

Management Report of Fund Performance

For the 8-month period ended December 31, 2017

This document contains the Annual Management Report of Fund Performance (“MRFP”) for the Classic Education Savings Plan (the “Plan”). The Plan has changed its financial year-end from April 30 to December 31.

This MRFP contains financial highlights but does not contain the complete annual financial statements of the Plan. You can obtain a copy of the annual financial statements of the Plan at your request, and at no cost, by calling us at 1-800-363-7377 or by writing to us at 50 Burnhamthorpe Road West, Suite 1000, Mississauga, Ontario, L5B 4A5. Alternatively, you can visit our website at www.knowledgefirstfinancial.ca or SEDAR at www.sedar.com.

The investment policies of the Plan, as well as those contained in the Canadian Securities Administrators (“CSA”) policies, limit the Plan’s investments to government bonds, guaranteed investment certificates, guaranteed mortgages, mortgage backed securities and corporate debt instruments of financial institutions (the latter with a minimum A credit rating at the time of acquisition).

Any decision on security voting matters has been delegated to each of our portfolio managers as described in their respective Investment Management Agreements.

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Management Discussion of Fund Performance

Investment Objectives and Strategies

The investment objectives of the Plan are foremost to protect the principal of the investor and maximize return over the long term, in accordance with the Plan’s investment policy. The Plan is no longer accepting new subscribers. The Plan invests in Canadian fixed income securities including Canadian federal, provincial, municipal and corporate bonds.

The manager of the Plan is Baker Gilmore. Baker Gilmore manages the Plan’s assets using an immunization investment management approach which the Foundation’s Board of Directors considers appropriate to meet the investment objectives of the Plan and its subscribers. Immunization involves closely matching the cash flows from the Plan’s investments with the projected net cash flows out of the Plan.

Risk

The Plan is a conservative investment fund suitable for investors intended to fund post-secondary education, and generally for those investors having a lower tolerance for risk. An immunization investment management approach is intended to reduce the risk from changes in interest rates. The risk of investing in the Plan and its suitability for investors remain as discussed in the Prospectus for the Plan.

Results of Operations

The Classic Plan is winding down as the Plan matures and Education Assistant Payments are made. As a result, the net assets in the Plan declined by 28.2% over the fiscal period from \$32.5 million as of April 30, 2017, to \$23.4 million as of December 31, 2017 as payments to existing subscribers and beneficiaries of the Plan exceeded new deposits offset by the income earned on the investments in the Plan.

Investments

The Plan's overall investment mix did not change significantly from the previous fiscal year. At December 31, 2017, all funds were invested in government and corporate bonds and short-term investments.

Over the past five years, since Jan 1, 2013, the Plan's net rate of return was 0.7%. For the period ended December 31, 2017, the Plan's 8-month net rate of return was -0.5% versus a return of -0.2% for the FTSE TMX Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index). The Plan's investment performance was below that of its benchmark for the 8-month period ended December 31, 2017 as the Plan is immunized, and the average term until funds are paid out is shorter than the average term of the benchmark. As a result, the return on shorter term bonds was lower than that of the benchmark. Fees are not deducted from Benchmark returns.

During 2017, the global economy displayed the strongest signs of synchronized growth in a decade. This growth was reflected in record corporate earnings, pushing equity markets to new highs.

The Canadian economy is currently estimated to have grown by 3% in 2017, ending five consecutive years of sub-3% growth. Canada's unemployment rate fell to 5.7%, the lowest level in 40 years, while job growth was 423,000 for the full year of 2017, the best annual increase since 2002.

Given the stronger-than-expected economic performance around the world, Central Bank actions shifted from extraordinary monetary stimulus and historically low interest rates to more normal levels. The Bank of Canada raised its key policy interest rates twice (25 basis points each time), while the US Federal Reserve bank had three rate hikes during 2017 and announced that it expects three more rate increases in 2018.

North American bond yields generally ended the year modestly higher, while the yield curves in both the US and Canada continued to flatten as short-term rates rose more than longer-term yields during the year. The FTSE TMX Government bond index returned 2.2%, while Canadian investment grade corporate bonds (FTSE TMX Corporate bond index) were up 3.4%. Credit spreads versus federal bonds for provincial, investment grade corporate, and high yield corporate bonds tightened during 2017, as the search for yield in riskier assets continued.

Recent Developments

There are no recent developments in the Plan.

Related Party Transactions

(Any applicable sales taxes are added to the fees shown below and are included in the total amounts for the eight months ended December 31, 2017.)

Administration Fees

The Foundation is the sponsor and promoter of the Plan. Knowledge First Financial Inc. (Financial), a wholly owned subsidiary of the Foundation, is the distributor and investment fund manager (as a Scholarship Plan Dealer) for the Plan. Financial also provides various corporate administrative services to the Foundation on behalf of the Plans including processing and call centre services related to new agreements, payments, government grants, plan modifications, terminations, maturities and Education Assistance Payments (EAPs). An annual administration fee (inclusive of audit fees) of \$0.1 million (year ended April 30, 2017 - \$0.2 million) was paid to Financial.

Pursuant to the Fund Management Agreement dated May 1, 2013, administration fees are paid 100% to Financial. Financial is entitled to receive an annual fee of up to 0.5% of all funds on deposit related to the Plan. The administration fee is calculated and paid monthly by the Plan to Financial.

Knowledge First Financial Plans, which include the Plan, may be considered to be connected issuers of Financial. A connected issuer includes an issuer distributing securities that has a relationship with a securities dealer or certain parties related to that dealer, which may lead a reasonable prospective investor to question if the dealer and the issuer are independent of each other.

Enrolment Fees

Financial, as the Plan's distributor, deducts enrolment fees from subscribers' deposits to the Plan equivalent to \$100 per unit purchased. All of the subscribers' deposits to the Plan are applied against the enrolment fee until one half of the total enrolment fee has been paid. Thereafter, one half of subsequent deposits to the Plan are applied against the enrolment fee until the fee is paid in full. Out of the enrolment fees received by the distributor, approximately 62% of the enrolment fees are paid out as sales commissions to the licensed sales representatives and branch directors of the distributor.

Depository and Special Processing Fees

Depository and special processing fees of \$209 (\$1,300 in the year ended April 30, 2017) were deducted from subscribers' deposits. The depository fee is an annual fee for processing subscribers' deposits. This fee is dependent upon the deposit frequency chosen by the subscriber: monthly, annual or single deposit. Special processing fees are one-time fees for specific transactions in the subscribers' savings account. Pursuant to the Fund Management Agreement dated May 1, 2013, 100% of the depository fees collected from subscribers and 100% of special processing fees are paid to Financial as these fees are directly related to plan administration activities.

Insurance Premiums

Insurance premiums of \$106 (\$621 in the year ended April 30, 2017) were deducted from subscribers' deposits prior to depositing the balance into the Plan. The insurance premium for the embedded group life and total disability insurance is calculated at 1.7% of subscribers' deposits. No premium is deducted for one-time deposits or if the subscriber is under the age of 18 or over the age of 64. Pursuant to the Fund Management Agreement, 100% of insurance administration-related fees are paid to Financial. Insurance administration fees are estimated to be 25% to 30% of the insurance premium.

Financial and Operating Highlights (with comparative figures)

The following table shows key financial and operating data for the Plan and is intended to help you understand the Plan's financial and operating results for the past five fiscal periods. This information is derived from the Plan's audited annual financial statements.

(\$ in thousands)	Period ended December 31, 2017	Year ended April 30, 2017	Year ended April 30, 2016	Year ended April 30, 2015	Year ended April 30, 2014
Statements of Financial Position					
Total Assets ⁽¹⁾	27,462	38,411	57,416	83,409	126,062
Net Assets Attributable to Subscribers and Beneficiaries ⁽²⁾	23,370	32,540	49,357	77,236	115,725
% Change of Net Assets	(28.2%)	(34.1%)	(36.1%)	(33.3%)	(18.9)
Statement of Changes in Net Assets Attributable to Subscribers and Beneficiaries					
Scholarship Awards (Educational Assistance Payments)	4,856	7,756	12,637	20,965	38,333
Government Grants (net) ⁽³⁾	(1,000)	(2,877)	(4,160)	(4,191)	(5,429)
Statement of Comprehensive Income					
Net Investment Income ⁽⁴⁾	479	570	794	2,367	4,011
Other					
Total number of units outstanding	9,979	22,306	43,076	76,359	133,149
% change in total number of units	(56.0%)	(48.2%)	(43.6%)	(42.7%)	(32.6%)

⁽¹⁾ "Total Assets" represents cash, investments, and receivables.

⁽²⁾ "Net Assets Attributable to Subscribers and Beneficiaries" represents total assets less total liabilities.

⁽³⁾ Government grants are grants received or receivable from the government net of repayments, payments to beneficiaries upon eligibility and transfers to or from other institutions and other plans.

⁽⁴⁾ Net investment income excludes realized gains (losses) on investments and the net change in unrealized gains (losses) on investments.

Other Fees

(Any applicable sales taxes are added to the fees shown and are included below in the total amounts for the period ended December 31, 2017).

Investment Counsel Fees

For the 8 months ending December 31, 2017, the Investment Counsel fees of \$11 thousand (\$29 thousand in the year ended April 30, 2017) were paid to the Plan's investment managers. Fees are calculated as a percentage of the total market value of the investment portfolio in the Plan and during the current period and prior years ranged from 0.07% to 0.02% on a graduated scale.

Investment counsel fees paid for the period amounted to 0.03% (0.05% for the year ended April 30, 2017) of the total fair value of the investment portfolio in the Plan.

Annual Custodial Fees

The Plan paid custodial fees of \$6 thousand (\$9 thousand for the year ended April 30, 2017) to RBC Investor & Treasury Services to settle all investment trades and disburse fees and other amounts in accordance with the terms of the Plan Agreement.

Independent Review Committee Fees

The Plan paid the Independent Review Committee, a committee mandated by legislation, fees of \$1 thousand (\$1 thousand for the year ended April 30, 2017) to Independent Review Inc. (IRI). The independent review committee reviews all conflict of interest matters referred to it by the Foundation.

Summary of Investment Portfolio

The following table indicates the largest 25 holdings of the Plan at the December 31, 2017. This summary of investment portfolio may change due to ongoing portfolio transactions. The Plan is prohibited from holding short positions in securities.

	Name	Coupon	Maturity Date	% of Investment
1	GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-02-08	36.6%
2	PROVINCE OF QUEBEC	4.25%	2021-12-01	15.2%
3	GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-01-25	7.9%
4	CANADA HOUSING TRUST	3.80%	2021-06-15	6.8%
5	PROVINCE OF MANITOBA	3.85%	2021-12-01	4.8%
6	PROVINCE OF NEW BRUNSWICK	3.35%	2021-12-03	4.7%
7	PROVINCE OF ONTARIO	5.50%	2018-06-02	3.7%
8	PROVINCE OF QUEBEC	4.50%	2020-12-01	3.2%
9	PROVINCE OF QUEBEC	4.50%	2018-12-01	2.9%
10	PROVINCE OF ONTARIO	4.20%	2018-03-08	2.7%
11	PROVINCE OF NOVA SCOTIA	4.45%	2021-10-24	2.6%
12	PROVINCE OF ONTARIO	2.10%	2018-09-08	2.3%
13	PROVINCE OF NOVA SCOTIA	4.15%	2019-11-25	1.5%
14	PROVINCE OF ONTARIO	4.00%	2021-06-02	1.5%
15	PROVINCE OF MANITOBA	5.50%	2018-11-15	1.0%
16	PROVINCE OF ONTARIO	4.40%	2019-06-02	0.8%
17	TORONTO DOMINION BANK	2.17%	2018-04-02	0.8%
18	TORONTO DOMINION BANK	2.56%	2020-06-24	0.6%
19	PROVINCE OF NEW BRUNSWICK	4.40%	2019-06-03	0.4%
19 holdings as a % of investments				100.0%

The following table illustrates the Plan's assets in appropriate sub-groups and indicates the percentage of the overall investment asset value that each sub-group represents.

Category	Fair Value (\$000s)	% of Total Investments
Federal	1,696	6.8%
Provincial	11,717	47.3%
Corporate	351	1.4%
Short-term	11,039	44.5%
Total	24,803	100.0%

Past Performance

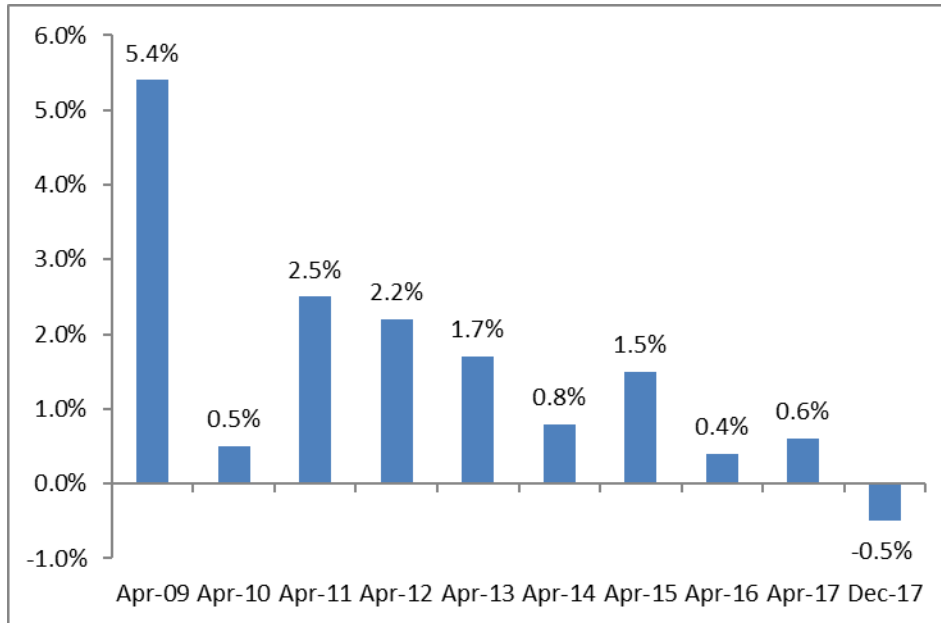
Past performance of the Plan is set out in the following chart and compound returns table. Investment returns have been calculated using market values and time-weighted cash flows. Rates of return shown below for the Plan are:

- For the investment portfolio only;
- After administration, investment counsel, custodial and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, and capital gains distributions are reinvested in the Plan.

Past performance does not necessarily indicate how the Plan’s investment portfolio will perform in the future.

Year-by-Year Returns

The following bar chart illustrates the Plan’s annual performance for the 8-month period ended December 31, 2017 and for each of the previous 12-month periods ended April 30. The chart illustrates in percentage terms how much an investment made in the investment portfolio on the first day of each fiscal period would have increased or decreased by the last day of that fiscal period.



Annual Compound Returns

The following table illustrates the Plan’s annual compound returns for each of the periods ended December 31, 2017.

	8 months	1 year	3 year	5 year	10 year
The Plan	-0.5%	-0.1%	0.4%	0.7%	1.8%
Benchmark*	-0.24%	2.18%	2.3%	2.77%	4.34%

* The FTSE TMX Canada Universe All Government Bond Index (formerly called DEX Canada All Government Bond Index) measures Canadian investment grade fixed income securities including bonds issued by the Government of Canada (including Crown Corporations), provincial bonds (including provincially-guaranteed securities) and municipal bonds.

The Plan uses an immunization investment management approach. Because there is no broad-based securities market index that approximates the construction of the portfolio that is based on the net cash flows out of the Plan, the comparison of past performance to a securities market index is less meaningful than was the case in the past.