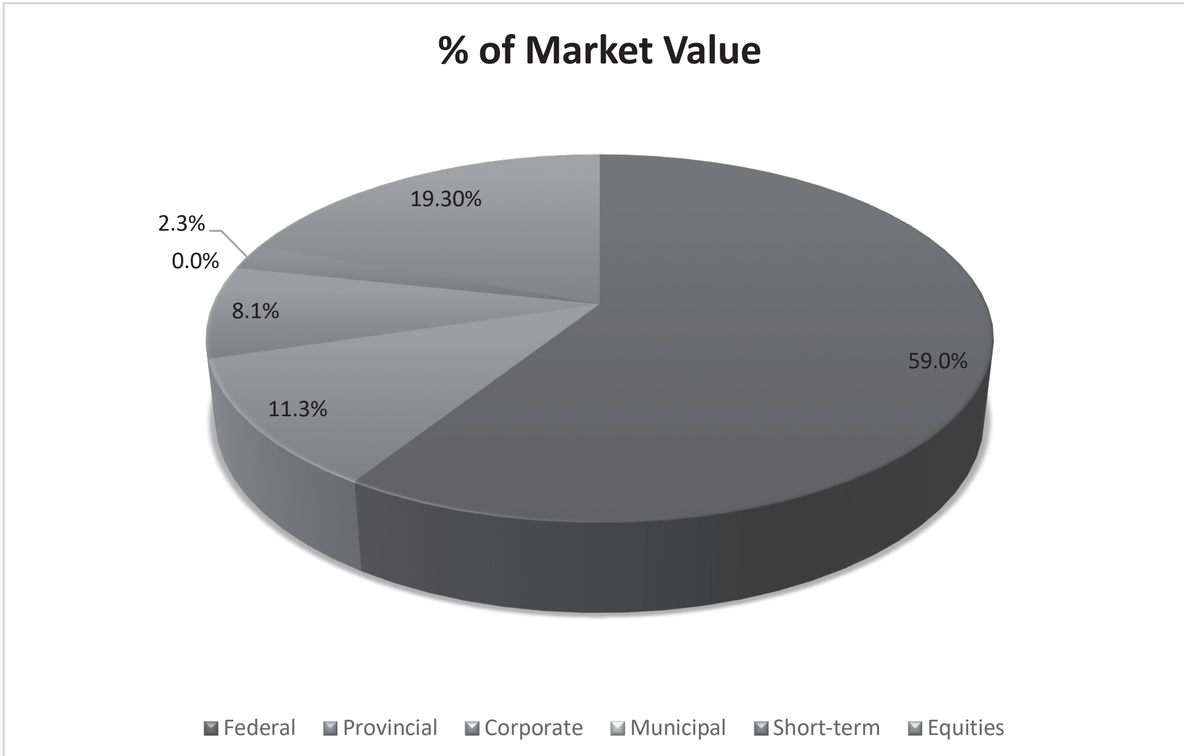
	1 year	3 year	5 year	10 year
The Plans	0.4%	3.1%	3.8%	4.1%
DEX Universe All Government Bond Index	1.5%	1.5%	3.5%	3.6%
S&P TSX Composite Index	-8.9%	6.4%	4.1%	7.9%

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

The S&P/TSX Composite Index is the headline index for the Canadian equity market and measures the performance of the largest by market capitalization stocks listed on the Toronto Stock Exchange.

Summary of Investment Portfolio

Portfolio by Category as at December 31, 2018



Summary of Top Holdings:
The following table indicates the largest 25 holdings of the Plans at the end of fiscal 2018. This summary of investment portfolio may change due to ongoing portfolio transactions. The Plans are prohibited from holding short positions in securities.

Name	Coupon %	Maturity Date	% of Investments
CANADA HOUSING TRUST	2.65%	2028-03-15	9.8%
GOVERNMENT OF CANADA	5.00%	2037-06-01	9.5%
GOVERNMENT OF CANADA	2.00%	2028-06-01	7.4%
CANADA HOUSING TRUST	2.35%	2028-03-15	7.4%
PROVINCE OF ONTARIO	6.50%	2029-03-08	7.2%
GOVERNMENT OF CANADA	5.75%	2029-06-01	7.0%
GOVERNMENT OF CANADA	5.75%	2033-06-01	5.0%
CANADA HOUSING TRUST	2.65%	2028-12-15	4.5%
CANADA HOUSING TRUST	3.80%	2021-06-15	3.0%
PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	2.2%
CANADA HOUSING TRUST	2.35%	2023-09-15	2.0%
HYDRO-QUEBEC	11.00%	2020-08-15	1.8%
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2019-03-07	1.8%
CANADA HOUSING TRUST	2.35%	2027-06-15	1.7%
CANADA HOUSING TRUST	1.20%	2020-06-15	1.7%
ROYAL BANK OF CANADA	2.33%	2023-12-05	1.5%
ROYAL BANK OF CANADA	2.95%	2023-05-01	1.3%
BANK OF MONTREAL	2.89%	2023-06-20	1.3%
TORONTO-DOMINION BANK	1.99%	2022-03-23	1.2%
TORONTO-DOMINION BANK			1.1%
ROYAL BANK OF CANADA			1.0%
MANULIFE BANK OF CANADA	2.08%	2022-05-26	1.0%
BANK OF NOVA SCOTIA			0.9%
BANK OF NOVA SCOTIA	3.10%	2028-02-02	0.7%
TELUS CORP			0.7%
Largest 25 holdings as a % of total investments			**82.7%**