Knowledge First Financial

Classic Education Savings 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.

CLASSIC EDUCATION SAVINGS PLAN
STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
As at June 30, 2018 and December 31, 2017
All Amounts in Canadian Dollars

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash	4,643,461	2,602,881
Investments (Note 5)	19,948,550	24,803,291
Interest receivable	40,706	55,847
	24,632,717	27,462,019
Liabilities		
Current Liabilities		
Government grants payable	23,626	33,978
Principal payable to subscribers	1,743,212	2,128,680
Accounts payable and other liabilities (Note 7 and 8)	2,490,297	1,929,081
	4,257,135	4,091,739
Net assets attributable to subscribers and beneficiaries (Note 6)	20,375,582	23,370,280

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 June 30, 2018 and 2017
All Amounts in Canadian Dollars

	2018	**2017**
Income		
Interest income	176,035	191,055
Other income	64,111	-
Other changes in fair value of investments:		
Net change in unrealized gains (losses) on investments	(36,847)	(63,920)
Total income (net)	203,299	127,135
Expenses		
Administration fees (Note 8)	59,599	90,689
Investment counsel fees (Note 9)	10,512	11,721
Custodian fees	4,500	4,500
Independent review committee fees	444	556
Other expenses	-	6,947
Total expenses	75,055	114,413
Increase in net assets attributable to subscribers and beneficiaries	128,244	12,722

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 June 30, 2018 and 2017
All Amounts in Canadian Dollars

	2018	2017
Net assets attributable to subscribers and beneficiaries, beginning of period	23,370,280	35,966,707
Subscribers' contributions (Note 6)		
Contributions	10,471	15,223
Return of contributions	(30,209)	(377,711)
	(19,738)	(362,488)
Government grants		
Government grants contributions	3,567	1,700
Government grant repayments and transfers	(1,138,173)	(1,571,732)
Government grant payments to beneficiaries	(80,950)	(117,129)
	(1,215,556)	(1,687,161)
Accumulated income (Note 6)		
Increase in net assets attributable to subscribers and beneficiaries	128,244	12,722
Education Assistance Payments	(439,417)	(639,234)
Payments of government grant income to beneficiaries	(645,852)	(1,095,861)
Payments of government grant income to educational institutions	(802,378)	(815,903)
Subscribers' equivalency transactions	-	1,767
	(1,759,403)	(2,536,509)
Net assets attributable to subscribers and beneficiaries, end of period	20,375,583	31,380,549

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

CLASSIC EDUCATION SAVINGS PLAN
STATEMENTS OF CASH FLOWS (UNAUDITED)
For the six months ended June 30, 2018 and 2017
All Amounts in Canadian Dollars

	2018	2017
Cash flows from (used in) operating activities		
Increase in net assets attributable to subscribers and beneficiaries	128,244	12,722
Adjustments for:		
Net change in unrealized (gains) losses on investments	36,847	63,920
Amortization of bond discounts/premiums	147,729	282,630
Purchases of investments	(48,929,359)	(66,409,361)
Proceeds from sale or maturity of investments	53,599,522	78,907,271
Interest receivable	15,141	27,163
Accounts payable and other liabilities	578,868	842,722
Net cash from operating activities	5,576,992	13,727,067
Cash flows from (used in) financing activities		
Subscribers’ contributions	10,471	15,223
Return of subscribers’ contributions	(415,677)	(383,839)
Government grant receipts	3,567	1,700
Government grant repayments	(1,148,525)	(1,571,732)
Government grant payments to beneficiaries	(80,950)	(117,129)
Income payments to beneficiaries:		
Education Assistance Payments	(439,416)	(639,234)
Government grants	(645,852)	(1,095,861)
Subscribers’ equivalency transactions/income transferred in	-	1,767
Income payments to educational institutions from government grants	(820,030)	(961,233)
Net cash used in financing activities	(3,536,412)	(4,750,338)
Net increase in cash	2,040,580	8,976,729
Cash (cash overdraft), beginning of period	2,602,881	(6,819,209)
Cash, end of period	4,643,461	2,157,520

Supplementary Information *		
Interest received	*338,906*	*500,848*

* Included in operating activities

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

CLASSIC EDUCATION SAVINGS PLAN
SCHEDULE OF INVESTMENT PORTOLIO (UNAUDITED)
As at June 30, 2018
All amounts in Canadian Dollars

Bond Name	Coupon %	Maturity Date	Par Value $	Cost $	Fair Value $
FEDERAL (8.4%)					
CANADA HOUSING TRUST	3.80%	2021-06-15	1,600,000	1,707,366	1,673,242
				1,707,366	1,673,242
PROVINCIAL (50.0%)					
PROVINCE OF MANITOBA	3.85%	2021-12-01	1,100,000	1,174,530	1,153,602
PROVINCE OF MANITOBA	5.50%	2018-11-15	250,000	254,159	253,562
PROVINCE OF NEW BRUNSWICK	3.35%	2021-12-03	1,100,000	1,154,332	1,134,543
PROVINCE OF NEW BRUNSWICK	4.40%	2019-06-03	100,000	102,916	102,276
PROVINCE OF NOVA SCOTIA	4.15%	2019-11-25	350,000	362,819	360,377
PROVINCE OF NOVA SCOTIA	4.45%	2021-10-24	600,000	649,476	639,089
PROVINCE OF ONTARIO	4.40%	2019-06-02	200,000	205,479	204,586
PROVINCE OF ONTARIO	2.10%	2018-09-08	570,000	570,871	570,567
PROVINCE OF ONTARIO	4.00%	2021-06-02	340,000	360,974	356,303
PROVINCE OF QUEBEC	4.25%	2021-12-01	3,500,000	3,786,488	3,720,610
PROVINCE OF QUEBEC	4.50%	2020-12-01	740,000	788,324	780,367
PROVINCE OF QUEBEC	4.50%	2018-12-01	700,000	710,230	708,261
				10,120,598	9,984,143
CORPORATE (0.8%)					
TORONTO-DOMINION BANK	2.56%	2020-06-24	150,000	152,138	150,135
				152,138	150,135
SHORT TERM SECURITIES (40.8%)					
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-07-12	1,050,000	1,048,772	1,049,611
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-08-09	7,100,000	7,087,291	7,091,419
				8,136,063	8,141,030
TOTAL INVESTMENTS				**20,116,165**	**19,948,550**

CLASSIC EDUCATION SAVINGS PLAN
NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)
As at June 30, 2018

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 and corporate bonds.

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, insurance premiums, depository fees and service charges 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 contributions, 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. 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.

Education Assistance Payments (EAPs) are paid over three years from government grants and income earned on contributions and government grants through interest, dividends and other income. Contributions 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 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

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 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' 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 deposits less fees are returned to the subscriber, income earned on that subscriber's contributions is due and payable to other members of the Plan, government grant contributions are returned to the government and forfeited 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' contributions 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 affect the purchase or conversion, subscribers must contribute additional funds, or convert a portion of their principal contributions 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' 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 or their designated nominees.

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 asset-backed securities which are disclosed on the Schedule of Investment Portfolio and the Plan has determined that these securities are unconsolidated structured entities. The Plan accounts for its investments in unconsolidated structured entities at fair value through profit and loss. 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 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. Refer to Note 6 for a continuity of the Fair Value Reserve.

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 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 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 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. 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 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.

	Percentage of Fixed Income Investments (%) As At	
Credit Rating	**June 30, 2018**	**December 31, 2017**
"AAA"	14.2	12.3
"AA"	1.3	2.6
"A"	84.5	85.1
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 subscribers' contributions 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 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 contributions and associated government contributions are due upon demand. The income on subscribers' contributions 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 Plan's concentration risk as a percentage of investments as at June 30, 2018, and December 31, 2017.

	Percentage of Investments (%) As at	
Concentration	**June 30, 2018**	**December 31, 2017**
Federal	8.4	6.8
Provincial	50.0	47.3
Corporate	0.8	1.4
Short-Term	40.8	44.5
Total	100.0	100.0

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 June 30, 2018 and December 31, 2017, 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 $0.1 million (approximately 0.4% of the total investment portfolio) (December 31, 2017 - $0.1 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 June 30, 2018 and December 31, 2017 by remaining term to maturity.

June 30, 2018	**Within 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Short term investments				
Treasury Bill	8,141,030	-	-	8,141,030
Government & Corporate instruments				
Federal	-	1,673,242	-	1,673,242
Provincial	1,839,252	8,144,891	-	9,984,143
Corporate	-	150,135	-	150,135
Total	9,980,282	9,968,268	-	19,948,550
Percentage of total	50.0%	50.0%	-	100.0%

December 31, 2017	**Within 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Short term investments				
Treasury Bill	11,038,558	-	-	11,038,558
Government & Corporate instruments				
Federal	-	1,696,217	-	1,696,217
Provincial	3,138,616	8,578,327	-	11,716,943
Corporate	200,354	151,219	-	351,573
Total	14,377,528	10,425,763	-	24,803,291
Percentage of total	58.0%	42.0%	-	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 June 30, 2018 and December 31, 2017, 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 contributions 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' 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.

As at June 30, 2018	Level 1	Level 2	Level 3	Total
Short term investments	-	8,141,030	-	8,141,030
Government guaranteed instruments				
Federal	-	1,673,242	-	1,673,242
Provincial	-	9,984,143	-	9,984,143
Corporate	-	150,135	-	150,135
Investments at fair value	-	19,948,550	-	19,948,550

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Short term investments	-	11,038,558	-	11,038,558
Government guaranteed instruments				
Federal	-	1,696,217	-	1,696,217
Provincial	-	11,716,943	-	11,716,943
Corporate	-	351,573	-	351,573
Investments at fair value	-	24,803,291	-	24,803,291

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 June 30, 2018 and December 31, 2017 or Level 3 securities held as at June 30, 2018 and December 31, 2017.

6. Net assets attributable to subscribers and beneficiaries

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

	As at	
	June 30, 2018	**December 31, 2017**
Subscribers' contributions, net of returns	428,856	448,594
Government grants	3,304,170	4,519,726
Accumulated income		
Education assistance payment account	434,130	360,177
Deferred education assistance payments	2,519,008	2,667,644
Income from government grants	4,247,752	5,659,534
Foundation education assistance payment account	7,768,247	8,070,526
Income account	1,714,729	1,615,336
Fair value reserve	(41,309)	28,743
Balance – End of period	**20,375,583**	**23,370,280**

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

	Period ended June 30, 2018	**Period ended June 30, 2017**
Subscribers' deposits	10,786	10,556
Insurance premiums deducted	(2)	(163)
Enrolment fee deducted	-	5,485
Return of contributions	(30,209)	(377,711)
Depository fees and service charges deducted	(313)	(655)
Net decrease in Subscribers' contributions	(19,738)	(362,488)
Balance – Beginning of period	448,594	1,280,605
Balance – End of period	**428,856**	**918,117**

The changes in the income account for the periods are as follows:

	Period ended June 30, 2018	Period ended June 30, 2017
Increase		
Net investment income	119,994	60,633
Other income	63,471	-
Decrease		
Supplement to EAPs	(40,378)	-
Administration fees	(34,546)	(16,641)
Investment Counsel fees	(6,275)	(1,085)
Custodian fees	(2,610)	(432)
Independent review committee fees	(263)	(112)
Other expenses	-	(7,046)
Net increase in fair value reserve	99,393	35,317
Balance – Beginning of period	1,615,336	861,083
Balance – End of period	**1,714,729**	**896,400**

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

	Period ended June 30, 2018	Period ended June 30, 2017
Change in unrealized losses	(36,847)	(63,920)
Allocation of realized gains and losses	(33,205)	(104,024)
Net decrease in fair value reserve	(70,052)	(167,944)
Balance – Beginning of period	28,743	343,650
Balance – End of period	(41,309)	175,706

Fair value reserve is comprised of the following:

	June 30, 2018	As at December 31, 2017
Unrealized losses on fixed income investments	(167,615)	(130,768)
Realized gains on fixed income investments	16,052,463	16,052,463
Allocation of realized gains and losses on fixed income investments	(15,926,157)	(15,892,952)
Balance – End of period	(41,309)	28,743

7. Accounts payable and other liabilities

Included in accounts payable and other liabilities is $1,596,932 (December 31, 2017 - $1,744,915) payable to subscribers for stale dated cheques for which the subscriber has not requested the funds to be reissued. If the funds are not claimed within six years of cancellation or maturity, the funds are forfeited and transferred into other income. Also included in accounts payable and other liabilities is forfeited grant income from terminated agreements that will be paid out to a designated educational institution.

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, and includes processing and call centre services related to new agreements, payments, government grants, plan modifications, terminations, maturities and EAPs. Under a fund management agreement dated May 1, 2013, in consideration for its administrative services (inclusive of audit fees), Knowledge First 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. Accounts payable and other liabilities includes $27,798 (December 31, 2017 - $90,304) due to Knowledge First Financial relating to Administration fees and subscriber fees received by the Plan on behalf of Knowledge First Financial. 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.

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 0.06% to 0.02%. Investment counsel fees paid for the year amounted to 0.06% (0.03% as at December 31, 2017) of the total fair value of the investment portfolio in the Plan.