

# **Knowledge First Financial**

## **Flex First Plan**

(Education savings program provided by Knowledge First Foundation)

Financial Statements

**For the six months ended June 30, 2018**

*Unaudited semi-annual financial statements*

*The auditor has not reviewed the Plan's June 30, 2018 financial statements. The Foundation appoints an independent auditor to audit the Plan's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the interim financial statements, this must be disclosed in an accompanying notice.*

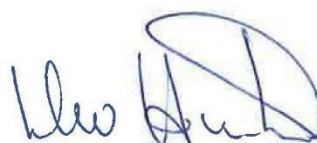
**FLEX FIRST PLAN**  
**STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**  
As at June 30, 2018 and December 31, 2017  
All amounts in Canadian Dollars

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	736,210	4,547,903
Investments (Note 5)	132,532,006	103,032,684
Receivable for investments sold	314,146	-
Government grants receivable	2,180,758	2,037,651
Interest and dividends receivable	424,360	343,159
Other receivables (Note 7)	1,306,221	2,061,554
	<u>137,493,701</u>	<u>112,022,951</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and other liabilities (Note 7)	1,466,147	1,523,088
Payable for investments purchased	985,667	-
	<u>2,451,814</u>	<u>1,523,088</u>
<b>Net assets attributable to subscribers and beneficiaries (Note 6)</b>	<u>135,041,887</u>	<u>110,499,863</u>

**Approved by the Board of Directors of Knowledge First Foundation**



Director



Director

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

**FLEX FIRST PLAN**  
**STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

For the six months ended June 30, 2018 and 2017

All amounts in Canadian Dollars

	<b>2018</b>	<b>2017</b>
<b>Income</b>		
Interest income	988,185	536,049
Dividend income	1,023,480	197,787
Other changes in fair value of investments:		
Net realized gains on investments	174,279	93,971
Net change in unrealized gains (losses) on investments	(783,595)	437,988
<b>Total income (net)</b>	<b>1,402,349</b>	<b>1,265,795</b>
<b>Expenses</b>		
Management fees (note 7)	873,161	540,578
Independent review committee fees	1,813	1,011
Transaction Costs	7,568	4,198
<b>Total Expenses (net)</b>	<b>882,542</b>	<b>545,787</b>
<b>Increase in net assets attributable to subscribers and beneficiaries</b>	<b>519,807</b>	<b>720,008</b>

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

**FLEX FIRST PLAN**  
**STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO SUBSCRIBERS**  
**AND BENEFICIARIES (UNAUDITED)**

For the six months ended June 30, 2018 and 2017

All amounts in Canadian Dollars

	<b>2018</b>	<b>2017</b>
<b>Net assets attributable to subscribers and beneficiaries, beginning of period</b>	110,499,863	65,781,778
Subscribers' contributions (Note 6)		
Contributions	17,358,253	13,502,999
Return of contributions	(938,822)	(553,355)
	16,419,431	12,949,644
Government grants (Note 6)		
Government grant contributions	8,127,922	6,322,096
Government grant repayments and transfers	(408,093)	(308,288)
Government grant payments to beneficiaries	(105,977)	(29,462)
	7,613,852	5,984,346
Accumulated income (Note 6)		
Increase in net assets attributable to subscribers and beneficiaries	519,807	720,008
Education Assistance Payments	(32,726)	(26,762)
Payments of government grant income to beneficiaries	(7,276)	(5,097)
Income transferred in, net	28,936	24,470
	508,741	712,619
<b>Net assets attributable to subscribers and beneficiaries, end of period</b>	135,041,887	85,428,387

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

**FLEX FIRST PLAN**  
**STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the six months ended June 30, 2018 and 2017

All amounts in Canadian Dollars

	<b>2018</b>	<b>2017</b>
<b>Cash flows from (used in) operating activities</b>		
Increase in net assets attributable to subscribers and beneficiaries	519,807	720,008
Adjustments for:		
Net realized (gains) on investments	(174,279)	(93,971)
Net change in unrealized (gains) or losses on investments	783,595	(437,988)
Amortization of bond discounts / premiums	162,168	169,062
Purchase of investments	(97,321,803)	(57,747,358)
Proceeds from sale or maturity of investments	67,722,518	36,053,842
Interest and dividends receivable	(81,201)	(31,023)
Other receivables	755,333	1,679,877
Accounts payable and other liabilities	(56,941)	302,843
<b>Net cash used in operating activities</b>	<b>(27,690,803)</b>	<b>(19,384,708)</b>
<b>Cash flows from (used in) financing activities</b>		
Subscribers' contributions	17,358,253	13,502,999
Return of subscribers' contributions	(938,822)	(553,355)
Government grant receipts	7,984,815	5,783,309
Government grant repayments	(408,093)	(308,288)
Government grant payments to beneficiaries	(105,977)	(29,462)
Income payments to beneficiaries		
Education Assistance Payments	(32,726)	(26,762)
Government Grants	(7,276)	(5,097)
Income transferred in, net	28,936	24,470
<b>Net cash from financing activities</b>	<b>23,879,110</b>	<b>18,387,814</b>
<b>Net increase (decrease) in cash</b>	<b>(3,811,693)</b>	<b>(996,894)</b>
<b>Cash, beginning of period</b>	<b>4,547,903</b>	<b>3,862,698</b>
<b>Cash, end of period</b>	<b>736,210</b>	<b>2,865,804</b>

Supplementary Information \*

<i>Interest received</i>	1,073,705	682,326
<i>Dividend received</i>	1,018,928	189,549

\* Included in operating activities

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

**FLEX FIRST PLAN**  
**SCHEDULE OF INVESTMENT PORTOLIO**  
As at June 30, 2018  
All amounts in Canadian Dollars

<b>BONDS</b>	<b>Coupon %</b>	<b>Maturity Date</b>	<b>Par Value \$</b>	<b>Cost \$</b>	<b>Fair Value \$</b>
<b>FEDERAL (15.2%)</b>					
GOVERNMENT OF CANADA	1.00%	2027-06-01	1,110,000	1,009,949	1,006,433
GOVERNMENT OF CANADA	2.25%	2025-06-01	2,605,000	2,652,761	2,624,494
GOVERNMENT OF CANADA	5.75%	2033-06-01	500,000	713,314	724,215
GOVERNMENT OF CANADA	2.50%	2024-06-01	1,220,000	1,249,089	1,245,842
CANADA HOUSING TRUST	2.90%	2024-06-15	8,465,000	8,741,970	8,679,405
CANADA HOUSING TRUST	3.15%	2023-09-15	1,395,000	1,470,455	1,445,558
CANADA HOUSING TRUST	1.90%	2026-09-15	4,600,000	4,398,919	4,389,689
				<u>20,236,457</u>	<u>20,115,636</u>
<b>PROVINCIAL (26.6%)</b>					
PROVINCE OF ALBERTA	2.20%	2026-06-01	2,630,000	2,547,762	2,531,184
PROVINCE OF ALBERTA	2.35%	2025-06-01	2,695,000	2,702,805	2,642,556
PROVINCE OF BRITISH COLUMBIA	8.00%	2023-09-08	170,000	218,366	214,893
PROVINCE OF BRITISH COLUMBIA	3.30%	2023-12-18	2,450,000	2,617,206	2,550,751
PROVINCE OF BRITISH COLUMBIA	2.70%	2022-12-18	790,000	828,625	800,030
PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	1,305,000	1,719,041	1,662,343
PROVINCE OF BRITISH COLUMBIA	2.85%	2025-06-18	4,655,000	4,831,919	4,736,434
PROVINCE OF ONTARIO	2.60%	2027-06-02	1,270,000	1,250,742	1,248,582
PROVINCE OF ONTARIO	3.50%	2024-06-02	1,645,000	1,767,820	1,723,934
PROVINCE OF ONTARIO	2.60%	2025-06-02	1,525,000	1,518,654	1,516,848
PROVINCE OF ONTARIO	3.15%	2022-06-02	2,705,000	2,826,068	2,778,225
PROVINCE OF ONTARIO	6.50%	2029-03-08	985,000	1,344,471	1,309,163
PROVINCE OF ONTARIO	4.20%	2020-06-02	170,000	178,034	176,579
PROVINCE OF ONTARIO	2.40%	2026-06-02	3,660,000	3,641,673	3,568,710
PROVINCE OF ONTARIO	2.85%	2023-06-02	3,110,000	3,194,744	3,156,466
PROVINCE OF QUEBEC	3.50%	2022-12-01	1,045,000	1,111,589	1,090,755
PROVINCE OF QUEBEC	3.00%	2023-09-01	1,285,000	1,357,800	1,314,182
PROVINCE OF SASKATCHEWAN	3.20%	2024-06-03	1,170,000	1,234,668	1,207,756
PROVINCE OF SASKATCHEWAN	2.55%	2026-06-02	1,030,000	1,015,043	1,016,482
				<u>35,907,030</u>	<u>35,245,873</u>

**CORPORATE (27.7%)**

BANK OF MONTREAL	1.88%	2021-03-31	2,100,000	2,063,972	2,055,572
BANK OF MONTREAL	3.19%	2028-03-01	795,000	795,901	799,104
BANK OF MONTREAL	2.12%	2022-03-16	3,505,000	3,505,768	3,422,797
BANK OF MONTREAL	2.89%	2023-06-20	830,000	829,851	828,576
BANK OF NOVA SCOTIA	2.87%	2021-06-04	3,000,000	3,021,984	3,012,032
BANK OF NOVA SCOTIA	1.83%	2022-04-27	675,000	648,869	650,648
BANK OF NOVA SCOTIA	2.36%	2022-11-08	1,665,000	1,661,841	1,629,282
BANK OF NOVA SCOTIA	2.62%	2026-12-02	1,860,000	1,872,027	1,796,814
BANK OF NOVA SCOTIA	2.98%	2023-04-17	790,000	789,779	791,491
BANK OF NOVA SCOTIA	3.10%	2028-02-02	945,000	939,714	940,533
CANADIAN IMPERIAL BANK	2.04%	2022-03-21	2,760,000	2,739,778	2,687,533
CANADIAN IMPERIAL BANK	3.30%	2025-05-26	345,000	348,593	350,215
FAIRFAX FINL HLDGS LTD	4.70%	2026-12-16	1,225,000	1,274,668	1,263,273
HSBC BANK CANADA	2.17%	2022-06-29	1,000,000	1,000,000	969,854
HSBC BANK CANADA	3.25%	2023-09-15	440,000	440,270	442,133
INTACT FINANCIAL CORP	2.85%	2027-06-07	1,525,000	1,529,466	1,456,898
NATIONAL BANK OF CANADA	2.11%	2022-03-18	1,520,000	1,519,547	1,482,983
PEMBINA PIPELINE CORP	4.89%	2021-03-29	600,000	630,940	631,113
ROYAL BANK OF CANADA	1.97%	2022-03-02	1,275,000	1,276,837	1,239,126
ROYAL BANK OF CANADA	2.00%	2022-03-21	950,000	953,145	923,732
ROYAL BANK OF CANADA	2.33%	2023-12-05	4,125,000	4,152,624	3,997,545
TORONTO-DOMINION BANK	2.62%	2021-12-22	890,000	910,709	887,146
TORONTO-DOMINION BANK	1.91%	2023-07-18	3,460,000	3,389,190	3,300,529
TORONTO-DOMINION BANK	3.01%	2023-05-30	1,125,000	1,126,723	1,131,318

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37,422,196 36,690,247

**SHORT TERM SECURITIES (5.8%)**

GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-07-12	2,450,000	2,447,844	2,449,092
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-07-26	4,900,000	4,896,408	4,896,414
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-08-09	260,000	259,541	259,686
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-08-23	105,000	104,822	104,825

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7,708,615 7,710,017

**Total Fixed Income**

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101,274,298 99,761,773

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<b>EQUITIES</b>	<b># of Shares</b>	<b>Cost \$</b>	<b>Fair Value \$</b>
<b>CONSUMER DISCRETIONARY (0.5%)</b>			
GILDAN ACTIVEWEAR INC	10,500	392,628	388,815
MAGNA INTERNATIONAL INC	3,325	203,657	254,230
		<u>596,285</u>	<u>643,045</u>
<b>CONSUMER STAPLES (0.6%)</b>			
ALIMENTATION COUCHE-TARD INC	9,425	558,290	538,262
GEORGE WESTON LTD	2,145	234,069	230,073
		<u>792,359</u>	<u>768,335</u>
<b>ENERGY (2.8%)</b>			
CAMECO CORP	18,850	262,585	278,792
CANADIAN NATURAL RESOURCES LTD	15,625	610,365	741,406
ENBRIDGE INC	3,575	181,674	168,025
HUSKY ENERGY INC	14,500	228,647	297,105
SHAWCOR LTD	13,400	400,735	341,968
SUNCOR ENERGY INC	14,675	594,339	785,113
TRANSCANADA CORP	12,175	681,984	692,514
VERMILION ENERGY INC	7,125	330,054	337,796
		<u>3,290,383</u>	<u>3,642,719</u>
<b>FINANCIALS (3.9%)</b>			
BANK OF MONTREAL	8,075	709,053	820,582
BANK OF NOVA SCOTIA	10,200	721,621	759,288
BROOKFIELD ASSET MANAGEMENT INC	12,475	586,911	665,292
INTACT FINANCIAL CORP	5,250	498,049	489,563
MANULIFE FINANCIAL CORP	13,575	318,099	320,642
ROYAL BANK OF CANADA	8,200	709,789	811,718
SUN LIFE FINANCIAL INC	4,850	232,690	256,226
THOMSON REUTERS CORP	3,280	177,913	174,004
TORONTO DOMINION BANK	12,100	757,986	920,689
		<u>4,712,111</u>	<u>5,218,004</u>
<b>INDUSTRIALS (1.3%)</b>			
CANADIAN NATIONAL RAILWAY COMPANY	4,575	406,263	491,950
CANADIAN PACIFIC RAILWAY LTD	1,750	353,946	421,610
FINNING INTERNATIONAL INC	11,150	304,772	361,818
STANTEC INC	7,150	231,977	241,742
WASTE CONNECTIONS INC	2,350	192,965	232,721
		<u>1,489,923</u>	<u>1,749,841</u>



**INFORMATION TECHNOLOGY (0.9%)**

CELESTICA INC	8,300	126,810	129,729
CGI GROUP INC	6,775	429,273	564,425
OPEN TEXT CORP	11,150	456,312	515,911
		<u>1,012,395</u>	<u>1,210,065</u>

**MATERIALS (1.2%)**

AGNICO EAGLE MINES LTD	6,450	346,238	388,742
FRANCO-NEVADA CORP	3,375	291,888	323,831
GOLDCORP INC	17,525	326,873	316,326
METHANEX CORP	3,950	213,736	367,192
WEST FRASER TIMBER LTD	1,950	121,977	176,456
		<u>1,300,712</u>	<u>1,572,547</u>

**REAL ESTATE (0.3%)**

H&R REAL ESTATE INV-REIT UTS	8,500	181,541	171,020
RIOCAN REIT	7,825	198,934	188,974
		<u>380,475</u>	<u>359,994</u>

**TELECOMMUNICATION SERVICES (0.4%)**

BCE INC	3,025	175,655	161,051
ROGERS COMMUNICATION INC	6,000	334,574	374,640
		<u>510,229</u>	<u>535,691</u>

**UTILITIES (0.4%)**

BROOKFIELD RENEWABLE ENERGY PARTNERS LP	3,675	185,510	185,367
FORTIS INC131	9,150	377,001	384,483
		<u>562,511</u>	<u>569,850</u>

**US EQUITY (12.4%)**

BMO S&P 500 Hedged to CAD Index	302,261	11,879,517	12,389,676
BMO S&P 500 INDEX ETF	104,592	3,755,526	4,110,466
		<u>15,635,043</u>	<u>16,500,142</u>

**Total Equities**

	<u>30,282,426</u>	<u>32,770,233</u>
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Less: Transaction costs

<u>(7,568)</u>
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**Total Investments**

<u>131,549,156</u>	<u>132,532,006</u>
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**FLEX FIRST PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**As at June 30, 2018**

All amounts in Canadian Dollars

**1. General information**

Flex First Plan (the Plan) was established by Knowledge First Foundation (the Foundation) as a savings vehicle for subscribers to save for a designated student's (beneficiary) post-secondary education. The Plan commenced operations in November 2012.

The Foundation, the sponsor of the Plan, is a not-for-profit organization, which was incorporated without share capital on February 19, 1990 under the Canada Corporations Act and continued under the amended act of October 17, 2011. The Foundation has engaged its wholly-owned subsidiary, Knowledge First Financial Inc. (Knowledge First Financial) to be the distributor and investment fund manager of the Plan and to provide general administration services to the Plan. Knowledge First Financial is incorporated under the laws of Canada. The primary place of business of the Plan is 50 Burnhamthorpe Road West, Mississauga, Ontario, Canada.

Subscribers to the Plan make periodic deposits into the Plan, net of enrolment fees charged to each subscriber. The income earned on subscriber contributions is held in the Education Assistance Payment account. When a plan matures, is terminated, or is cancelled, such deposits, net of deductions, will be returned to the subscriber or a beneficiary. Upon registration of a plan, Knowledge First Financial will apply for government grants on behalf of the Subscriber. The income earned on government grants is held in the Grant Income account.

The Plan invests in Canadian government bonds and high grade corporate debt and in Canadian equities and ETFs. The underlying investments held by the ETFs are exposed to the US dollar. The BMO S&P 500 Hedged has been hedged back to the Canadian dollar and therefore has no currency exposure. The Plan is subject to the risk that the fair value of future cash flows of BMO S&P 500 Index ETF which are not hedged back to the Canadian dollar will fluctuate because of changes in foreign exchange rates. The Plan's investment in equities is limited to 30% of Net Assets of the Plan.

Education Assistance Payments (EAPs) are paid from government grants and income earned on contributions and governments grants through interest, dividends and other income. Contributions are not included in EAPs, however are returned to the Subscriber upon maturity. In order to be entitled to an EAP, the administrator must receive proof that a beneficiary meets EAP eligibility requirements for enrolment in a post-secondary program, inclusive of confirmation of beneficiary residency status. If a subscriber to the Plan terminates an account, a refund of net contributions is due to the subscriber and government grant monies are returned to the originating government agency. Forfeited grant income is payable to eligible educational institutions.

The financial statements were authorized for issue by the Board of Directors of the Foundation on August 29, 2018.

**2. Basis of presentation and adoption of IFRS**

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB"). The Plan has consistently applied the accounting policies used in the preparation of its financial statements.

**3. Summary of significant accounting policies**

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

**Financial instruments**

The Plan recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit or loss. Regular purchases and sales of financial assets are recognized at their trade date. The Plan's investments are measured at fair value through profit or loss (FVTPL), including its investments in equities, ETFs and debt securities, which have been designated at FVTPL. All other financial assets and liabilities, including interest and dividends receivable, amounts receivable for investments sold, government grants receivable, other receivables, amounts payable for securities purchased and accounts payable, principal payable to beneficiaries and other liabilities, are measured at amortized cost. The Plan's obligation for net assets attributable to subscribers and beneficiaries is presented at the distribution amount, which is the residual amount of assets of the Plan after deducting all of its liabilities.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. For equities and ETFs, the Plan uses the last traded market price where the last traded price falls between that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, Knowledge First Financial determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. For bonds, the Plan uses mid prices provided by independent security pricing vendors. The Plan's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

**Income recognition, transaction costs and expenses**

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

**Impairment of financial assets**

At each reporting date, the Plan assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Plan recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

**Foreign currency**

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

**Cash**

Cash is comprised of demand deposits with financial institutions.

**Net Assets Attributable to Subscribers and Beneficiaries**

Net assets attributable to subscribers and beneficiaries are comprised of subscribers' contributions, government grants and income earned on both subscribers' contributions and government grants. Net assets attributable to subscribers and beneficiaries is classified as a liability as subscribers have the option to withdraw at any point prior to maturity. If a subscriber withdraws before maturity, the subscriber's contributions are returned to the subscriber, income earned on that subscriber's contributions is due and payable to the subscriber as an accumulated income payment or payable to a designated educational institution, government grant contributions are returned to the government and forfeited income on the government grants is owed to a designated educational institution. Refer to Note 6 for a breakdown of net assets attributable to subscribers and beneficiaries.

Subscribers' contributions are comprised of deposits received from subscribers, after deductions for enrolment fees, and do not include amounts receivable on outstanding agreements, as subscribers may terminate their plans at any time. Knowledge First Financial deducts the applicable enrolment fees from the deposits made from subscribers and the net amount is invested in the Plan.

Government grants represent contributions received from federal and provincial governments. Government grants are recognized upon receipt of an eligible contribution to a registered education savings plan by a subscriber to the Plan. Accumulated income includes the increase (decrease) in net assets attributable to subscribers and beneficiaries. Education assistance payments and payments of grant income to beneficiaries and designated financial institutions reduce the accumulated income account.

### **Funds transferred in/out**

During the life of an agreement, subscribers of another Knowledge First Financial Education Savings Plan, or subscribers at another provider, may choose to convert their agreement to the Plan, or alternatively, subscribers of the Plan may choose to convert their agreement to another Knowledge First Financial Education Savings Plan or another provider. Contributions, government grants and income transferred in/out are reported as changes in net assets attributable to subscribers and beneficiaries.

### **Taxation**

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

### **Interests in Unconsolidated Structured Entities**

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

### **Fair value reserve**

The fair value reserve included in net assets attributable to subscribers and beneficiaries represents the net unrealized gains (losses) on fixed income investments and the net unamortized fixed income realized gains (losses). Fixed income realized gains and losses are transferred to the EAP Account over a twelve-month period in proportion to the balances in those accounts at the time of allocation. Equity gains and losses, both realized and unrealized, are transferred to the EAP Account monthly in proportion to the balances in those accounts at the time of allocation. Refer to Note 6 for a continuity of the Fair Value Reserve.

### **Accounting standards issued**

#### **IFRS 9, Financial instruments**

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which requires more timely recognition of expected credit losses. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Management has completed the assessment of the impact of the adoption on the Plan and noted no measurement impact on the net assets attributable to subscribers and beneficiaries.

#### **4. Critical accounting estimates and judgments**

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

#### **Investment entity status**

A significant judgment made in preparing the Plan's financial statements relates to the determination that the Plan meets the definition of an investment entity as described in IFRS 10, Consolidated financial statements. The Plan's

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

### **Classification and measurement of investments and the application of the fair value option**

In classifying and measuring financial instruments held by the Plan, Knowledge First Financial is required to make significant judgements about whether or not the business of the Plan is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments – Recognition and Measurement (IAS 39). The most significant judgment made includes the determination that the fair value option can be applied to the Plan's investments in debt and equity securities.

### **5. Financial Instruments Risks**

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

#### **Credit risk**

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

The fair value of debt investments includes consideration of the credit worthiness of the debt issuer. The carrying amount of cash, receivables and debt investments represents the maximum credit risk exposure as at June 30, 2018 and December 31, 2017. The analysis below summarizes the credit quality of the Plan's debt portfolio as at June 30, 2018 and December 31, 2017. Credit ratings are obtained from Standard & Poor's, Moody's and DBRS. Where one or more rating is obtained for a security, the lowest rating has been used.

Credit Rating	Percentage of Fixed Income Investments (%) As at	
	June 30, 2018	December 31, 2017
"AAA"	21.9	10.1
"AA"	19.0	19.6
"A"	55.5	67.1
"BBB"	3.6	3.2
Total	100.0	100.0

#### **Liquidity risk**

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

#### *Maturity Profile*

EAPs (accumulated income and government contributions) are paid upon submission of required documentation to Knowledge First Financial. Subscriber's principal is paid upon maturity of a respective agreement. See Schedule of EAP payments for details of maturity with respect to principal and accumulated income.

If a subscriber cancels an agreement, subscriber's principal and associated government contributions are due upon demand. Income on the subscriber's principal and returned government grants become immediately payable to the subscriber or to qualified educational institutions, as applicable.

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

### Concentration Risk

The table below summarizes this Plan's concentration risk as a percentage of investments as at June 30, 2018 and December 31, 2017.

Concentration	Percentage of Investments (%) As at	
	June 30, 2018	December 31, 2017
<b><u>Fixed Income</u></b>		
Federal	15.2	7.2
Provincial	26.6	38.0
Corporate	27.7	26.1
Short-term	5.8	3.4
<b><u>Equities</u></b>		
Consumer Discretionary	0.5	0.6
Consumer Staples	0.6	0.5
Energy	2.8	2.9
Financials	3.9	4.0
Industrials	1.3	1.2
Information Technology	0.9	0.7
Materials	1.2	1.3
Real Estate	0.3	0.3
Telecommunications	0.4	0.4
Utilities	0.4	0.5
US ETFs	12.4	12.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Market risk

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

#### a) Currency Risk

The Plan invests in exchange traded funds (ETF) denominated in Canadian dollars. The underlying investments held by the ETFs are exposed to the US dollar. The BMO S&P 500 Hedged to CAD Index ETF has been hedged back to the Canadian dollar and therefore has no currency risk. The Plan is subject to the risk that the fair value of future cash flows of the BMO S&P 500 Index ETF which are not hedged back to Canadian dollar will fluctuate because of changes in foreign exchange rates. As at June 30, 2018, if the exchange rate had increased or decreased by 5%, with all other variables held constant, the net assets attributable to subscribers and beneficiaries would have increased or decreased by approximately \$0.2 million (\$0.2 million as at December 31, 2017).

#### b) 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. The Plan holds securities with fixed interest rates that expose the Plan to interest rate risk. As at June 30, 2018, had prevailing interest rates increased or decreased by 25 basis points, assuming a parallel shift in the yield curve, with all other variables held constant, net assets of the Plan would have decreased or increased, respectively, by approximately \$1.3 million (approximately 1.0% of the total investment portfolio) (December 31,

2017 - \$1.1 million, approximately 1.1% of the total investment portfolio). In practice, actual results may differ from this analysis and the difference could be material.

The table below summarizes the Plan's exposure to interest rate risk as at June 30, 2018 and December 31, 2017, by remaining term to maturity.

<b>June 30, 2018</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Short term investment – Treasury Bill	7,710,017			7,710,017
Government guaranteed instruments				
Federal	-	-	20,115,636	20,115,636
Provincial	-	8,002,055	27,243,818	35,245,873
Corporate	-	22,343,203	14,347,044	36,690,247
	7,710,017	30,345,258	61,706,498	99,761,773
Percentage of total	7.7%	30.4%	61.9%	100%

<b>December 31, 2017</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Short term investment – Treasury Bill	3,487,273	-	-	3,487,273
Government guaranteed instruments				
Federal	-	1,366,379	6,021,274	7,387,653
Provincial	-	4,284,173	34,903,956	39,188,129
Corporate	-	12,488,663	14,414,000	26,902,663
	3,487,273	18,139,215	55,339,230	76,965,718
Percentage of total	4.5%	23.6%	71.9%	100%

c) Other price risk

The Plan is exposed to other price risk, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Financial instruments held by the Plan are susceptible to market price risk arising from uncertainties about future prices of those instruments. Market prices of these instruments are predominantly a function of interest rate movements and changes in the market's perceived credit risks applicable to non-federal government securities. The maximum risk resulting from financial instruments held by the Plan is equivalent to their fair value. The investment manager manages this risk through the selection of securities within the parameters of the investment strategy. As at June 30, 2018, if the investment in equities and ETFs had increased or decreased by 5%, with all other variables held constant, the net assets attributable to subscribers and beneficiaries would have increased or decreased by approximately \$1.6 million (\$1.3 million as at December 31, 2017).

**Capital risk management**

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

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

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

**Fair value measurement**

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

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

If inputs of different levels are used to measure an asset’s or liability’s fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table illustrates the classification of the Plan’s assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2018 and December 31, 2017.

<b>As of June 30, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investment	-	7,710,017	-	7,710,017
Government guaranteed instruments				
Federal	-	20,115,636	-	20,115,636
Provincial	-	35,245,873	-	35,245,873
Corporate	-	36,690,247	-	36,690,247
Equities & ETFs	32,770,233	-	-	32,770,233
<b>Investments at fair value</b>	<b>32,770,233</b>	<b>99,761,773</b>	<b>-</b>	<b>132,532,006</b>

<b>As of December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investment	-	3,487,273	-	3,487,273
Government guaranteed instruments				
Federal	-	7,387,653	-	7,387,653
Provincial	-	39,188,129	-	39,188,129
Corporate	-	26,902,663	-	26,902,663
Equities & ETFs	26,066,966	-	-	26,066,966
<b>Investments at fair value</b>	<b>26,066,966</b>	<b>76,965,718</b>	<b>-</b>	<b>103,032,684</b>

All fair value measurements above are recurring. The carrying values of receivable for investments sold, government grant receivable, interest and dividend receivable, other receivables, payable for investments purchased and accounts payable and other liabilities, principal payable to subscribers and the Plan’s obligation for net assets attributable to subscribers and beneficiaries approximate their fair value due to their short-term nature. There were no transfers between levels during the periods ended June 30, 2018 and December 31, 2017 or Level 3 securities held as at June 30, 2018 or December 31, 2017.



## Investments in unconsolidated structured entities

Underlying Fund as at June 30, 2018	Country of establishment and principal place of business	% Ownership in the underlying Fund	Fair value of the Plan's investment in the underlying Fund
BMO S&P 500 Index ETF	Canada	0.09%	\$4,110,466
BMO S&P 500 Hedged to CAD Index ETF	Canada	1.05%	\$12,389,676

Underlying Fund as at December 31, 2017	Country of establishment and principal place of business	% Ownership in the underlying Fund	Fair value of the Plan's investment in the underlying Fund
BMO S&P 500 Index ETF	Canada	0.08%	\$3,278,241
BMO S&P 500 Hedged to CAD Index ETF	Canada	0.97%	\$10,016,006

## 6. Net assets attributable to subscribers and beneficiaries

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

	As at June 30, 2018	As at December 31, 2017
Subscribers' contributions, net of returns	82,654,897	66,235,466
Government grants	47,165,794	39,551,942
Accumulated income		
Education assistance payment account	4,305,105	3,663,904
Income from government grants	2,656,657	2,341,236
Fair value reserve	(1,740,566)	(1,292,685)
Balance – End of period	\$135,041,887	\$110,499,863

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

	Period ended June 30, 2018	Period ended June 30, 2017
Subscribers' deposits	23,888,725	19,410,336
Enrolment fee deducted	(6,528,002)	(5,906,577)
Special Processing Fees	(2,470)	(760)
Return of contributions	(938,822)	(553,355)
Net increase in Subscribers' contributions	16,419,431	12,949,644
Balance – Beginning of period	66,235,466	38,462,946
Balance – End of period	82,654,897	51,412,590

The changes to the fair value reserve for the periods are as follows:

	<b>Period ended June 30, 2018</b>	<b>Period ended June 30, 2017</b>
Change in unrealized losses	(250,098)	(101,846)
Realized gains (losses)	(330,681)	87,908
Allocation of realized gains and losses	132,898	(49,440)
Net increase (decrease) in fair value reserve	(447,881)	(63,378)
Balance – Beginning of period	(1,292,685)	(375,766)
Balance – End of period	(1,740,566)	(439,144)

Fair value reserve is comprised of the following:

	<b>As at June 30, 2018</b>	<b>As at December 31, 2017</b>
Unrealized gains (losses) on fixed income investments	(1,512,670)	(1,262,572)
Realized gains on fixed income investments	185,674	516,355
Allocation of realized gains and losses on fixed income investments	(413,570)	(546,468)
Balance – End of period	(1,740,566)	(1,292,685)

### 7. Related party transactions

The Foundation is the sponsor of the Plan. Knowledge First Financial, a wholly owned subsidiary of the Foundation, carries out the general administration of the Plan on its behalf that includes processing and call centre services related to new agreements, payments, government grants, plan modifications, terminations, maturities and EAPs. Under the fund management agreement dated May 1, 2013, in consideration for its administrative services (inclusive of depository, audit, portfolio management and custodial fees), Knowledge First Financial is entitled to receive from the Plan an annual management fee of up to 1.5% of all funds on deposit related to the Plan and special processing fees including one-time fees for specific transactions. The actual management fee charged for the period ended June 30, 2018 was 1.3% (period ended December 31, 2017 - 1.3%).

Accounts payable and other liabilities includes \$1,365,221 (December 31, 2017 – \$1,428,294) due to Knowledge First Financial relating to Management fees, subscriber fees received by the Plan on behalf of Knowledge First Financial.

Included in other receivables as June 30, 2018 is \$1,240,917 (December 31, 2017 - \$1,912,328) due from Family Group Plan (a separate plan established by the Foundation) relating to government grants received on behalf of the Plan.

The Plan also pays remuneration to members of the Independent Review Committee which are included in Independent Review Committee Fees in the Statements of Comprehensive Income.

### 8. Maturities

Subject to the subscriber's right to early termination, Plan principal matures and is payable to the subscribers or their designated nominees on July 31 of the year in which students would normally enter the first academic year of post-secondary education.