

Management Report of Fund Performance

For the fiscal year ended December 31, 2019

This document contains the Annual Management Report of Fund Performance (“MRFP”) for the Flex First (the “Plan”).

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 (the latter with a minimum BBB credit rating at the time of acquisition), Canadian equity securities, and U.S. equities via an exchange-traded fund (ETF), both of which must be traded on a stock exchange in Canada or the U.S.

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. Pursuant to the Knowledge First Financial Inc.’s (Financial) Undertaking with the Ontario Securities Commission (OSC), the Plan is permitted to invest a portion of the Plan’s assets (up to 30%) in equity securities, including exchange traded funds (ETFs) that replicate the performance of a widely quoted market index of Canadian or U.S. equity securities listed on a stock exchange in Canada or the U.S. The Plan started investing in Canadian equities securities and US equities via ETFs in fiscal 2015.

Guardian Capital LP (“Guardian”) manages the Plan’s assets. The assets were allocated amongst different market sectors with different maturity segments for fixed income securities and industry sectors for equity securities. Guardian seeks to achieve diversification subject to the investment objectives and policies for the Plan. Our investment manager actively manages the Plan’s fixed income securities through sector allocation, duration management, credit research and yield curve strategies. Guardian selects Canadian equity securities with a bias towards high-quality companies and invests passively in large cap U.S. equities to provide additional diversification.

Risk

The Plan is a conservative balanced investment fund suitable for investors focusing on a long term savings program, intended to fund post-secondary education. It is suited for those investors having a lower tolerance for risk. The Plan’s investment philosophy, style and method remains unchanged since equities were introduced to the Plan’s portfolio in 2015. 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 in the Plan increased by 50.6% during the fiscal period from \$159.8 million as of December 31, 2018, to \$240.6 million as of December 31, 2019. The increase primarily resulted from subscribers’

contributions (26.3%) and grants (14.4%). Income earned on the investments in the Plan (net of payments out) was a strong contributor as well, representing 9.9% of the net asset growth.

Investments

At December 31, 2019, about 70% of total investments were invested in fixed income, mainly federal, provincial and corporate bonds. The remaining 30% was invested in equities (a mix of Canadian equities held directly, and US equities held through exchange-traded funds).

Over the past five years the Plan's net rate of return was 3.5% per annum. For fiscal 2019, the Plan's overall net rate of return was 9.6% versus a return of 6.4% for the FTSE Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index). S&P 500 Index returned 31.5%, while TSX Composite returned 22.9% in 2019. The Plan's return is after the deduction of independent review committee fees and management fees.

Despite a negative market in late 2018, 2019 was very positive for both bonds and equity markets. Q1 was especially strong, with North American equity markets delivering double digit returns. Accommodative policies from the central banks around the world, somewhat easing trade tensions, more clarity surrounding Brexit after the majority Conservative government victory, strong labour markets, and renewed optimism about the economic outlook despite slowing economic growth - all helped to deliver robust returns across the markets for both risky and risk-off assets, which was unusual.

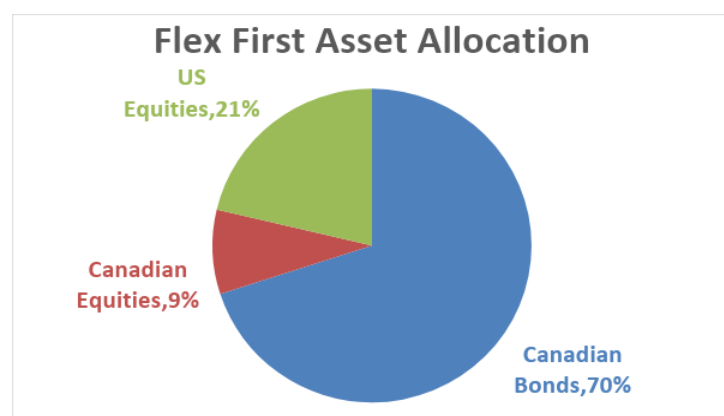
After the sharp fall in equities at the end of the last year, the global central banks signaled a reversed course, where instead of increasing interest rates they would provide more accommodative policy to support the economic expansion. This resulted in strong performance for bonds despite the historically low level of interest rates. The Canadian yield curve shifted down and partially inverted. 5Y Canadian government bond yield decreased from its high of 1.96% at the beginning of the year, to the lowest of 1.13% for the year in August before recovering to 1.68% at the end of the year. 10Y Canadian government bond yield followed the suit decreasing from the highest 2.03% in January to the lowest of 1.09% in August before recovering to 1.7% at the end of the year. In 2019, Canadian Government bonds returned 6.4%, and Corporate spreads tightened resulting in Canadian Corporate bonds returning 8.1%.

The U.S. economy performed relatively well in 2019, defying recession fears that dominated the headlines throughout the year. The real GDP growth is estimated to be 2.3% (down from 2.9% in 2018), and the unemployment rate is at 50-year low of 3.5%. Low interest rates continued to support the longest-running bull market in US stocks. The US Federal Reserve cut interest rates three times in 2019 by a combined 75 basis points, providing support for risky assets and elongating the longest-ever economic expansion cycle. US equities (S&P 500) triumphed, posting a 31.5% total return, with even the lagging Energy sector posting an impressive 11.8% gain in 2019. The best performing sector, Information Technology, returned 50.3%.

Canadian GDP is forecasted at 1.7% for the year, and the labour market remained strong in 2019. Many of the Bank of Canada's international peers cut rates and loosened monetary policy responding to the global economy weakness, however Bank of Canada kept its interest rate unchanged in 2019. Canadian equity markets performed well, with S&P TSX Composite returning 22.9%, and the frontrunner Information Technology sector being up 64.9%. Out of 11 sectors in the Composite, 10 sectors generated double digit positive returns in the year.

As geopolitical risks receded and global economic activity stabilized, global equities finished the year on a strong note with nearly every region posting positive returns. The MSCI World index returned 28.4% in 2019.

The asset allocation as at December 31, 2019 is presented in the chart below:



Related Party Transactions

Any applicable sales taxes are added to the fees shown below and are included in the total amounts for the year ended December 31, 2019.

Management Fees

The Foundation is the sponsor of the Plan. Knowledge First Financial, a wholly owned subsidiary of the Foundation, carries out the general administration of the Plan on its behalf that includes processing and call centre services related to new agreements, payments, government grants, plan modifications, terminations, maturities and EAPs. Under the fund management agreement dated May 1, 2013, in consideration for its administrative services (inclusive of depository, audit, portfolio management and custodial fees), Knowledge First Financial is entitled to receive from the Plan an annual management fee of up to 1.5% of all funds on deposit related to the Plan. The actual management fee charged in the year ended December 31, 2019, inclusive of HST, was 1.30% (period ended December 31, 2018 - 1.30%).

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. Enrolment fees in fiscal 2019 were \$21 million (\$14 million in the year ended December 31, 2018.)

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 in fiscal 2019 were \$25 thousand (\$6 thousand in the year ended December 31, 2018).

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 years. This information is derived from the Plan's audited annual financial statements.

(\$ in thousands)	Year ended December 31, 2019	Year ended December 31, 2018	Period ended December 31, 2017	Year ended April 30, 2017	Year ended April 30, 2016
Statements of Financial Position					
Total Assets ⁽¹⁾	243,518	161,915	112,023	82,243	43,446
Net Assets ⁽²⁾	240,582	159,758	110,500	81,094	42,614
% Change of Net Assets	50.6%	44.6%	36.3%	90.3%	138%
Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries					
Educational Assistance Payments	(373)	(156)	(43)	(22)	(4)
Government Grants (net) ⁽³⁾	23,010	17,309	9,827	12,002	9,743
Statements of Comprehensive Income					
Net Investment Income ⁽⁴⁾	1,721	1,067	412	327	176

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

⁽²⁾ "Net Assets" represents total assets less total liabilities.

⁽³⁾ Government grants are net of repayments to beneficiaries upon eligibility and grants transferred to or from other institutions and plans.

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

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 \$3 thousand (\$3 thousand in the year ended December 31, 2018 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 fiscal 2019. 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
BMO S&P 500 HEDGED TO CAD INDEX ETF			16.1%
GOVERNMENT OF CANADA	5.75%	2033-06-01	7.7%
BMO S&P 500 INDEX ETF			5.2%
BANK OF MONTREAL	3.19%	2028-03-01	4.4%
CANADA HOUSING TRUST	2.90%	2024-06-15	4.2%
PROVINCE OF ONTARIO	2.60%	2027-06-02	3.4%
PROVINCE OF ALBERTA	2.20%	2026-06-01	2.7%
PROVINCE OF ONTARIO	2.60%	2025-06-02	2.6%
PROVINCE OF BRITISH COLUMBIA	2.95%	2028-12-18	2.6%
GOVERNMENT OF CANADA	2.00%	2028-06-01	2.2%
PROVINCE OF BRITISH COLUMBIA	2.85%	2025-06-18	2.1%
GOVERNMENT OF CANADA	2.25%	2025-06-01	2.1%
ROYAL BANK OF CANADA	2.33%	2023-12-05	2.0%
ROYAL BANK OF CANADA	2.35%	2024-07-02	2.0%
CANADA HOUSING TRUST	1.50%	2021-12-15	2.0%
BANK OF NOVA SCOTIA	3.10%	2028-02-02	1.9%
PROVINCE OF ONTARIO	3.50%	2024-06-02	1.8%
PROVINCE OF ONTARIO	2.40%	2026-06-02	1.6%
CANADIAN IMPERIAL BANK OF COMMERCE	2.35%	2024-08-28	1.5%
PROVINCE OF SASKATCHEWAN	2.55%	2026-06-02	1.5%
TORONTO-DOMINION BANK	1.91%	2023-07-18	1.5%
BELL CANADA	3.80%	2028-08-21	1.5%
CANADIAN IMPERIAL BANK OF COMMERCE	3.30%	2025-05-26	1.4%
BANK OF NOVA SCOTIA	2.84%	2029-07-03	1.4%
PROVINCE OF QUEBEC	2.75%	2027-09-01	1.4%
Largest 25 holdings as a % of total investments			76.8%

Flex First Plan

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	43,056	18.8
Provincial	53,443	23.3
Corporate	62,217	27.2
Short-term	1,717	0.7
Equities & ETFs	68,653	30
Total	229,086	100

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 during the year(s). Rates of return shown below for the Plan are:

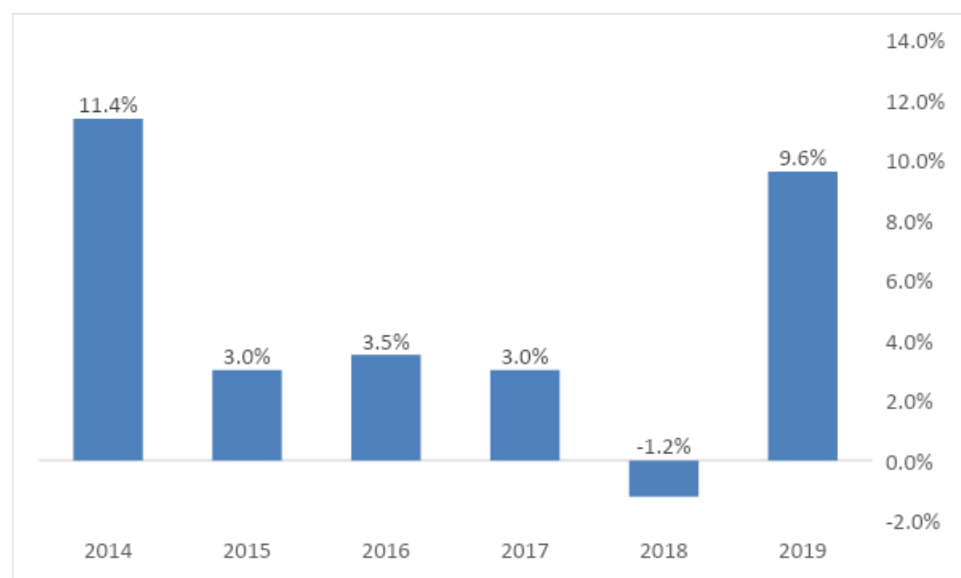
- For the investment portfolio only;
- After the management and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, dividends earned and capital gains distributions are reinvested in the Plan.

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

Management fees were assessed in the year ending December 31, 2019 and 2018.

Year by Year Returns

The following bar chart illustrates the Plan's annual performance over the past five years to December 31, 2019 (the Plan was established in November 2012). The chart illustrates in percentage terms how much an investment made in the investment portfolio on the first day of each financial year would have increased or decreased by the last day of that financial year.



Annual Compound Returns

The following table illustrates the Plan's annual compound returns for the periods shown ended December 31, 2019 .

	1 Year	3 Year	5 Year
Flex First Plan	9.6%	3.8%	3.6%
Benchmarks			
FTSE Universe All Government Bond Index*	6.4%	3.4%	3.0%
S&P TSX Composite Index	22.9%	6.9%	6.3%
S&P 500 in USD	31.5%	15.3%	11.7%
S&P 500 Index (in CAD)	24.8%	14.0%	14.3%

* 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.

Subsequent event

Since the latter part of February 2020, the financial markets have been very volatile in response to the developing COVID-19 pandemic and the equity markets in particular have experienced significant declines. The investment portfolio of the Plan has been subject to these market fluctuations and are expected to continue to experience significant volatility as the situation evolves.