

Knowledge First Financial
Family Single Student Education Savings Plan
(Education savings program provided by Knowledge First Foundation)

Financial Statements

For the six months ended June 30, 2019

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.

**FAMILY SINGLE STUDENT EDUCATION SAVINGS PLAN
STATEMENTS OF FINANCIAL POSITION**

As at June 30, 2019 and December 31, 2018

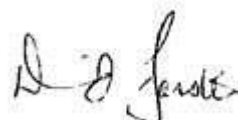
All amounts in Canadian Dollars

| | June 30, 2019 | December 31, 2018 |
|--|----------------------|--------------------------|
| | (Unaudited) | (Audited) |
| Assets | | |
| Current Assets | | |
| Cash | 18,324,387 | 11,665,475 |
| Investments (Note 5) | 138,573,967 | 113,913,858 |
| Interest and dividends receivable | 529,019 | 400,352 |
| | <u>157,427,373</u> | <u>125,979,685</u> |
| Liabilities | | |
| Current Liabilities | | |
| Grant payable | 161,112 | 13,750 |
| Principal payable to subscribers | 22,741,215 | 24,201,069 |
| Accounts payable and other liabilities (Notes 7 and 8) | 1,162,120 | 887,485 |
| | <u>24,064,447</u> | <u>25,102,304</u> |
| Net assets attributable to subscribers and beneficiaries (Note 6) | <u>133,362,926</u> | <u>100,877,381</u> |

Approved by the Board of Directors of Knowledge First Foundation



_____, Director



_____, Director

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

**FAMILY SINGLE STUDENT EDUCATION SAVINGS PLAN
STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

For the six months ended June 30, 2019 and 2018

All amounts in Canadian Dollars

| | 2019 | 2018 |
|---|------------------|----------------|
| Income | | |
| Interest income | 1,494,988 | 1,141,850 |
| Other income | - | 1,586 |
| Other changes in fair value of investments: | | |
| Net realized gains (losses) on investments | 1,412,639 | (269,739) |
| Net change in unrealized gains or (losses) on investments | 3,437,493 | (248,741) |
| Total income (net) | 6,345,120 | 624,956 |
| | | |
| Expenses | | |
| Administration fees (Note 8) | 306,974 | 238,289 |
| Investment counsel fees (Note 9) | 49,630 | 85,721 |
| Custodian fees | 5,214 | 8,493 |
| Independent review committee fees | 1,009 | 1,715 |
| Total expenses | 362,827 | 334,218 |
| | | |
| Increase in net assets attributable to subscribers and beneficiaries | 5,982,293 | 290,738 |

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

**FAMILY SINGLE STUDENT EDUCATION SAVINGS PLAN
STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO
SUBSCRIBERS AND BENEFICIARIES (UNAUDITED)**

For the six months ended June 30, 2019 and 2018

All amounts in Canadian Dollars

| | 2019 | 2018 |
|--|--------------------|-------------------|
| Net assets attributable to subscribers and beneficiaries, beginning of period | 100,877,381 | 87,935,709 |
| Subscribers' contributions (Note 6) | | |
| Contributions and transfers in | 16,906,271 | 11,710,781 |
| Return of contributions | (7,900,277) | (6,989,048) |
| | <u>9,005,994</u> | <u>4,721,733</u> |
| Government grants (Note 6) | | |
| Government grant contributions | 203,183 | 254,872 |
| Government grant repayments and transfers | 7,220,030 | 2,388,459 |
| Government grant payments to beneficiaries | (3,064,086) | (2,449,444) |
| | <u>4,359,127</u> | <u>193,887</u> |
| Accumulated income (Note 6) | | |
| Increase in net assets attributable to subscribers and beneficiaries | 5,982,293 | 290,738 |
| Education Assistance Payment (EAP) disbursements | (5,229,066) | (5,227,591) |
| Payments of government grant income to beneficiaries | (2,434,915) | (1,582,598) |
| Payments of government grant income to educational institutions | (17,015) | (11,761) |
| Funds transferred in, net | 20,819,127 | 7,347,658 |
| | <u>19,120,424</u> | <u>816,446</u> |
| Net assets attributable to subscribers and beneficiaries, end of period | <u>133,362,926</u> | <u>93,667,775</u> |

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

**FAMILY SINGLE STUDENT EDUCATION SAVINGS PLAN
STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the six months ended June 30, 2019 and 2018

All amounts in Canadian Dollars

| | 2019 | 2018 |
|---|---------------------|-------------------|
| Cash flows from (used in) operating activities | | |
| Increase (decrease) in net assets attributable to subscribers and beneficiaries | 5,982,293 | 290,738 |
| Adjustments for: | | |
| Net realized (gains) losses on investments | (1,412,639) | 269,739 |
| Net change in unrealized (gains) losses on investments | (3,437,493) | 248,741 |
| Amortization of bond discounts and premiums | 337,688 | 239,792 |
| Purchases of investments | (157,232,767) | (51,233,857) |
| Proceeds from sale or maturity of investments | 137,085,102 | 49,893,617 |
| Interest receivable | (128,667) | 14,693 |
| Accounts payable and other liabilities | 274,635 | (175,868) |
| Net cash used in operating activities | (18,531,848) | (452,405) |
| Cash flows from (used in) in financing activities | | |
| Subscribers' contributions | 16,906,271 | 11,710,781 |
| Return of subscribers' contributions | (9,360,131) | (9,100,346) |
| Government grant receipts | 203,183 | 290,741 |
| Government grant repayments and transfers | 7,367,392 | 2,447,416 |
| Government grant payments to beneficiaries | (3,064,086) | (2,449,444) |
| Income payments to beneficiaries: | | |
| Education Assistance Payments | (5,229,066) | (5,227,591) |
| Government grants | (2,434,915) | (1,582,598) |
| Funds transferred out | (640,235) | (698,567) |
| Funds transferred in | 21,459,362 | 8,046,225 |
| Income payments to educational institutions from government grants | (17,015) | 16,994 |
| Net cash from financing activities | 25,190,760 | 3,453,611 |
| Net increase in cash | 6,658,912 | 3,001,206 |
| Cash, beginning of period | 11,665,475 | 18,259,574 |
| Cash, end of period | 18,324,387 | 21,260,780 |
| Supplementary Information | | |
| <i>Interest received *</i> | <i>1,028,633</i> | <i>1,379,945</i> |
| * Included in operating activities | | |

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

**FAMILY SINGLE STUDENT EDUCATION SAVINGS PLAN
SCHEDULE OF INVESTMENT PORTOLIO (UNAUDITED)**

As at June 30, 2019

All amounts in Canadian Dollars

| Bond Name | Coupon % | Maturity | Par Value \$ | Cost \$ | Fair Value \$ |
|------------------------------|-----------------|-----------------|---------------------|-------------------|----------------------|
| FEDERAL (39.3%) | | | | | |
| CANADA HOUSING TRUST | 2.40% | 2022-12-15 | 1,435,000 | 1,448,774 | 1,471,442 |
| CANADA HOUSING TRUST | 3.15% | 2023-09-15 | 4,080,000 | 4,256,286 | 4,324,465 |
| CANADA HOUSING TRUST | 2.90% | 2024-06-15 | 6,120,000 | 6,333,971 | 6,469,005 |
| CANADA HOUSING TRUST | 1.90% | 2026-09-15 | 645,000 | 628,982 | 649,265 |
| CANADA HOUSING TRUST | 2.65% | 2028-03-15 | 1,100,000 | 1,102,128 | 1,169,785 |
| GOVERNMENT OF CANADA | 2.50% | 2024-06-01 | 6,225,000 | 6,435,848 | 6,551,687 |
| GOVERNMENT OF CANADA | 2.25% | 2025-06-01 | 2,295,000 | 2,352,042 | 2,403,871 |
| GOVERNMENT OF CANADA | 1.50% | 2026-06-01 | 6,730,000 | 6,586,302 | 6,761,201 |
| GOVERNMENT OF CANADA | 2.00% | 2028-06-01 | 4,995,000 | 5,115,234 | 5,221,868 |
| GOVERNMENT OF CANADA | 5.75% | 2029-06-01 | 4,645,000 | 6,253,872 | 6,457,762 |
| GOVERNMENT OF CANADA | 5.75% | 2033-06-01 | 8,480,000 | 12,505,830 | 12,917,862 |
| MILIT-AIR INC | 5.75% | 2019-06-30 | 118,398 | 120,399 | 118,415 |
| | | | | <u>53,139,668</u> | <u>54,516,628</u> |
| PROVINCIAL (46.1%) | | | | | |
| PROVINCE OF ALBERTA | 2.35% | 2025-06-01 | 7,335,000 | 7,306,563 | 7,504,537 |
| PROVINCE OF BRITISH COLUMBIA | 2.85% | 2025-06-18 | 1,305,000 | 1,342,491 | 1,377,913 |
| PROVINCE OF BRITISH COLUMBIA | 5.70% | 2029-06-18 | 3,150,000 | 4,005,889 | 4,154,516 |
| PROVINCE OF BRITISH COLUMBIA | 6.35% | 2031-06-18 | 950,000 | 1,261,016 | 1,365,495 |
| PROVINCE OF BRITISH COLUMBIA | 3.30% | 2023-12-18 | 2,595,000 | 2,718,416 | 2,766,189 |
| PROVINCE OF ONTARIO | 2.85% | 2023-06-02 | 1,710,000 | 1,730,283 | 1,780,200 |
| PROVINCE OF ONTARIO | 3.50% | 2024-06-02 | 2,700,000 | 2,821,102 | 2,910,582 |
| PROVINCE OF ONTARIO | 2.60% | 2025-06-02 | 9,296,000 | 9,409,443 | 9,649,382 |
| PROVINCE OF ONTARIO | 2.40% | 2026-06-02 | 8,699,000 | 8,456,490 | 8,925,097 |
| PROVINCE OF ONTARIO | 2.60% | 2027-06-02 | 4,665,000 | 4,632,532 | 4,845,220 |
| PROVINCE OF ONTARIO | 6.50% | 2029-03-08 | 1,465,000 | 1,937,149 | 2,013,464 |
| PROVINCE OF ONTARIO | 5.85% | 2033-03-08 | 335,000 | 452,011 | 472,314 |
| PROVINCE OF QUEBEC | 3.50% | 2022-12-01 | 2,755,000 | 2,861,984 | 2,916,737 |
| PROVINCE OF QUEBEC | 3.00% | 2023-09-01 | 820,000 | 851,266 | 860,640 |
| PROVINCE OF QUEBEC | 3.75% | 2024-09-01 | 1,765,000 | 1,890,236 | 1,930,868 |

| | | | | | |
|-------------------------------------|-------|------------|-----------|---------------------------|---------------------------|
| PROVINCE OF QUEBEC | 2.50% | 2026-09-01 | 1,215,000 | 1,196,902 | 1,257,999 |
| PROVINCE OF QUEBEC | 2.75% | 2027-09-01 | 2,485,000 | 2,541,139 | 2,616,833 |
| PROVINCE OF QUEBEC | 1.65% | 2022-03-03 | 479,000 | 478,719 | 479,093 |
| PROVINCE OF SASKATCHEWAN | 5.75% | 2029-03-05 | 485,000 | 609,147 | 633,832 |
| PROVINCE OF SASKATCHEWAN | 3.20% | 2024-06-03 | 3,900,000 | 4,060,562 | 4,149,425 |
| PROVINCE OF SASKATCHEWAN | 2.55% | 2026-06-02 | 1,165,000 | 1,168,058 | 1,204,521 |
| | | | | <u>61,731,398</u> | <u>63,814,857</u> |
| CORPORATE (14.6%) | | | | | |
| BANK OF MONTREAL | 2.89% | 2023-06-20 | 1,165,000 | 1,177,817 | 1,202,773 |
| BANK OF MONTREAL | 3.19% | 2028-03-01 | 4,850,000 | 4,989,330 | 5,197,506 |
| BANK OF NOVA SCOTIA | 3.10% | 2028-02-02 | 2,780,000 | 2,854,983 | 2,959,205 |
| BANK OF NOVA SCOTIA | 2.29% | 2024-06-28 | 1,535,000 | 1,508,243 | 1,550,394 |
| BANK OF NOVA SCOTIA | 2.98% | 2023-04-17 | 545,000 | 552,284 | 563,653 |
| CANADIAN IMPERIAL BANK OF COMMERCE | 3.30% | 2025-05-26 | 3,635,000 | 3,743,076 | 3,867,735 |
| CANADIAN IMPERIAL BANK OF COMMERCE | 2.97% | 2023-07-11 | 1,665,000 | 1,687,629 | 1,723,557 |
| CANADIAN IMPERIAL BANK OF COMMERCE | 3.29% | 2024-01-15 | 910,000 | 925,649 | 945,798 |
| TORONTO-DOMINION BANK | 3.59% | 2028-09-14 | 1,225,000 | 1,245,969 | 1,273,406 |
| TORONTO-DOMINION BANK | 3.01% | 2023-05-30 | 900,000 | 914,847 | 933,485 |
| | | | | <u>19,599,827</u> | <u>20,217,512</u> |
| SHORT TERM SECURITIES (0.0%) | | | | | |
| GOVERNMENT OF CANADA | 0.00% | 2019-07-25 | 25,000 | 24,972 | 24,970 |
| | | | | <u>24,972</u> | <u>24,970</u> |
| TOTAL INVESTMENTS | | | | <u>134,495,865</u> | <u>138,573,967</u> |

FAMILY SINGLE STUDENT EDUCATION SAVINGS PLAN NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019

All amounts in Canadian Dollars

1. General information

Family Single Student 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 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 deposits, net of deductions, will be returned to the subscriber. All or a portion of the income may be paid to the subscriber as an accumulated income payment. Upon registration of a plan, Knowledge First Financial will apply for government grants on behalf of the Subscriber. The income earned on government grants is held in the Grant Income account. The Plan invests in Canadian government bonds and short-term investments.

The investment strategy of the Plan was modified in February 2019, with the fixed income benchmark changed from the Government Universe to MT Provincials. The Plan does not invest in equities. During the first half of 2019, the Plan received Transfer-Ins from the terminated Impression Plan and Classic Plan, resulting in approximately 30% increase in total assets under management ("AUM").

Education Assistance Payments (EAPs) are paid from government grants and income earned on contributions and governments grants through interest and other income. Contributions are not included in EAPs, however they 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 terminates an account, the subscriber's contributions are returned to the subscriber, income earned on that subscriber's deposit is due and payable to the subscriber in the form of an accumulated income payment or payable to a designated educational institution. Government grant contributions are returned to the originating government agency. Forfeited grant income is payable to an eligible educational institution.

The financial statements were authorized for issue by the Board of Directors of the Foundation on August 22, 2019.

2. Basis of presentation and adoption of IFRS

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). 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.

Transition to IFRS 9

Effective January 1, 2018, the Plan adopted IFRS 9 "Financial Instruments". The new standard addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39. It requires financial assets to be classified as amortized cost, fair value, with changes in fair value recognized in profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI) based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

The adoption of IFRS 9 has been applied retrospectively by the Plan and did not result in a change to the measurement of financial instruments, in either the current or the comparative period. Upon transition to IFRS 9, the Plan's investments previously classified as FVTPL under IAS 39 continued to be categorized as fair value through profit and loss. Financial assets and liabilities previously measured at amortized cost under IAS 39 continue to be measured at amortized cost. There was no material impact on adoption from the application of the new impairment model.

Financial instruments

At initial recognition, the Plan measures financial instruments at their fair value plus transactions costs that are directly attributable to the acquisition of the financial asset or its financial liability. 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 subscribers 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. The fair value of financial assets and liabilities that are not quoted in an active market is determined using valuation techniques. The use of valuation techniques for financial instruments that are not quoted in an active market requires the Manager to make assumptions that are based on market conditions existing as at the date of the financial statements. Changes in these assumptions as a result of changes in market conditions could affect the reported fair value of financial instruments.

Funds transferred in, net

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

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 debt securities.

Impairment of financial assets

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost. With respect to financial assets at amortized cost, the Plan considers both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement dates, all loans and receivables are due to be settled within the short term. The Plan considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Plan to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

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 contributions are returned to the subscriber, income earned on that subscriber's contributions is due and payable to the subscriber in the form of an accumulated income payment or payable to a designated educational institution. Government grant contributions are returned to the government and forfeited income on the government grants is owed to a designated educational institution. Refer to Note 6 for a breakdown of net assets attributable to subscribers and beneficiaries.

Subscribers' contributions are comprised of deposits received from subscribers, after deductions for various fees, and do not include amounts receivable on outstanding agreements, as subscribers may terminate their plans at any time. Knowledge First Financial deducts the applicable enrolment fees, insurance premiums, and depository and service charges from the deposits made from subscribers and the net amount is invested in the Plan. During the life of an agreement, subscribers may choose to change the level of their contributions.

Government grants represent contributions received from federal and provincial governments. Government grants are recognized upon receipt of an eligible contribution to a registered education savings plan by a subscriber to the Plan.

Accumulated income includes the increase (decrease) in net assets attributable to subscribers and beneficiaries. Education assistance payments, and payments of grant income to beneficiaries and designated financial institutions reduce the accumulated income account.

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.

Change in Accounting Policy

Fair Value Reserve

Effective September 1, 2018, the Plan changed the way realized and unrealized gains or losses in respect of debt securities were allocated to net assets attributable to subscribers and beneficiaries. Due to this change, the Plan's Fair Value Reserve was eliminated as of that date. There was no net impact to the total balance of net assets attributable to subscribers and beneficiaries as a result of this change.

Prior to this change, the fair value reserve included in net assets attributable to subscribers and beneficiaries represented the net unrealized gains (losses) on debt investments and the net unamortized debt realized gains (losses). Fixed-income realized gains and losses were transferred to the EAP Account, Income from government grants, and the Income Account over a five-year period in proportion to the balances in those accounts at the time of allocation. Equity realized and unrealized gains and losses were transferred to the EAP Account, Income from government grants, and the Income Account monthly in proportion to the balances in those accounts at the time of allocation. Effective September 1, 2018, all realized and unrealized gains/losses on investments are allocated in the month in which they are earned.

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, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. In making this judgment, the Manager has assessed the Plan's business model for managing the portfolio and the contractual cash flow characteristics and determined the investments are managed on a fair value basis, and that fair value is used to assess performance and make investment decisions. The contractual cash flows of the Plan's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Plan's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

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.

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, 2019 and December 31, 2018. The analysis below summarizes the credit quality of the Plan's debt portfolio as at June 30, 2019 and December 31, 2018. 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, 2019 | December 31, 2018 |
| "AAA" | 39.3 | 31.4 |
| "AA" | 18.2 | 21.4 |
| "A" | 41.8 | 46.0 |
| "BBB" | 0.7 | 0.0 |
| "Not Rated" | 0.0 | 1.2 |
| Total | 100.0 | 100.0 |

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Plan has current exposure to the subscribers' contributions and government grant 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 positions to maintain adequate liquidity.

Maturity Profile

EAPs (accumulated income and government contributions) are paid upon submission of required documentation to Knowledge First Financial. Subscriber’s principal is paid upon maturity of a respective agreement.

If a subscriber cancels an agreement, subscriber’s principal and associated government contributions are due upon demand. Income on the subscribers’ principal and returned government grants become immediately payable to the subscriber or to a qualified educational institution, as applicable. All other liabilities of the Plan are due within three months.

Concentration Risk

The table below summarizes this Plan’s concentration risk as a percentage of investments as at June 30, 2019 and December 31, 2018.

| Concentration | Percentage of Investments (%) As at | |
|------------------------|--|--------------------------|
| | June 30, 2019 | December 31, 2018 |
| Federal Bonds | 39.3 | 29.8 |
| Provincial Bonds | 46.1 | 65.3 |
| Municipal Bonds | 0.0 | 4.7 |
| Corporate Bonds | 14.6 | - |
| Short Term Investments | 0.0 | 0.2 |
| 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 fair value interest rate risk. As at June 30, 2019, 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 \$2.2 million (approximately 1.6% of the total investment portfolio) (December 31, 2018 - \$2.2 million, approximately 2.0% 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, 2019 and December 31, 2018, by remaining term to maturity.

| June 30, 2019 | Within 1 year | From 1 to 5 years | Over 5 years | Total |
|-----------------------------------|----------------------|--------------------------|---------------------|--------------|
| Short term investments | 24,970 | - | - | 24,970 |
| Government guaranteed instruments | | | | |
| Federal | - | 18,816,599 | 35,581,614 | 54,398,213 |
| Provincial | - | 15,862,866 | 47,951,991 | 63,814,857 |
| Municipal | - | - | - | - |
| Corporate | 118,415 | 6,919,660 | 13,297,852 | 20,335,927 |
| | 143,385 | 41,599,125 | 96,831,457 | 138,573,967 |
| Percentage of total | 0.1% | 30.0% | 69.9% | 100.0% |

| December 31, 2018 | Within 1 year | From 1 to 5 years | Over 5 years | Total |
|-----------------------------------|----------------------|--------------------------|---------------------|--------------|
| Short term investments | 279,218 | - | - | 279,218 |
| Government guaranteed instruments | | | | |
| Federal | 120,397 | 25,833,246 | 7,964,894 | 33,918,537 |
| Provincial | 3,951,328 | 18,254,209 | 52,155,279 | 74,360,816 |
| Municipal | - | 958,151 | 4,397,136 | 5,355,287 |
| | 4,350,943 | 45,045,606 | 64,517,309 | 113,913,858 |
| Percentage of total | 3.8% | 39.6% | 56.6% | 100.0% |

b) Other price risk

The Plan is exposed to other price risk, which is the risk that fair value of 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, 2019 and December 31, 2018, 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 held 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, 2019 and December 31, 2018.

| As of June 30, 2019 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|----------------|----------------|----------------|--------------|
| Short-term investments | - | 24,970 | - | 24,970 |
| Government guaranteed instruments | | | | |
| Federal | - | 54,398,213 | - | 54,398,213 |
| Provincial | - | 63,814,857 | - | 63,814,857 |
| Municipal | - | - | - | - |
| Corporate | - | 20,335,927 | - | 20,335,927 |
| Investments at fair value | - | 138,573,967 | - | 138,573,967 |

| As of December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|----------------|----------------|----------------|--------------|
| Short-term investments | - | 279,218 | - | 279,218 |
| Government guaranteed instruments | | | | |
| Federal | - | 33,918,537 | - | 33,918,537 |
| Provincial | - | 74,360,816 | - | 74,360,816 |
| Municipal | - | 5,355,287 | - | 5,355,287 |
| Investments at fair value | - | 113,913,858 | - | 113,913,858 |

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 subscribers 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 periods ended June 30, 2019 and December 31, 2018 or Level 3 securities held as at June 30, 2019 and December 31, 2018.

6. Net assets attributable to subscribers and beneficiaries

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

| | As at June 30, 2019 | As at December 31, 2018 |
|---|--------------------------------|------------------------------------|
| Subscribers' contributions, net of returns | 31,703,799 | 22,697,805 |
| Government grants | 25,204,009 | 20,844,882 |
| Accumulated income | | |
| Education assistance payment account | 19,238,463 | 12,801,338 |
| Income from government grants | 19,392,963 | 13,175,573 |
| Foundation education assistance payment account | 37,823,692 | 31,357,783 |
| Balance – End of period | 133,362,926 | 100,877,381 |

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

| | Period ended June 30, 2019 | Period ended June 30, 2018 |
|---|---------------------------------------|---------------------------------------|
| Subscribers' deposits | 16,971,577 | 11,765,786 |
| Insurance premiums deducted | (9,999) | (10,286) |
| Enrolment fee deducted | (32,771) | (22,832) |
| Depository fees and service charges deducted | (22,536) | (21,887) |
| Return of contributions | (7,900,277) | (6,989,048) |
| Net increase (decrease) in Subscribers' contributions | 9,005,994 | 4,721,733 |
| Balance – Beginning of period | 22,697,805 | 23,280,625 |
| Balance – End of period | 31,703,799 | 28,002,358 |

7. Accounts payable and other liabilities

Included in accounts payable and other liabilities is \$839,226 (December 31, 2018 - \$674,073) payable to subscribers for stale dated cheques for which the subscriber has not requested the funds to be reissued. 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 and 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, 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 \$127,545 (December 31, 2018 - \$122,093) 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 manager, 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 0.08% to 0.18%. Investment counsel fees paid for the six-months ended June 30, 2019 amounted to 0.05% (0.15% as at December 31, 2018) of the total fair value of the investment portfolio in the Plan.

10. Subscriber Vote

On May 30, 2019, subscribers of the Plan voted in favour of amendments to the Single Student Plan's Education Assistance Agreement ("EAA"), to eliminate the Depository Fees, referred to in the EAA and eliminate the Administration Fee, Custodian Fees and Portfolio Management Fees, referred to in the EAA and replace these fees, and the Depository Fees, with a single, consolidated Management Fee not to exceed 1% per annum, plus applicable taxes, with such changes not to take effect for a minimum of seven months and by no later than thirteen months, following the date by which these changes were approved, for all existing and future subscribers to the EAA. The proposed changes were described in the Management Information Circular of the Single Student Plan dated April 1, 2019.