

**Knowledge First Financial**  
**Classic Education Savings Plan**  
(Education savings program provided by Knowledge First Foundation)

Financial Statements

**For the six months ended October 31, 2016**

*Unaudited semi-annual financial statements*

*The auditor has not reviewed the Plan's October 31, 2016 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.*


**CLASSIC EDUCATION SAVINGS PLAN  
STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

As at October 31, 2016 and April 30, 2016

All Amounts in Canadian Dollars

	<b>October 31 2016</b>	<b>April 30 2016</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	-	87,866
Investments (Note 5)	52,337,664	56,811,813
Interest receivable	444,350	516,199
	<u>52,782,014</u>	<u>57,415,878</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Cash overdraft	3,772,767	1,517,862
Government grants payable	28,552	84,493
Principal payable to subscribers	2,903,653	2,890,291
Accounts payable and other liabilities (Note 7 and 8)	2,218,407	3,566,599
	<u>8,923,379</u>	<u>8,059,245</u>
<b>Net assets attributable to subscribers and beneficiaries (Note 6)</b>	<u>43,858,635</u>	<u>49,356,633</u>

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

Director 

Director 

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

**CLASSIC EDUCATION SAVINGS PLAN  
STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

For the six months ended October 31, 2016 and 2015

All Amounts in Canadian Dollars

	<b>2016</b>	<b>2015</b>
<b>Income</b>		
Interest income	352,038	478,770
Other income	267,776	484,577
Other changes in fair value of investments:		
Net realized gains on investments	-	2,500,349
Net change in unrealized (losses) on investments	162,581	(2,778,961)
<b>Total income (net)</b>	<b>782,395</b>	<b>684,735</b>
<b>Expenses</b>		
Administration fees (Note 8)	116,397	161,616
Investment counsel fees (Note 9)	15,601	8,574
Custodian fees	4,500	4,500
Independent review committee fees	762	1,630
<b>Total expenses</b>	<b>137,260</b>	<b>176,320</b>
<b>Increase in net assets attributable to subscribers and beneficiaries</b>	<b>645,135</b>	<b>508,415</b>

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

**CLASSIC EDUCATION SAVINGS PLAN  
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO SUBSCRIBERS AND  
BENEFICIARIES (UNAUDITED)**

For the six months ended October 31, 2016 and 2015

All Amounts in Canadian Dollars

	<b>2016</b>	<b>2015</b>
<b>Net assets attributable to subscribers and beneficiaries, beginning of year</b>	49,356,633	77,235,927
Subscribers deposits (Note 6)		
Deposits	19,704	37,192
Return of deposits	(1,548,831)	(3,711,303)
	(1,529,127)	(3,674,111)
Government grants		
Government grant contributions / (returned)	63,204	4,809
Government grant repayments and transfers	(169,498)	(942,124)
Government grant payments to beneficiaries	(528,137)	(754,338)
	(634,431)	(1,691,653)
Accumulated income (Note 6)		
Increase in net assets attributable to subscribers and beneficiaries	645,135	508,415
Education Assistance Payments	(2,060,096)	(4,583,329)
Deferred EAP payments	(1,304,820)	(774,135)
Payments of government grant income to beneficiaries	(609,620)	(1,084,919)
Payments of government grant income to educational institutions	(5,527)	(7,208)
Subscribers' equivalency transactions	488	1,440
	(3,334,440)	(5,939,736)
<b>Net assets attributable to subscribers and beneficiaries, end of period</b>	<b>43,858,635</b>	<b>65,930,427</b>

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

**CLASSIC EDUCATION SAVINGS PLAN  
STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the years ended October 31, 2016 and 2015

All Amounts in Canadian Dollars

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Increase in net assets attributable to subscribers and beneficiaries	645,135	508,415
Adjustments for:		
Net realized (gains) on investments	-	(2,500,349)
Net change in unrealized losses on investments	(162,581)	2,778,961
Amortization of bond discounts/premiums	483,817	463,092
Purchases of investments	(56,408,123)	(271,036,652)
Proceeds from sale or maturity of investments	60,561,036	276,237,222
Interest receivable	71,849	(221,643)
Other receivable	-	(3,814)
Accounts payable and other liabilities	(373,582)	(160,356)
<b>Net cash from operating activities</b>	<b>4,817,551</b>	<b>6,064,876</b>
<b>Cash flows used in financing activities</b>		
Subscribers deposits	19,704	37,192
Return of subscriber deposits	(1,535,469)	(4,028,891)
Government grant receipts	63,204	8,312
Government grant repayments	(225,439)	(811,630)
Government grant payments to beneficiaries	(528,137)	(754,338)
Income payments to beneficiaries:		
Education Assistance Payments	(3,364,916)	(5,357,464)
Government Grants	(609,620)	(1,084,919)
Subscribers' equivalency transactions / income transferred in	488	2,123
Income payments to educational institutions from government grants	(980,137)	-
Income transfer out	-	(683)
Due from Knowledge First Financial	-	(24,869)
<b>Net cash from financing activities</b>	<b>(7,160,322)</b>	<b>(12,015,167)</b>
<b>Net increase (decrease) in cash (cash overdraft)</b>	<b>(2,342,771)</b>	<b>(5,950,291)</b>
<b>Cash (cash overdraft), beginning of year</b>	<b>(1,429,996)</b>	<b>758,621</b>
<b>Cash (cash overdraft)**, end of period</b>	<b>(3,772,767)</b>	<b>(5,191,670)</b>
Supplementary Information *		
Interest received	809,873	666,941
* Included in operating activities		
** Cash (cash overdraft)		
Cash	50,652	67,684
Cash overdraft	(3,823,419)	(5,259,354)
	<b>(3,772,767)</b>	<b>(5,191,670)</b>

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

**CLASSIC EDUCATION SAVINGS PLAN  
SCHEDULE OF INVESTMENT PORTOLIO**  
As at October 31, 2016

	Coupon %	Maturity Date	Par Value \$	Cost \$	Fair Value \$
<b>FEDERAL (12.4%)</b>					
CANADA HOUSING TRUST	2.05%	15/06/2017	2,100,000	2,118,173	2,118,773
CANADA HOUSING TRUST	3.80%	15/06/2021	1,600,000	1,765,715	1,797,732
PSP CAPITAL INC	2.26%	16/02/2017	2,550,000	2,560,825	2,561,561
<b>TOTAL FEDERAL</b>				<b>6,444,713</b>	<b>6,478,066</b>
<b>PROVINCIAL (39.8%)</b>					
PROVINCE OF BRITISH COLUMBIA	4.70%	01/12/2017	800,000	833,647	834,737
PROVINCE OF MANITOBA	2.05%	01/12/2016	1,100,000	1,101,255	1,101,251
PROVINCE OF MANITOBA	3.85%	01/12/2021	1,100,000	1,209,171	1,233,107
PROVINCE OF MANITOBA	5.50%	15/11/2018	250,000	272,460	273,245
PROVINCE OF NEW BRUNSWICK	3.35%	03/12/2021	1,100,000	1,179,506	1,202,614
PROVINCE OF NEW BRUNSWICK	4.40%	03/06/2019	100,000	108,073	108,683
PROVINCE OF NEW BRUNSWICK	6.75%	27/06/2017	1,450,000	1,506,120	1,506,732
PROVINCE OF NOVA SCOTIA	4.15%	25/11/2019	350,000	379,413	382,715
PROVINCE OF NOVA SCOTIA	4.45%	24/10/2021	600,000	673,185	686,723
PROVINCE OF ONTARIO	5.50%	02/06/2018	900,000	964,118	966,553
PROVINCE OF QUEBEC	4.25%	01/12/2021	3,500,000	3,919,730	3,996,629
PROVINCE OF QUEBEC	4.50%	01/12/2017	2,700,000	2,807,325	2,809,953
PROVINCE OF QUEBEC	4.50%	01/12/2016	5,000,000	5,016,069	5,014,936
PROVINCE OF QUEBEC	4.50%	01/12/2018	700,000	750,289	752,670
<b>TOTAL PROVINCIAL</b>				<b>20,720,361</b>	<b>20,870,548</b>
<b>CORPORATE (10.9%)</b>					
BANK OF MONTREAL	4.55%	01/08/2017	300,000	307,499	307,875
BANK OF MONTREAL	6.02%	02/05/2018	150,000	159,980	160,705
BANK OF MONTREAL	3.40%	23/04/2021	350,000	370,487	378,116
BANK OF NOVA SCOTIA	2.74%	01/12/2016	700,000	700,888	700,993
BANK OF NOVA SCOTIA	2.87%	04/06/2021	350,000	361,984	370,315
BANK OF NOVA SCOTIA	2.40%	28/10/2019	50,000	51,049	51,516
BANK OF NOVA SCOTIA	2.75%	13/08/2018	150,000	153,550	154,022
CAISSE CENTRALE DESJARDINS	2.80%	19/11/2018	450,000	461,814	463,703
CAISSE CENTRALE DESJARDINS	3.50%	05/10/2017	250,000	255,091	255,562
CANADIAN IMPERIAL BANK OF COMMERCE	2.35%	24/06/2019	150,000	153,415	154,068
CANADIAN IMPERIAL BANK OF COMMERCE	3.95%	14/07/2017	150,000	152,887	153,067
CANADIAN IMPERIAL BANK OF COMMERCE	2.65%	08/11/2016	350,000	350,109	350,091
CANADIAN IMPERIAL BANK OF COMMERCE	2.35%	18/10/2017	550,000	555,760	556,805

ROYAL BANK OF CANADA	2.82%	12/07/2018	150,000	153,527	153,940
ROYAL BANK OF CANADA	2.36%	21/09/2017	200,000	201,859	202,335
ROYAL BANK OF CANADA	2.86%	04/03/2021	350,000	362,419	369,016
TORONTO DOMINION BANK	2.43%	15/08/2017	550,000	555,293	556,053
TORONTO DOMINION BANK	2.56%	24/06/2020	150,000	153,872	155,985
TORONTO DOMINION BANK	2.17%	02/04/2018	200,000	202,405	202,808
<b>CORPORATE TOTAL</b>				<b>5,663,888</b>	<b>5,696,975</b>
<b>SHORT TERM SECURITIES (36.9%)</b>					
GOVERNMENT OF CANADA TREASURY BILL	0.00%	01/12/2016	18,350,000	18,329,264	18,342,518
GOVERNMENT OF CANADA TREASURY BILL	0.00%	03/11/2016	400,000	399,492	399,984
GOVERNMENT OF CANADA TREASURY BILL	0.00%	29/12/2016	550,000	549,456	549,573
<b>TOTAL SHORT TERM SECURITIES</b>				<b>19,278,212</b>	<b>19,292,075</b>
<b>TOTAL INVESTMENTS</b>				<b>52,107,174</b>	<b>52,337,664</b>

\*Fixed income investments with no coupon rate are zero coupon securities.

**CLASSIC EDUCATION SAVINGS PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
October 31, 2016

**1. General information**

Classic Education Savings 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 is no longer accepting new subscribers and is winding down as the remaining accounts reach maturity. The Plan invests in Canadian fixed income securities including Canadian federal, provincial and municipal government bonds. On June 30, 2015 the manager of the Plan was changed from TD Asset Management Inc. to Baker Gilmore. The transition of managers was made in an effort to save the Plan from higher fees while maintaining sound investment management.

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 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, insurance premiums, depository fees and service charges charged to each subscriber. The income earned on subscriber deposits is held in the Education Assistance Payment (EAP) Account. When a plan matures, is terminated, or is cancelled, such deposits, net of deductions, will be returned to the subscriber or a beneficiary and the plan income is transferred to the Foundation Education Assistance Payment (FEAP) Account and used to provide payments to qualified students. The Plan invests in Canadian government bonds and short-term investments.

EAPs are paid over three years from interest, other income, and income earned on education grants accumulated in the Plan. Deposits are not included in EAPs, however are returned to the Subscriber upon maturity, net of applicable fees. 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 deposits are due to the subscriber and government grant monies are returned to the originating government agency. Forfeited grant income are payable to an eligible educational institution.

The financial statements were authorized for issue by the Board of Directors of the Foundation on December 8, 2016.

**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 way 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 debt securities, which have been designated at FVTPL. All other financial assets and liabilities, including interest receivable, amounts receivable for investments sold, government grants receivable, other receivables, amounts payable for securities purchased, principal payable to beneficiaries and accounts payable 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 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 separately on the Statement of Financial Position based on the debt instruments' stated rates of interest. 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 is comprised of subscribers' deposits, government grants and income earned on both subscribers' deposits 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 deposits less fees are returned to the subscriber, income earned on that subscriber's deposits is due and payable to other members of the Plan, government grant contributions are returned to the government and income on the government grants is payable to designated educational institutions. Refer to Note 6 for a breakdown of net assets attributable to subscribers and beneficiaries.

Subscribers' deposits is comprised of deposits received from subscribers, after deductions for various fees, and do not include amounts receivable on outstanding agreements, as subscribers may terminate their plans at any time. Knowledge First Financial as Investment Fund Manager of the Plan deducts a portion of the applicable enrolment fees, insurance premiums, and depository and service charges from the deposits made by subscribers and the net amount is invested in the Plan. During the life of an agreement, subscribers may choose to purchase additional units, or convert their present agreements to fully paid-up status. In order to effect the purchase or conversion, subscribers must contribute additional funds, or convert a portion of their principal deposits into income contributions, to reflect the equivalent amount of income that would have been earned if the revised agreement was in place since the inception of their plan. These are called subscribers' equivalency transactions. These additional funds are included in accumulated income.

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, and income earned on matured accounts, cancelled or terminated accounts (the Income Account). Education assistance payments and payments of grant income to beneficiaries and designated financial institutions reduce the accumulated income account. At the discretion of the Foundation, Income Account monies may be used to supplement EAPs to qualified students or disbursed for the advancement of education, consistent with the objectives

of the Foundation.

### **Taxation**

The income on Subscribers' deposits 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 or their designated nominees.

### **Fair Value Reserve**

The fair value reserve reported in the net assets attributable to subscribers and beneficiaries includes the net unrealized gains (losses) on fixed income investments and the net unamortized fixed income realized gains (losses), calculated on an average cost basis. Fixed income realized gains and losses are transferred to the EAP Account, Income from government grants, and the Income Account on a proportionate basis of units remaining in the plan as it winds down.

### **Accounting standards issued but not yet adopted**

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

The final version of IFRS 9, Financial instruments, was issued by the IASB in July 2014 and will replace 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 will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Manager is in the process of assessing the impact of IFRS 9 on the Plan and has not yet determined when it will adopt the new standard.

#### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15, Revenue from Contracts with Customers, is a new standard effective for years beginning on or after January 1, 2018, which will supersede IAS 18, Revenue and related interpretations. The Plan is in the process of assessing the impact of IFRS 15.

### **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' deposits 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, the Manager 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 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, market risk (including price risk, currency risk and interest rate risk). The Plan does not conduct any activities in currencies other than the Canadian dollar and is therefore not subject to significant 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 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. On June 30, 2015 the manager of the Plan was changed from TD Asset Management Inc. to Baker Gilmore. The transition of managers was made in an effort to save the Plan from higher fees while maintaining sound investment management. 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, provincial, or municipal governments along with corporate debt instruments with an investment grade credit rating at the time of acquisition.

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 October 31, 2016 and April 30, 2016. The analysis below summarizes the credit quality of the Plan's debt portfolio as at October 31, 2016 and April 30, 2016. 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.

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Credit Rating	Percentage of Fixed Income Investments (%) As At	
	October 31, 2016	April 30, 2016
"AAA"	19.6	15.6
"AA"	17.6	15.2
"A"	62.8	69.2
Total	100.0	100.0

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### 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 subscribers' deposits and government grants balances as subscribers can cancel or terminate their agreement at any time at which point the full balance would become immediately payable to the subscribers or the government. The Plan is also exposed to agreement maturities and obligations with respect to 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 and cash equivalent positions to maintain adequate liquidity.

### Maturity Profile

EAPs (accumulated income and government contributions) are paid over three years upon submission of required documentation to the Manager. Subscriber's principal is paid upon maturity of a respective agreement.

If a subscriber cancels an agreement, subscriber's principal and associated government contributions are due upon demand. The income on subscribers' principal will remain in accumulated income. Income on returned government grants becomes immediately payable to a qualified educational institution.

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

### Concentration Risk

The table below summarizes this Fund's concentration risk as a percentage of investments as at October 31, 2016 and April 30, 2016.

Concentration	Percentage of Investments (%) As at	
	October 31, 2016	April 30, 2016
Federal	12.4	11.5
Provincial	39.8	48.1
Municipal	-	-
Corporate	10.9	13.8
Short Term	36.9	26.6
<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) 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 October 31, 2016, 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 \$0.16 million (approximately 0.3% of the total investment portfolio) (April 30, 2016 - \$0.2 million, approximately 0.4% 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 October 31, 2016 and April 30, 2016 by remaining term to maturity.

October 31, 2016	Within 1 year	From 1 to 5 years	Over 5 years	Total
Short term investments				
Treasury Bills	19,292,075			19,292,075
Government & Corporate instruments				
Federal	4,680,334	1,797,732		6,478,066
Provincial	7,622,920	6,815,278	6,432,350	20,870,548
Corporate	3,082,781	2,614,194		5,696,975
	34,678,110	11,227,204	6,432,350	52,337,664
Percentage of total	66.3%	21.4%	12.3%	100.0%
<b>April 30, 2016</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Short term investments				
Treasury Bills	15,089,820	-	-	15,089,820
Government & Corporate instruments				
Federal	2,578,508	2,131,332	1,797,023	6,506,863
Provincial	12,484,783	7,761,621	7,095,574	27,341,978
Corporate	3,220,870	4,286,198	366,084	7,873,152
	33,373,981	14,179,151	9,258,681	56,811,813
Percentage of total	58.7%	25.0%	16.3%	100.0%

b) 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 October 31, 2016 and April 30, 2016, the Plan had no significant exposure to other price risk as it did not hold equities.

**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 deposits and cancellations. In addition, EAPs and maturities occur at specified times during the year. The Plan is not subject to externally imposed capital requirements. The Plan's objective, when managing capital risk, is to safeguard subscribers' deposits and government grants received and earn income on those amounts in order to pay EAPs to qualified beneficiaries. The Plan endeavours to invest subscribers' deposits, 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 deposits 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 October 31, 2016 and April 30, 2016.

<b>As of October 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investments	-	19,292,075	-	19,292,075
Government guaranteed instruments				
Federal	-	6,478,066	-	6,478,066
Provincial	-	20,870,548	-	20,870,548
Municipal	-	-	-	-
Corporate	-	5,696,975	-	5,696,975
Investments at fair value	-	52,337,664	-	52,337,664

<b>As of April 30, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investments	-	15,089,820	-	15,089,820
Government guaranteed instruments				
Federal	-	6,506,863	-	6,506,863
Provincial	-	27,341,978	-	27,341,978
Municipal	-	-	-	-
Corporate	-	7,873,152	-	7,873,152
Investments at fair value	-	56,811,813	-	56,811,813

All fair value measurements above are recurring. The carrying values of receivable for investments sold, government grant receivable, interest receivable, other receivables, payable for investments purchased, principal payable to beneficiaries and accounts payable and other liabilities 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 years ended October 31, 2016 and April 30, 2016, or Level 3 securities held as at October 31, 2016 and April 30, 2016.

#### 6. Net assets attributable to subscribers and beneficiaries

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

	<b>As at</b>	
	<b>October 31, 2016</b>	<b>April 30, 2016</b>
Subscribers' deposits, net of returns	1,280,114	2,809,240
Government grants	7,762,481	8,396,912
Accumulated income		
Education assistance payment account	1,108,072	2,278,101
Deferred EAP account	4,082,575	5,387,395
Income from government grants	8,550,949	8,894,962
Foundation education assistance payment account*	18,391,751	19,245,162
Income account	2,088,772	1,633,461
Fair value reserve	593,921	711,400
Balance – End of period / year	43,858,635	49,356,633

\* FEAP account and Advance EAP payments were combined for presentation purposes.

The changes to subscribers' deposits to the Plan for the six months period and year are as follows:

	<b>October 31, 2016</b>	<b>April 30, 2016</b>
Subscribers' deposits	265,998	80,187
Insurance premiums deducted	(322)	(1,284)
Enrolment fee (deducted) refunded	(245,784)	(32)
Return of deposits	(1,548,830)	(5,060,210)
Depository fees and service charges deducted	(188)	(3,210)
Net increase (decrease) in Subscribers' deposits	(1,529,126)	(4,984,549)
Balance – Beginning of year	2,809,240	7,793,789
Balance – End of period / year	1,280,114	2,809,240

The changes in the Income account for the six months period and year are as follows:

	<b>October 31, 2016</b>	<b>April 30, 2016</b>
Increase		
Net investment income	110,898	585,855
Other income	370,782	502,300
Decrease		
Supplement to EAP	-	(140,585)
Administration fees	(21,940)	(82,299)
Investment Counsel fees	(3,343)	(4,943)
Custodial fees	(927)	(2,720)
Independent review committee fees	(159)	(825)
Net increase (decrease) in income account	455,311	856,783
Balance - Beginning of year	1,633,461	776,678
Balance – End of period / year	2,088,772	1,633,461

Income earned on monies held in the FEAP Accounts is credited to the Income Account.

At the discretion of the Foundation, Income Account monies may be used to supplement EAPs to qualified students or disbursed for the advancement of education, consistent with the objectives of the Foundation.

#### **7. Accounts Payable**

Included in accounts payable are unclaimed deposits held for cancelled and matured plans. If these deposits are not claimed within three to six years of cancellation or maturity, the deposits are forfeited and transferred into the Income Account. Forfeited grant income from terminated agreements will be paid out to a designated educational institution.

Also included in accounts payable are second and third Education Assistance Payments, which have been deferred by students to a later date when they may qualify to receive such payments.

#### **8. Related party transactions**

The Foundation is the sponsor of the Plan. The general administration of the Plan is carried out on behalf of the Foundation by its wholly owned subsidiary, Knowledge First Financial Inc (Financial), and includes processing and call centre services related to new agreements, payments, government grants, plan modifications, terminations, maturities and EAPs. Under a revised Fiscal 2014 fund management agreement, in consideration for its administrative services (inclusive of audit fees), Financial is entitled to receive from the Plan an annual fee of up to 0.5% of all funds on deposit related to the Plan, insurance administration-related fees, and special processing fees involving one-time fees for specific transactions. All such expenses are included in Administration fees in the Statements of Comprehensive Income. Accounts payable of \$261,520 (April 30, 2016 - \$13,851) are due to Financial in relation to the above agreements and are payable by the Plan.

#### **9. Investment counsel fees**

Investment counsel fees, which are paid to the Plan's third party investment managers, are calculated as a percentage of the total fair value of the Plan's investment portfolio and during the current and prior years ranged from 0.07% to 0.02%. Investment counsel fees paid for the year amounted to 0.05% (0.05% as at April 30, 2015) of the total fair value of the investment portfolio in the Plan.