

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 Flex First (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.

Subscribers may contact us using one of the above methods to also request a copy of the prior interim financial report.

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), Canadian equity securities, and US equities via exchange-traded funds (ETFs). The equities and ETFs must be traded on a Canadian stock exchange.

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

Topics Covered in this Report

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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. Pursuant to the Knowledge First Financial Inc.’s (Financial) Undertaking with the Ontario Securities Commission (OSC), the Plan has the opportunity to invest a portion of the Plan’s Net Assets (up to 30%) in Canadian equity securities directly, and the US equities via exchange-traded funds (ETFs). All equities and ETFs must be traded on a Canadian stock exchange. The Plan started investing in Canadian equities securities and US equities via exchange-traded funds (ETFs) in May 2015.

Guardian Capital LP manages the Plan’s assets. The assets were allocated amongst different market sectors with different maturity segments at our investment manager’s discretion and subject to the investment policy for the Plan. Our investment manager actively manages the Plan using strategies including sector allocation, duration management, credit research and certain yield curve strategies.

Risk

The Plan is a conservative investment fund suitable for investors focusing on a long term savings program, intended to fund post-secondary education, and generally for those investors having a lower tolerance for risk. In November 2013, the Plan commenced operations. The Plan’s investment philosophy, style and method remain the same. 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 net assets attributable to subscribers and beneficiaries “net assets” in the Plan as at December 31, 2017 increased to \$110.5 million from \$81.1 million at April 30, 2017. The increase primarily resulted from deposits, grants and income earned on the investments in the Plan.

Investments

At December 31, 2017, about 75% of total investments were invested in fixed income, mainly provincial and corporate bonds with the remaining 25% invested in equities (a mix of Canadian equities and US equities held through exchange-traded funds).

Over the past three years, since Jan 1, 2015, the Plan’s net rate of return was 3.2%. For the period ended December 31, 2017, the Plan’s 8 month net rate of return was 0.1% versus a return of -0.2% for the FTSE TMX Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index), and 1.1% for the investment policy benchmark. The policy benchmark consisted of 75% Canadian bonds, 12.5% Canadian equities, and 12.5% US equities. Unlike the Index, the Plan’s return is after independent review committee fees and management fees have been deducted.

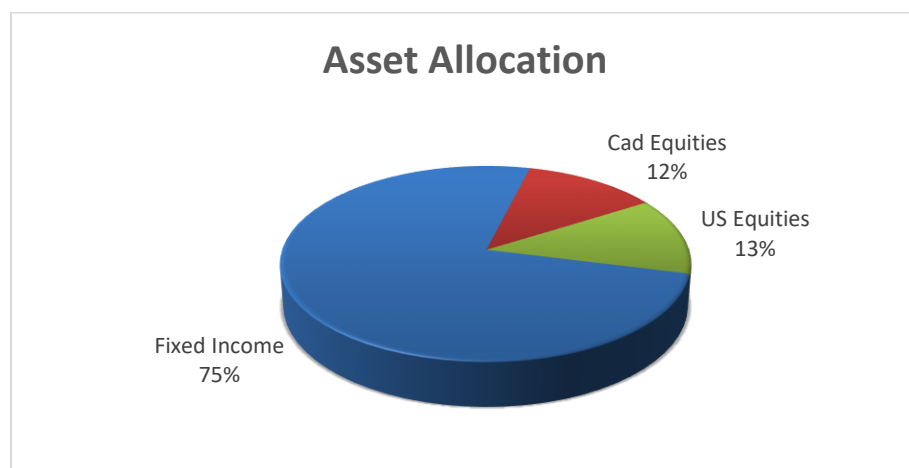
During 2017, the global economy displayed the strongest signs of synchronized growth in a decade. This growth was reflected in record corporate earnings, pushing equity markets to new highs. The Canadian equity market (S&P/TSX Composite) was up 9.1%, with all sectors, but Energy, recording positive returns. The US equity market (S&P 500) increased by 21.8%, reflecting both strong corporate profits and low unemployment rates.

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. The Canadian dollar appreciated by 6.7% during 2017 versus the US dollar, although the currency’s exchange rate with the US dollar was volatile during the year.

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. Government of Canada bonds (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.

The asset allocation as at December 31, 2017 is presented in the chart below:



Recent Developments

There are no significant 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).

Management Fees

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, Financial and includes processing and call centre services related to new agreements, payments, government grants, plan modifications, subscriber payouts, plan closings, EAPs, administration, depository, investment management and custodial-related costs for the Plan. Under the Fund Management Agreement dated May 1, 2013, in consideration for its administrative services, Financial is entitled to receive a management fee payable by the Plan. Management fees are calculated as a percentage of the sum of the closing balances of net contributions, grants and income. This fee is intended to cover ongoing costs of supporting the Plan including Plan administration, audit, depository, investment management and custodial-related costs for the Plan. This fee can increase or decrease, but will not exceed 1.5% per annum plus applicable sales taxes.

The 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 based on the total contribution goal the subscriber has set for the Plan. This fee will not exceed 9.5% of the total contribution goal. All of the subscribers' deposits to the Plan are applied against the enrolment fee until the total enrolment fee has been paid. Out of the enrolment fees received by the distributor, approximately 65% of the enrolment fees are paid out as sales commissions to the licensed sales representatives and branch directors of the distributor.

Special Processing Fees

Special processing fees are one-time fees for specific transactions in the subscribers' savings account. 100% of special processing fees are paid to Financial as these fees are directly related to plan administration activities. Special processing fees for the period ended December 31, 2017 were \$2 thousand (year ended April 30, 2017 - \$1 thousand).

Financial and Operating Highlights

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 last 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⁾	112,023	82,243	43,446	18,708	5,539
Net Assets ⁽²⁾	110,500	81,094	42,614	17,894	4,998
% Change of Net Assets	36.3%	90.3%	138%	258%	n/m ⁽⁵⁾
Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries					
Scholarship Awards (Educational Assistance Payments)	43	22	4	0.3	-
Government Grants (net) ⁽³⁾	9,827	12,002	9,743	5,381	2,490
Statements of Comprehensive Income					
Net Investment Income ⁽⁴⁾	412	327	176	244	29

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

⁽²⁾ "Net Assets" 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 on investments.

⁽⁵⁾ n/m - not meaningful.

Other Fees

Any applicable sales taxes are added to the fees.

Independent Review Committee Fees

The Plan paid the Independent Review Committee, a committee mandated by legislation, fees of \$2 thousand for the period ended December 31, 2017 (\$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 end of 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	BMO S&P 500 Hedged to CAD Index			9.7%
2	PROVINCE OF ONTARIO	3.50%	2024-06-02	6.9%
3	ROYAL BANK OF CANADA	2.33%	2023-12-05	3.9%
4	PROVINCE OF BRITISH COLUMBIA	2.85%	2025-06-18	3.9%
5	PROVINCE OF ONTARIO	2.60%	2025-06-02	3.5%
6	BANK OF MONTREAL	2.12%	2022-02-16	3.4%
7	BMO S&P 500 INDEX ETF			3.2%
8	GOVERNMENT OF CANADA TREASURY BILL	0.00%	2018-01-25	2.7%
9	PROVINCE OF ONTARIO	2.40%	2026-06-02	2.7%
10	PROVINCE OF ALBERTA	2.35%	2025-06-01	2.6%
11	PROVINCE OF BRITISH COLUMBIA	3.30%	2023-12-18	2.5%
12	TORONTO-DOMINION BANK	1.91%	2023-07-18	2.5%
13	CANADA HOUSING TRUST	3.15%	2023-09-15	2.4%
14	BANK OF NOVA SCOTIA	2.29%	2024-06-28	2.3%
15	PROVINCE OF ONTARIO	3.15%	2022-06-02	2.1%
16	PROVINCE OF ONTARIO	2.85%	2023-06-02	2.1%
17	PROVINCE OF ALBERTA	2.20%	2026-06-01	2.0%
18	CANADIAN IMPERIAL BANK	2.04%	2022-03-21	1.8%
19	BANK OF NOVA SCOTIA	2.62%	2026-12-02	1.8%
20	PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	1.6%
21	BANK OF NOVA SCOTIA	2.36%	2022-11-08	1.6%
22	NATIONAL BANK OF CANADA	2.11%	2022-03-18	1.5%
23	INTACT FINANCIAL CORP	2.85%	2027-06-07	1.4%
24	CANADA HOUSING TRUST	2.40%	2022-12-15	1.3%
25	PROVINCE OF ONTARIO	6.50%	2029-03-08	1.3%
Largest 25 holdings as a % of total investments				70.7%

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	7,388	7.2
Provincial	39,188	38.0
Corporate	26,903	26.1
Short-term investments	3,487	3.4
Equities & ETFs	26,067	25.3
Total	103,033	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:

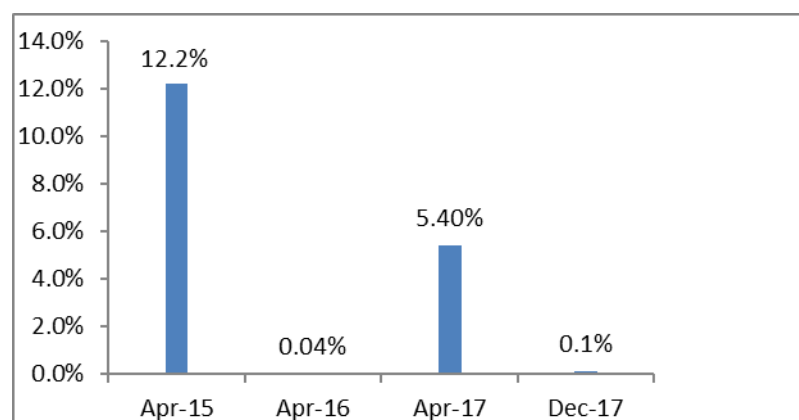
- For the investment portfolio only;
- After the management and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, dividends earned and capital gains distributions are reinvested in the Plan.

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

Management fees were assessed in the period ended December 31, 2017 and year ended April 30, 2017.

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 return, as well as past returns.

	8 months	1 year	3 year
Flex First	0.1%	3.0%	3.2%
DEX Universe All Government Bond Index	-0.2%	2.2%	2.3%
S&P TSX Composite Index	6.1%	9.1%	6.6%
S&P 500 Index	13.7%	21.8%	11.4%

* The FTSE TMX Canada Universe All Government Bond Index (formerly called DEX 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.