

Non-Consolidated Financial Statements of

**HERITAGE EDUCATION FUNDS
INTERNATIONAL INC.**

(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018



March 30, 2020

Independent Practitioner's Review Engagement Report

To the Directors of Heritage Education Funds International Inc.

Report on the non-consolidated financial statements

We have reviewed the accompanying non-consolidated financial statements of Heritage Education Funds International Inc. that comprise the non-consolidated statement of financial position as at December 31, 2019 and the non-consolidated statements comprehensive income, of changes in shareholder's equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's responsibility

Our responsibility is to express a conclusion on the accompanying non-consolidated financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these non-consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the non-consolidated financial statements do not present fairly, in all material respects, the financial position of Heritage Education Funds International Inc. as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

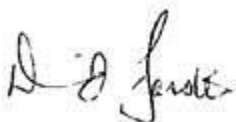
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HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Non-Consolidated Statements of Financial Position
 (Expressed in U.S. dollars)
 As at December 31, 2019 and December 31, 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 2,350,353	\$ 1,599,033
Short-term deposits (note 4)	6,097	6,097
Membership fees receivable, net of allowance of \$199,315 (2018 - \$165,372)	1,321,254	1,115,418
Receivable from affiliated companies (note 5(a))	766,131	736,749
Agency directors' advances, net of allowance of \$6,153 (2018 - \$6,153) (note 7)	21,386	21,366
Other receivables	9,436	9,436
	<u>4,474,657</u>	<u>3,488,099</u>
Non-current assets:		
Membership fees receivable, net of allowance of \$32,513 (2018 - \$27,643)	319,669	348,254
Investment in Heritage Education Funds International (Jamaica) Limited	431,322	431,322
Intangible Assets (note 14)	1,816,432	
Goodwill (note 13)	182,022	-
	<u>\$ 7,224,102</u>	<u>\$ 4,267,675</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 315,183	\$ 233,323
Income taxes payable	318,788	178,782
Payable to affiliated companies (note 5(b))	268	167,799
	<u>634,239</u>	<u>579,904</u>
Non-current liabilities:		
Payable to sales representatives (note 9)	525,892	518,772
Note payable to related party (note 15)	4,643,963	-
Deferred Income Taxes	65,662	
Shareholder's equity:		
Capital stock (note 10)	76	10,000
Contributed surplus	-	135,800
Retained earnings	1,354,270	3,023,199
	<u>1,354,346</u>	<u>3,168,999</u>
	<u>\$ 7,224,102</u>	<u>\$ 4,267,675</u>

The accompanying notes are an integral part of these non-consolidated financial statements.
 On behalf of the Board:



Director



Director

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Non-Consolidated Statements of Comprehensive Income
(Expressed in U.S. dollars)

For the years ended December 31, 2019 and December 31, 2018

	2019	2018
Revenue:		
Membership fees (note 5(c))	\$ 2,337,773	\$ 2,293,154
Administration fees (note 5(c))	991,051	947,574
Insurance admin services fees	19,915	22,995
Interest and other income	25,200	8,038
	<u>3,373,939</u>	<u>3,271,761</u>
Expenses:		
Salaries, benefits and commissions (note 5)	1,451,222	1,951,341
Management fees (note 5(c))	700,281	487,637
General and administrative	409,091	232,713
Foreign exchange loss	5,256	7,848
	<u>2,565,850</u>	<u>2,679,539</u>
Income before income taxes	808,089	592,222
Income tax expense (note 8):		
Current	277,617	223,736
Net income for the year	<u>277,617</u>	<u>223,736</u>
Total income and comprehensive income for the year	<u>\$ 530,472</u>	<u>\$ 368,486</u>

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

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Non-Consolidated Statements of Changes in Shareholder's Equity
(Expressed in U.S. dollars)

For the years ended December 31, 2019 and December 31, 2018

	2019	2018
Common shares:		
Balance, beginning of year	\$ 10,000	\$ 10,000
Amalgamation of Knowledge First International	(9,924)	-
Balance, end of year	76	10,000
Contributed surplus:		
Balance, beginning of year	135,800	135,800
Amalgamation of Knowledge First International	(135,800)	-
Balance, end of year	-	135,800
Retained earnings:		
Balance, beginning of year	3,023,199	3,739,483
Dividends (note 10)	-	(1,084,770)
Total comprehensive income	530,472	368,486
Amalgamation of Knowledge First International	(2,199,401)	-
Balance, end of year	1,354,270	3,023,199
Shareholder's equity, end of year	\$ 1,354,346	\$ 3,168,999

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

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Non-Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

For the years ended December 31, 2019 and December 31, 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Total comprehensive income	\$ 530,472	\$ 368,486
Changes not involving cash:		
Provision on membership fees receivable and agency directors advance	44,034	28,094
Amortization of intangible assets	4,760	-
Change in non-cash operating working capital:		
Membership fees receivable	(221,285)	193,104
Receivable from / payable to affiliated companies	(195,952)	(177,958)
Agency directors' advances	(20)	(6,290)
Other receivables	-	(6,343)
Income taxes	140,006	835,376
Payable to sales representatives	7,120	14,366
Accounts payable and accrued liabilities	81,860	(239,694)
Payable to affiliated companies	(961)	72,325
	390,034	1,081,466
Financing activities		
Dividends paid	-	(1,084,770)
Receivable from parent	-	1,084,770
Increase (decrease) in cash	390,034	1,081,466
Cash, beginning of year	1,599,033	517,567
Amalgamation of Knowledge First International	361,286	-
Cash, end of year	\$ 2,350,353	\$ 1,599,033
Supplemental cash flow information:		
Income taxes paid	\$ -	\$ 36,293

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

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Notes to Non-Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

1. Nature of business and corporate information

Heritage Education Funds International, LLC was incorporated under the Minnesota Limited Liability Company Act on October 13, 1995. On December 28, 2017, it converted to a Minnesota Corporation under the Minnesota Business Corporations Act and changed its name to Heritage Education Funds International, Inc., and then converted to a Canadian corporation under the Canada Business Corporations Act on December 28, 2017 under the name Heritage Education Funds International Inc. (the "Company"). At that time, the Company was a wholly owned subsidiary of Heritage Financial Group Limited ("HFGL").

The Company is the distributor of the Heritage International Scholarship Trust Plan - Fund D (the "Plan") and assists the Heritage International Scholarship Trust Plan Foundation ("HISTF"), in administering the Plan. The Plan is currently distributed in the Bahamas, Bermuda, Jamaica and the British Virgin Islands. The Company, HISTF and the Plan were under the common management of HFGL during 2017. The compensation related to the marketing and administering of the Plan is the Company's main source of revenue.

(a) Acquisition

Effective January 2, 2018, HFGL sold the outstanding shares of the Company to Knowledge First International Inc. ("Knowledge First International"), a wholly owned subsidiary of Knowledge First Foundation.

(b) Amalgamation

On September 30, 2019 ("Amalgamation Date"), the Company and Knowledge First International amalgamated (the "Amalgamation"). The amalgamated company continued under the name Heritage Education Funds International Inc. (the "Company"). As a result of the Amalgamation, the Company continued to be the investment fund manager and distributor of the Plan. The Amalgamation was accounted for using predecessor accounting with the Amalgamation presented on a prospective basis. Accordingly, the results of operations of Knowledge First International were combined from the Amalgamation Date to December 31, 2019 in the financial statements of the Company. The assets and liabilities of each of the entities were recorded at the predecessor carrying values. The carrying values of assets and liabilities are the carrying values which are recorded in the non-consolidated financial statements of the Company, as the entity with control.

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Notes to Non-Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

2. Significant accounting policies:

Basis of Accounting

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, for financial statements delivered by registrants (the "Framework"). Under this Framework, the financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") except that any investment in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27.

The financial statements were authorized for issuance by the Company's Board of Directors on March 25, 2020.

The Company owns 100% of the outstanding shares of Heritage Education Funds International (Jamaica) Limited ("Heritage Jamaica"). The investment in Heritage Jamaica is recorded at cost.

These non-consolidated financial statements have been prepared on the historical cost basis and are presented in the United States dollar, which is the Company's functional currency.

Revenue recognition:

(i) Membership fees:

The Company acts as HISTF's exclusive distributor for the Plan. Pursuant to distribution agreements entered into between HISTF and Heritage International, the Company earns membership fees for each Education Assistance Agreement entered into between a subscriber and HISTF.

Membership fees earned from subscribers in the Plan, represent a single performance obligation and are recognized as revenue when the subscriber is enrolled in the plan at a specified amount per unit.

At the time an Education Assistance Agreement is approved, membership fees receivable is recorded net of estimated allowances for cancellations and expected credit losses. The difference between the contractual Membership fee and its initial fair value is amortized using the effective interest method over the term of its collection and recognized as interest income.

Upon cancellation of an Education Assistance Agreement by a subscriber, the Company retains the Membership fees collected on discontinued units. A subscriber may elect to reinstate some or all discontinued units within 3 years of the date they were discontinued.

Membership fees are deducted from the subscriber's contribution to the Plan and paid to HISTF, which, in turn, pays these to the Company. Membership fees are earned by the Company as remuneration for its services in distributing the Plan. These fees are recorded at the time of sale and are collected as deposits are made under the Plan. In the event of termination of a subscriber's plan within 60 days of sale, recorded fees are reversed and amounts collected are refunded to the subscriber. For terminations subsequent to this rescission period, fees not yet collected are reversed.

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Notes to Non-Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

(ii) Administration fees:

The Company is the registered investment fund manager of the Plan and provides fund administration to the Plans and other administrative services for the Plan on behalf of HISTF.

Pursuant to management agreements between HISTF and the Company, administrative fees as described in the prospectuses for the Plans are paid by the Plan to the Company. These services represent a single performance obligation and are recognized as the services are provided as a percentage of the subscriber funds on deposit.

(iii) Insurance admin services fees

HISTF's Completion Insurance Program provides ongoing contributions to a subscriber's plan in the event of their death or disability. Subscriber deposits received by the Company contain an insurance component for life and disability coverage of which the Company retains 20% as Insurance Admin Services fees. The remaining 80% of the premiums collected from the policyholders is remitted monthly to the insurance provider.

Foreign currency:

Transactions in foreign currencies are translated to the functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized in the Non-Consolidated Statements of Comprehensive Income.

Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in net income for the year, except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are derecognized when the rights to receive or pay cash flows from the instrument have expired and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset, and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company's financial assets and financial liabilities are classified as follows:

Short-term deposits	Amortized cost
Membership fees receivable	Amortized cost
Receivable from affiliated companies	Amortized cost
Note payable to related party	Amortized cost
Other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Payable to affiliated companies	Amortized cost

Financial assets and liabilities at amortized cost

Financial assets and liabilities are measured at amortized cost unless measured at Fair Value Through Profit & Loss ("FVTPL"). After initial measurement at fair value, financial assets and liabilities in this category are carried at amortized cost. Interest income or expense on these financial instruments is recognized using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial instrument.

Provisions:

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the obligation at the reporting date. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is reversed. The Company has created a provision of 9% on the enrolment fees receivable as at

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

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December 31, 2019 (9% as at December 31, 2018). The Company has not written off any amount against this provision in recent years.

Expected credit loss (ECL) Provisions

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period.

Intangible assets

Intangible assets acquired in a business combination are measured on initial recognition at fair value. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives, which include distribution networks, are measured at cost less accumulated amortization and cumulative impairment losses. Distribution networks are amortized on a straight-line basis over the period of expected attrition of the network of 13 years. Intangible assets with indefinite lives, which include fund contracts, are subsequently carried at cost less cumulative impairment losses.

Goodwill

Goodwill is measured on the acquisition date at the excess of the consideration over the fair value of the acquisition date amounts of identifiable assets acquired and the liabilities assumed measured in accordance with IFRS. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units are identified at the lowest level at which goodwill is monitored for internal management purposes. The Company has determined that it has one cash generating unit.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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Adoption of new accounting policies:

There were no standards and amendments issued by the International Accounting Standards Board (“IASB”) that have been adopted by the Foundation for the first time for the financial year beginning January 1, 2019.

3. Critical accounting estimates and judgments:

The preparation of these non-consolidated financial statements requires management to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements, and actual results could differ from estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, management has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

4. Short-term deposits:

	Maturity date	Interest rate	2019	2018
Guaranteed investment certificates with Royal Bank of Canada	January 2020	0.5%	\$ 6,097	\$ 6,097

5. Related party transactions and balances:

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. All material transactions with related parties are recorded at fair value.

(a) Amounts receivable from affiliated companies are as follows:

	2019	2018
HISTF	\$ 701,956	\$ 736,749
KFFI CAD \$75,000 (2018 – CAD\$0)	57,746	–
HEFI Jamaica	6,429	–
	<u>\$ 766,131</u>	<u>\$ 736,749</u>

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Notes to Non-Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

b) Amounts payable to affiliated companies are as follows:

	2019	2018
KFFI CAD \$0 (2018- CAD \$222,948)	\$ –	\$ 164,076
HEFI Jamaica	–	2,494
HISTF	268	1,229
	\$ 268	\$ 167,799

The amounts receivable from and payable to affiliated companies do not bear interest and have no fixed terms of repayment.

(c) Transactions with related parties:

The following summarizes the Company's material related party transactions for the year:

	2019	2018
Membership fees earned from the Plan	\$ 2,337,773	\$ 2,293,154
Administration fees earned from HISTF	\$ 991,051	\$ 947,574
Operating recoveries charged by KFFI	\$ –	\$ 364,076
HEFI	–	417,038
Management fees charged by Heritage Jamaica	\$ 18,000	\$ 18,000
Administration fees charged by KFFI	\$ 170,662	\$ 131,480
Support service fees charged by Knowledge First International	\$ 511,619	\$ 338,157

Administration fees are received from HISTF for expenses incurred in assisting the HISTF with the administration of the Plan. The administration fees are initially collected from the Plan by HISTF and are calculated based on up to 1% of the subscriber principal and interest and dividends earned thereon. Membership fees, administration and insurance fee transactions were conducted in accordance with terms of the respective Prospectus or Scholarship Agreement of the Plan. These transactions are measured at the exchange amount.

Operating recoveries charged by Knowledge First Financial or HEFI represent the Company's share of certain payroll expenses (and are included in salaries and benefits) and its share of rent and data communication lines (and are included in general and administrative expenses). Operating recoveries were charged by HEFI up to August 28, 2018 and by Knowledge First Financial thereafter.

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Notes to Non-Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

Management fees are charged by Heritage Jamaica for providing services to the Company in accordance with the management services agreement dated April 15, 2009.

Administration fees are charged by HEFI pursuant to an administration agreement dated January 2, 2018, in the amount of CAD \$14,300 per month up to August 28, 2018 and by Knowledge First Financial thereafter.

Knowledge First International entered in a support services agreement dated January 2, 2018 to provide support services, including sales marketing, financial, regulatory and administrative services, to the Company for a monthly payment of CAD \$36,000. This agreement was amended from January 1, 2019 and the revised monthly payment is CAD \$75,000. As per the novation agreement dated September 30, 2019, the revised fee is paid to KFFI. The agreement can be terminated by either party on 30 days' notice.

(d) Involvement in unconsolidated structured entities:

The Company manages and administers the Plan on behalf of HISTF. The Plan, which is a separate legal entity, is financed by investments made by subscribers. The Company is paid for the management, administration and other services it provides to the Plan. In 2019, revenue generated for these services amounted to \$3,348,739 (2018 - \$3,263,723). Total assets of the unconsolidated related Plan amounted to \$137,842,530 (2018 - \$123,776,290). The Company does not have a direct interest in the Plan and, as such, does not have a direct exposure to losses from its involvement with the Plan.

6. Restricted fees:

Amounts due from the Foundation include \$459,695 (2018 - \$524,012) of membership fees earned in the Bahamas which are restricted and require the approval of the Central Bank of Bahamas prior to being remitted to the Company.

7. Agency directors' advances:

Agency directors' advances represent advance commissions, chargebacks due to terminations, other charges and loans as a result of ongoing business relationships. Terms of repayment, interest rates and collateral vary with each note.

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

Notes to Non-Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

8. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rate of 26.50% (2018 - 26.50%) to income before income taxes. The reasons for the differences are as follows:

		2019		2018
Income before income taxes	\$	808,089	\$	592,222
Total income tax expense		277,617		223,736
Net income	\$	530,472	\$	368,486
Computed tax expense	26.50 %	\$ 214,164	26.50 %	\$ 156,939
Increase (decrease) resulting from:				
Permanent differences	7.85 %	63,453	11.28 %	66,797
	34.35 %	\$ 277,617	37.78%	\$ 223,736

9. Payable to sales representatives:

Payable to sales representatives represent those amounts collected as reserves or holdbacks as security for amounts owed to the Company by those individuals who leave the Company's sales force and have commission chargebacks outstanding. Any remaining amounts after deducting for commission chargebacks will be returned to those sales representatives after 18 to 24 months from the date they left the Company's sales force.

10. Capital stock:

	2019	2018
Authorized:		
Unlimited common shares		
Issued and fully paid:		
100 common shares (2018 – 100 common shares)	\$ 76	\$ 10,000

On January 1, 2018, prior to the acquisition of the Company by Knowledge First Financial, the Company declared a dividend of CAD \$ 1,285,360 (U.S.\$ 1,084,770) on its common shares. The dividend was satisfied through a settlement of a CAD \$ 1,365,360 loan receivable from HFGL.

Subsequent to the amalgamation described in Note 1, the capital of the amalgamated company is CAD \$ 100 (U.S.\$ 76) outstanding as at December 31, 2019.

HERITAGE EDUCATION FUNDS INTERNATIONAL INC.

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(Expressed in U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

11. Capital management:

The Company's primary capital management objective is to maintain a strong statement of financial position to support future growth and to provide healthy returns to its shareholder.

The Company's capital consists of contributed surplus and retained earnings. The Company's capital structure is dependent on the Company's expected business growth and changes in the business environment. The Company manages its capital structure and adjusts according to market conditions to maintain flexibility while achieving the objectives stated above.

12. Risk management:

The Company is affected by a number of economic factors, including changing economic environments and capital markets. As a result, the Company faces various risk factors inherent in its normal business activities. These risk factors are primarily credit risk, liquidity risk, interest rate risk, currency risk and other price risk. In order to proactively address and manage these risks, management continuously reviews and analyzes the Company's financial and operating results.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company's receivables arise primarily from Membership fees due from subscribers to the Plans. Receivables from agents and plan subscribers are spread across a large base and therefore concentration of credit risk is minimized. The Company holds security from agents either in cash or through standby letters of credit, to mitigate credit risk. In addition, the Company records an allowance for credit losses against receivables from agents and plan subscribers and reviews these allowances against actual experience on a regular basis.

The carrying amount of cash, due from related parties, membership fees receivable and agency represents the maximum credit risk exposure as at reporting date.

(b) Liquidity risk:

Liquidity risk is a risk that the Company will encounter difficulty in meeting obligations as they become due. The Company minimizes this risk by: (i) maintaining sufficient cash and cash equivalents; and (ii) otherwise ensuring cash will be available with the anticipated payout dates to the creditors. The details of financial liabilities related to payable to sales representatives is presented in note 9 .

The Company is exposed to liquidity risk through the guarantee provided by the Company in respect of the senior secured credit facility of Knowledge First Financial (note 13), which represents a contingent liquidity risk obligation of the Company. The Company mitigates this liquidity risk by monitoring its projected cash flows.

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(c) Market risk:

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Management has identified interest rate risk and other price risk as key risk factors that may potentially have an impact on the carrying or fair value of its financial instruments.

(i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A rise in interest rates may have a negative effect on fair value or future cash flows of a financial instrument while a decrease in interest rates may have a positive effect on the fair value or future cash flows of a financial instrument held by the Company.

The Company is not directly exposed to significant interest rate risk. However, the Company has indirect exposure to interest rate risk through the guarantee provided by the Company in respect of the senior secured credit facility of Knowledge First Financial, which represents a contingent liquidity risk obligation of the Company (note 16).

(ii) Currency risk:

The company is exposed indirectly to currency risk through its direct ownership in Heritage Jamaica. However, all revenues, expenses, assets and direct obligations of the Company are incurred in United States dollars.

(iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual asset, its counterparty or other factors affecting the market. The Company has no exposure to other price risk as at December 31, 2019 and 2018.

13. Intangible Assets:

	Fund Contracts	Distribution Networks	Total
Cost			
Balance at December 31, 2018	-	-	-
Additions due to amalgamation (Note 1)	1,607,009	247,500	1,854,509
Balance at December 31, 2019	1,607,009	247,500	1,854,509
Accumulated Amortization			
Balance at December 31, 2018	-	-	-
Amortization	-	38,077	38,077
Balance at December 31, 2019	-	38,077	38,077

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Net book value as at December 31			
2019	\$1,607,009	\$209,423	\$1,816,432
2018	-	-	-

14. Goodwill

Upon acquisition of HFGL in 2018 as described in Note 1, the recoverable amount of goodwill was determined based on 'value-in-use' calculations which require the use of assumptions. The valuation approach also considered a number of other factors such as EBITDA margin projections, annual growth rate based on projected investment returns of the assets under management, terminal value based on comparable transactions, discount rates based on the Company's average cost of capital and continuation of various existing contractual arrangements. Management determined that no impairment was required as at December 31, 2019.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	-	-
Additions due to amalgamation (Note 1)	182,022	-
Balance, end of year	<u>182,022</u>	<u>-</u>

15. Note payable to related company:

On January 2, 2018, Knowledge First Financial loaned Knowledge First International \$6,200,001 (since reduced to \$6,150,000), on an unsecured basis. The amount bears interest at 5% per annum, payable monthly and was repayable by Knowledge First International upon thirteen months' notice given by the Company, until September 30, 2019. Subsequent to the amalgamation described in Note 1, this loan is now payable by the Company.

16. Contingencies:

On January 2, 2018, Knowledge First Financial, as borrower, the Company and Knowledge First International (the "Guarantors") and Knowledge First Foundation entered into senior secured credit facilities with The Bank of Nova Scotia ("Scotiabank") totalling CAD \$57,500,000 to finance the acquisition of Canadian entities acquired by Knowledge First Financial and the acquisition of the Company by Knowledge First International. The parties entered into an amended and restated credit agreement with Scotiabank on August 28, 2018 as amended March 7, 2019. The credit facilities are secured by unconditional guarantees and indemnities provided by the Guarantors and a first ranking security interest in favour of Scotiabank on all present and future property of Knowledge First Financial and the Guarantors including a pledge of the shares of the Company and Knowledge First Financial owned by Knowledge First Foundation.

Mandatory permanent repayments of CAD \$1,375,000 in respect of the outstanding amount owing under the credit facilities are required to be made by Knowledge First Financial to Scotiabank on the last business of each fiscal quarter end. On February 6, 2019, Knowledge First Financial made a CAD

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\$5,000,000 voluntary and permanent repayment of the long-term portion of these credit facilities. As of December 31, 2019, total drawings under the credit facilities were CAD \$39,000,000.

17. Subsequent event:

While the precise impact of the recent novel coronavirus: COVID-19 outbreak remains unknown, it has introduced uncertainty and volatility in global markets and economies. Knowledge First is monitoring the potential impact of market risk to its profitability and cashflows. Goodwill and intangible assets (fund contracts) are tested annually for impairment. While there was no impairment recorded for the years ended December 31, 2019 and 2018, a sustained period of market declines and weak sales could become a triggering event requiring a write down of these assets.