

# **Knowledge First Financial**

## **Flex First Plan**

(Education savings program provided by Knowledge First Foundation)

Unaudited Semi-Annual Financial Statements

**For the six months ended June 30, 2020**

*The Foundation appoints an independent auditor to audit the Plan's annual financial statements. The independent auditor has not audited the Plan's June 30, 2020 and 2019 financial statements. Applicable securities laws require that if an auditor has not audited the interim financial statements, this must be disclosed in an accompanying notice.*

**FLEX FIRST PLAN**  
**STATEMENTS OF FINANCIAL POSITION**  
As at June 30, 2020 and December 31, 2019  
All amounts in Canadian dollars

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	11,877,479	10,140,392
Investments (Note 5)	274,028,320	229,086,757
Government grants receivable	2,713,349	2,833,887
Interest and dividends receivable	1,283,659	1,021,054
Other receivables (Note 7)	414,375	436,168
	<u>290,317,182</u>	<u>243,518,258</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and other liabilities (Note 7)	2,796,274	2,936,092
	<u>2,796,274</u>	<u>2,936,092</u>
<b>Net assets attributable to subscribers and beneficiaries (Note 6)</b>	<u><b>287,520,908</b></u>	<u><b>240,582,166</b></u>

**Approved by the Board of Directors of Knowledge First Foundation**

*"R. George Hopkinson"*

*"David Forster"*

R. George Hopkinson, Director

David Forster, Director

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

**FLEX FIRST PLAN**  
**STATEMENTS OF COMPREHENSIVE INCOME**

For the six months ended June 30, 2020 and 2019 All amounts in Canadian dollars

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Income</b>		
Interest income	2,037,002	1,562,532
Dividend income	728,356	499,853
Other changes in fair value of investments:		
Net realized gains on investments	1,164,981	1,052,065
Net change in unrealized gains on investments	7,812,413	10,888,231
<b>Total income (net)</b>	<b>11,742,752</b>	<b>14,002,681</b>
<b>Expenses</b>		
Management fees (note 7)	1,849,817	1,278,827
Independent Review Committee fees	-	1,295
Transaction costs	14,897	9,707
<b>Total expenses</b>	<b>1,864,714</b>	<b>1,289,829</b>
<b>Increase in net assets attributable to subscribers and beneficiaries</b>	<b>9,878,038</b>	<b>12,712,852</b>

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

**FLEX FIRST PLAN**  
**STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO SUBSCRIBERS**  
**AND BENEFICIARIES**

For the six months ended June 30, 2020 and 2019

All amounts in Canadian dollars

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Net assets attributable to subscribers and beneficiaries, beginning of period</b>	<b>240,582,166</b>	<b>159,758,493</b>
Subscribers' contributions (Note 6)		
Contributions	27,866,266	22,306,012
Return of contributions	(2,939,447)	(1,954,973)
	<u>24,926,819</u>	<u>20,351,039</u>
Government grants (Note 6)		
Government grant contributions	13,118,200	11,086,479
Government grant repayments and transfers	(437,645)	(258,467)
Government grant payments to beneficiaries	(394,585)	(218,869)
	<u>12,285,970</u>	<u>10,609,143</u>
Accumulated income (Note 6)		
Increase in net assets attributable to subscribers and beneficiaries	9,878,038	12,712,852
Payments of education assistance payments	(72,834)	(66,348)
Payments of government grant income to beneficiaries	(27,198)	(17,269)
Payments of government grant income to educational institutions	(8,102)	-
Income transferred (out)/in, net	(43,951)	174,531
	<u>9,725,953</u>	<u>12,803,766</u>
<b>Net assets attributable to subscribers and beneficiaries, end of period</b>	<b><u>287,520,908</u></b>	<b><u>203,522,441</u></b>

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

**FLEX FIRST PLAN**  
**STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the six months ended June 30, 2020 and 2019

All amounts in Canadian dollars

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Cash flows from (used in) operating activities</b>		
Increase in net assets attributable to subscribers and beneficiaries	9,878,038	12,712,852
Adjustments for:		
Net realized (gains) on investments	(1,164,981)	(1,052,065)
Net change in unrealized (gains) on investments	(7,812,413)	(10,888,231)
Amortization of bond discounts / premiums	424,208	184,539
Purchase of investments	(125,399,690)	(91,293,625)
Proceeds from sale or maturity of investments	89,011,312	60,747,862
Interest and dividends receivable	(262,605)	(191,249)
Other receivables	21,793	1,198,385
Accounts payable and other liabilities	(139,818)	224,827
<b>Net cash used in operating activities</b>	<b>(35,444,156)</b>	<b>(28,356,705)</b>
<b>Cash flows from (used in) financing activities</b>		
Subscribers' contributions	27,866,266	22,306,012
Return of subscribers' contributions	(2,939,447)	(1,954,973)
Government grant receipts	13,238,739	11,430,918
Government grant repayments	(437,645)	(258,467)
Government grant payments to beneficiaries	(394,585)	(218,869)
Income payments to beneficiaries		
Education Assistance Payments	(72,834)	(66,348)
Government grants	(27,198)	(17,269)
Income transferred in, net	(43,951)	174,531
Grant Income payments to education Institutions	(8,102)	-
<b>Net cash from financing activities</b>	<b>37,181,243</b>	<b>31,395,535</b>
<b>Net increase in cash</b>	<b>1,737,087</b>	<b>3,038,830</b>
<b>Cash, beginning of period</b>	<b>10,140,392</b>	<b>7,332,105</b>
<b>Cash, end of period</b>	<b>11,877,479</b>	<b>10,370,935</b>
Supplementary Information *		
<i>Interest received</i>	2,139,838	1,686,597
<i>Dividend received</i>	734,215	461,205

\* Included in operating activities

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

**FLEX FIRST PLAN  
SCHEDULE OF INVESTMENT PORTFOLIO**

As at June 30, 2020

All amounts in Canadian dollars

<b>BONDS</b>	<b>Coupon</b>	<b>Maturity Date</b>	<b>Par Value</b>	<b>Cost</b>	<b>Fair Value</b>
<b>FEDERAL (1.6%)</b>					
CANADA HOUSING TRUST	2.90%	2024-06-15	400,000	408,795	436,222
CANADA HOUSING TRUST	1.50%	2021-12-15	2,500,000	2,478,349	2,542,440
GOVERNMENT OF CANADA	5.75%	2033-06-01	815,000	1,310,198	1,326,280
				<u>4,197,342</u>	<u>4,304,942</u>
<b>PROVINCIAL (32.6%)</b>					
PROVINCE OF ALBERTA	2.35%	2025-06-01	2,695,000	2,700,651	2,876,457
PROVINCE OF ALBERTA	2.20%	2026-06-01	7,070,000	7,041,062	7,515,587
PROVINCE OF ALBERTA	3.10%	2050-06-01	3,065,000	3,154,972	3,675,935
PROVINCE OF BRITISH COLUMBIA	2.85%	2025-06-18	4,655,000	4,783,956	5,122,683
PROVINCE OF BRITISH COLUMBIA	2.80%	2048-06-18	2,330,000	2,633,515	2,794,292
PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	1,605,000	2,030,548	2,209,605
PROVINCE OF BRITISH COLUMBIA	2.95%	2028-12-18	6,685,000	7,248,820	7,646,206
PROVINCE OF ONTARIO	2.05%	2030-06-02	2,955,000	3,036,295	3,155,559
PROVINCE OF ONTARIO	3.50%	2024-06-02	4,660,000	4,931,162	5,163,967
PROVINCE OF ONTARIO	2.60%	2025-06-02	5,875,000	5,885,693	6,374,656
PROVINCE OF ONTARIO	2.40%	2026-06-02	3,660,000	3,645,929	3,962,890
PROVINCE OF ONTARIO	4.65%	2041-06-02	2,985,000	3,986,873	4,388,074
PROVINCE OF ONTARIO	6.50%	2029-03-08	4,995,000	6,796,550	7,127,080
PROVINCE OF ONTARIO	5.85%	2033-03-08	4,275,000	6,048,882	6,384,496
PROVINCE OF ONTARIO	2.60%	2027-06-02	7,555,000	7,750,541	8,318,458
PROVINCE OF QUEBEC	2.75%	2027-09-01	2,980,000	3,142,695	3,323,900
PROVINCE OF QUEBEC	2.75%	2028-09-01	3,500,000	3,880,514	3,929,442
PROVINCE OF SASKATCHEWAN	3.20%	2024-06-03	1,490,000	1,540,065	1,631,078
PROVINCE OF SASKATCHEWAN	2.55%	2026-06-02	3,405,000	3,432,626	3,701,331
				<u>83,671,349</u>	<u>89,301,696</u>
<b>CORPORATE (34.9%)</b>					
BANK OF MONTREAL	2.70%	2026-12-09	870,000	881,269	945,951
BANK OF MONTREAL	2.89%	2023-06-20	1,230,000	1,233,020	1,296,838
BANK OF MONTREAL	3.19%	2028-03-01	10,375,000	10,701,691	11,717,212
BANK OF NOVA SCOTIA	2.84%	2029-07-03	3,095,000	3,096,524	3,205,943
BANK OF NOVA SCOTIA	2.62%	2026-12-02	1,860,000	1,869,385	2,015,878
BANK OF NOVA SCOTIA	3.10%	2028-02-02	5,265,000	5,582,575	5,914,960
BANK OF NOVA SCOTIA	1.90%	2021-12-02	2,485,000	2,513,116	2,524,217
BELL CANADA INC	3.80%	2028-08-21	3,200,000	3,206,831	3,613,576
CANADIAN IMPERIAL BANK OF COMMERCE	3.30%	2025-05-26	3,880,000	3,974,853	4,271,753

CANADIAN IMPERIAL BANK OF COMMERCE	2.95%	2029-06-19	990,000	996,622	1,029,089
CANADIAN IMPERIAL BANK OF COMMERCE	2.35%	2024-08-28	3,570,000	3,568,150	3,700,456
CANADIAN IMPERIAL BANK OF COMMERCE	2.00%	2025-04-17	2,160,000	2,158,396	2,208,412
CANADIAN IMPERIAL BANK OF COMMERCE	3.29%	2024-01-15	1,525,000	1,541,069	1,627,141
ENBRIDGE INC	3.20%	2027-06-08	2,000,000	2,047,926	2,132,725
FAIRFAX FINANCIAL HOLDINGS LTD	4.23%	2029-06-14	1,980,000	1,979,050	2,014,518
GREAT-WEST LIFE CO INC	2.38%	2030-05-14	4,600,000	4,600,000	4,808,085
HSBC BANK CANADA	2.17%	2022-06-29	1,000,000	1,000,000	1,017,041
INTACT FINANCIAL CORP	2.85%	2027-06-07	1,525,000	1,528,198	1,630,439
NATIONAL BANK OF CANADA	2.11%	2022-03-18	2,565,000	2,594,651	2,619,150
PEMBINA PIPELINE CORP	4.89%	2021-03-29	600,000	608,528	615,296
ROYAL BANK OF CANADA	2.35%	2024-07-02	4,515,000	4,510,180	4,691,888
ROYAL BANK OF CANADA	1.97%	2022-03-02	2,980,000	3,011,422	3,034,137
ROYAL BANK OF CANADA	2.33%	2023-12-05	4,585,000	4,604,274	4,777,503
ROYAL BANK OF CANADA	2.00%	2022-03-21	1,480,000	1,475,253	1,508,517
ROYAL BANK OF CANADA	1.94%	2025-05-01	4,280,000	4,280,000	4,375,061
SUNCOR ENERGY INC	5.00%	2030-04-09	650,000	648,031	769,551
BANK OF NOVA SCOTIA	2.98%	2023-04-17	790,000	789,825	832,987
TORONTO-DOMINION BANK	1.91%	2023-07-18	3,460,000	3,416,505	3,553,986
TORONTO-DOMINION BANK	3.01%	2023-05-30	2,245,000	2,245,000	2,374,290
TORONTO-DOMINION BANK	3.06%	2032-01-26	3,680,000	3,739,251	3,902,068
TORONTO-DOMINION BANK	3.11%	2030-04-22	3,670,000	3,676,940	3,865,006
TRANSCANADA PIPELINES LTD	3.80%	2027-04-05	2,800,000	2,921,900	3,097,117
				<u>91,000,435</u>	<u>95,690,791</u>
<b>SHORT TERM SECURITIES (0.9%)</b>					
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2020-07-23	1,170,000	1,169,888	1,169,893
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2020-07-09	350,000	349,984	349,989
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2020-08-06	45,000	44,993	44,992
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2020-07-16	460,000	459,972	459,971
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2020-07-30	365,000	364,953	364,957
GOVERNMENT OF CANADA TREASURY BILL	0.00%	2020-08-13	40,000	39,992	39,992
				<u>2,429,782</u>	<u>2,429,794</u>
<b>TOTAL FIXED INCOME</b>					
				<u>181,298,908</u>	<u>191,727,223</u>
<b>EQUITIES</b>			<b># of Shares</b>	<b>Cost</b>	<b>Fair Value</b>
<b>COMMUNICATION SERVICES (0.4%)</b>					
ROGERS COMMUNICATIONS INC			12,675	776,711	691,421
TELUS CORP			23,100	549,426	525,987
				<u>1,326,137</u>	<u>1,217,408</u>

<b>CONSUMER DISCRETIONARY (0.4%)</b>			
GILDAN ACTIVEWEAR INC	16,850	592,549	354,356
MAGNA INTERNATIONAL INC	14,050	686,942	849,463
		<u>1,279,491</u>	<u>1,203,819</u>
<b>CONSUMER STAPLES (0.7%)</b>			
ALIMENTATION COUCHE-TARD INC	21,900	737,473	932,283
SAPUTO INC	15,875	605,796	513,874
GEORGE WESTON LTD	5,150	532,575	512,168
		<u>1,875,844</u>	<u>1,958,325</u>
<b>ENERGY (0.9%)</b>			
CAMECO CORP	33,550	431,473	467,016
CANADIAN NATURAL RESOURCES LTD	9,900	240,631	233,145
ENBRIDGE INC	5,375	256,396	221,880
SUNCOR ENERGY INC	21,475	671,833	491,563
TC ENERGY CORP	18,300	1,083,255	1,061,400
		<u>2,683,588</u>	<u>2,475,004</u>
<b>FINANCIALS (2.2%)</b>			
BANK OF MONTREAL	5,325	434,006	384,785
BANK OF NOVA SCOTIA	12,650	869,714	710,677
BROOKFIELD ASSET MANAGEMENT INC	23,937	895,122	1,069,505
CANADIAN IMPERIAL BANK OF COMMERCE	5,700	599,749	517,218
INTACT FINANCIAL CORP	4,125	451,671	532,991
MANULIFE FINANCIAL CORP	17,050	389,564	314,914
ROYAL BANK OF CANADA	13,875	1,277,940	1,278,026
SUN LIFE FINANCIAL INC	5,975	292,205	298,093
TORONTO-DOMINION BANK	16,375	1,069,681	992,161
		<u>6,279,652</u>	<u>6,098,370</u>
<b>HEALTH CARE (0.2%)</b>			
BAUSCH HEALTH COS INC	21,100	512,544	524,124
		<u>512,544</u>	<u>524,124</u>
<b>INDUSTRIALS (1.1%)</b>			
BOYD GROUP SERVICES INC	1,500	256,072	303,105
CANADIAN NATIONAL RAILWAY COMPANY	8,275	893,963	993,910
CANADIAN PACIFIC RAILWAY LTD	1,800	467,579	621,576
FINNING INTERNATIONAL INC	21,500	509,767	397,965
STANTEC INC	6,000	212,237	251,460
THOMSON REUTERS CORP	2,372	160,339	218,793
WASTE CONNECTIONS INC	2,200	219,950	279,818



		2,719,907	3,066,627
<b>INFORMATION TECHNOLOGY (0.8%)</b>			
CGI INC	8,404	669,368	718,794
OPEN TEXT CORP	13,750	643,275	792,688
SHOPIFY INC	550	355,805	709,374
		1,668,448	2,220,856
<b>MATERIALS (1.5%)</b>			
AGNICO EAGLE MINES LTD	12,600	761,910	1,095,318
BARRICK GOLD CORP	13,150	477,283	480,370
CCL INDUSTRIES INC	13,900	586,563	609,932
FRANCO-NEVADA CORP	1,850	193,631	350,853
WEST FRASER TIMBER CO LTD	9,550	528,200	455,726
WHEATON PRECIOUS METALS CORP	18,850	832,666	1,125,534
		3,380,253	4,117,733
<b>REAL ESTATE (0.2%)</b>			
BROOKFIELD PROPERTY PARTNERS LP	11,350	257,503	152,658
CANADIAN APARTMENT PROPERTIES REIT	5,100	233,830	247,809
		491,333	400,467
<b>UTILITIES (0.3%)</b>			
BROOKFIELD INFRASTRUCTURE PARTNERS LP	7,394	370,513	413,103
FORTIS INC	6,725	314,187	347,212
		684,700	760,315
<b>US EQUITY (21.3%)</b>			
BMO S&P 500 HEDGED TO CAD INDEX ETF	973,364	39,607,518	43,850,048
BMO S&P 500 INDEX ETF	311,457	12,310,054	14,408,001
		51,917,572	58,258,049
<b>Total Equities</b>		74,819,469	82,301,097
Less: Transaction costs		14,897	-
<b>Total Investments</b>		<b>256,103,480</b>	<b>274,028,320</b>

**FLEX FIRST PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

All amounts in Canadian Dollars

**1. General information**

Flex First 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 commenced operations in November 2012.

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 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 or a beneficiary. 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 high-grade corporate debt and in Canadian equities and Exchange Traded Funds (ETFs). The underlying investments held by the ETFs are exposed to the US dollar. The BMO S&P 500 Hedged to CAD Index ETF has been hedged back to the Canadian dollar and therefore has little to no currency exposure. The Plan is subject to the risk that the fair value of future cash flows of BMO S&P 500 Index ETF, which are not hedged back to the Canadian dollar, will fluctuate because of changes in foreign exchange rates. The Plan's investment in equities was limited to 30% of Net Assets of the Plan, which is now increased to 40% based on an exemptive relief obtained from OSC as at May 31, 2020

Education Assistance Payments (EAPs) are paid from government grants and income earned on contributions and governments grants through interest, dividends, and other income. Contributions are not included in EAPs, however are returned to the Subscriber upon maturity. 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 net 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 25, 2020.

**Investment Objective**

The investment objective 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's Undertaking with the Ontario Securities Commission (OSC), the Plan is permitted to invest up to 40% of Net Assets 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.

**2. Basis of accounting**

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued. 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 classified as fair value through profit or loss (FVTPL), including its investments in equities, ETFs and debt securities. All other financial assets and liabilities, including interest and dividends receivable, amounts receivable for investments sold, government grants receivable, other receivables, amounts payable for securities purchased, accounts payable and other liabilities, and principal payable to subscribers 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 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 equities and ETFs, the Plan uses the last traded market price where the last traded price falls between that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Plan determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. 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 on the Statement of Financial Position based on the debt instruments' stated rates of interest. Dividends are recognized as income on the ex-dividend date. 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. With respect to the fixed income securities portfolio, the market embeds the risk of default and probability weighted expected credit loss in the pricing of each bond. The credit rating and trading price of each security incorporate this risk, although such expected credit loss allowance is not segregated and identifiable. Thus, the Plan does not include any incremental loss allowance for its portfolio of fixed income securities.

**Cash**

Cash is comprised of demand deposits with financial institutions.

Cash is not held in the legal name of the Plan. The Plan has agreed on an intercompany cash agreement in which Knowledge First Financial maintains a collective cash account for the participating legal entities ("the Plans"). A separate account ledger exists for each Plan and each transaction is recorded in the respective Plans' subledger. Each Plan only has access to and an interest in its share of the cash as determined under the intercompany cash agreement.

**Net Assets attributable to subscribers and beneficiaries**

Net assets attributable to subscribers and beneficiaries are comprised of subscribers' contributions, government grants and income earned on both subscribers' contributions and government grants. Net assets attributable to subscribers and beneficiaries are 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 as 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. Knowledge First Financial deducts the applicable subscriber fees such as enrolment fees and special processing fees from the deposits made from subscribers and the net amount is invested in the Plan. Refer to Note 6 for a breakdown of the changes to subscribers' 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.

#### **Funds transferred in/out**

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 another provider. Contributions, government grants and income transferred in/out are reported as changes in net assets attributable to subscribers and beneficiaries.

#### **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.

#### **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 exchange traded funds (ETFs) and asset-backed securities, which are disclosed on the Schedule of Investment Portfolio, and the Plan has determined that these investments are unconsolidated structured entities. The Plan accounts for its investments in unconsolidated structured entities at fair value through profit and loss. The ETFs finance their operations by issuing redeemable shares, which are puttable at the holder's option and entitle the holder to a proportional stake in the ETF's net asset value. The ETFs are domiciled in Canada and listed on the Toronto Stock Exchange. 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.

#### **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 financial instruments**

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 significant activities in currencies other than the Canadian dollar and only its holdings of US equities via the unhedged ETF are exposed to a 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 maximum currency exposure limits and 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.

### 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 financial institutions. 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 and provincial governments along with corporate debt instruments with an investment grade credit rating at the time of acquisition. The Plan may also be exposed to indirect credit risk through its holdings in ETFs.

The fair value of debt investments includes consideration of the creditworthiness of the debt issuer. The carrying amount of cash, receivables and debt investments represents the maximum credit risk exposure as at June 30, 2020 and December 31, 2019. The analysis below summarizes the credit quality of the Plan's debt portfolio as at June 30, 2020 and December 31, 2019. 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, 2020	December 31, 2019
"AAA"	2.3	27.1
"AA"	32.4	28.1
"A"	51.8	32.4
"BBB"	13.5	12.4
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 subscriber contributions and government grant balances as subscribers can cancel or terminate their agreement at any time at which point the full balances would become immediately payable to the subscribers and the government. The Plan is also exposed to agreement maturities and obligations with respect to scholarship payments and 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 subscriber's principal and returned government grants become immediately payable to the subscriber or to qualified educational institutions, as applicable, and are included as part of accounts payable and other liabilities in the Statements of Financial Position.

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, 2020 and December 31, 2019.

<b>Percentage of Investments (%)</b>		
<b>As at</b>		
Concentration	<b>30-Jun-20</b>	<b>31-Dec-19</b>
<u>Fixed Income</u>		
Federal	1.6	18.8
Provincial	32.6	23.3
Corporate	34.9	27.2
Short-term	0.9	0.7
<u>Equities</u>		
Communication Services	0.4	0.5
Consumer Discretionary	0.4	0.3
Consumer Staples	0.7	0.9
Energy	0.9	1.4
Financials	2.2	2.7
Health Care	0.2	0.0
Industrials	1.1	0.8
Information Technology	0.8	0.6
Materials	1.5	1
Real Estate	0.2	0.1
Utilities	0.3	0.4
US ETFs	21.3	21.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<b>Percentage of Investments (%)</b>		
<b>As at</b>		
Concentration	<b>31-Dec-19</b>	<b>31-Dec-18</b>
<u>Fixed Income</u>		
Federal	18.8	16.4
Provincial	23.3	24.9
Corporate	27.2	30.8
Short-term	0.7	2.6
<u>Equities</u>		
Communication Services	0.5	0.6
Consumer Discretionary	0.3	0.5
Consumer Staples	0.9	0.9

Energy	1.4	2.1
Financials	2.7	3.8
Industrials	0.8	1.6
Information Technology	0.6	1.2
Materials	1.0	1.2
Real Estate	0.1	0.3
Utilities	0.4	0.5
US ETFs	21.3	12.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### 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) Currency risk

The Plan invests in exchange traded funds (ETF) denominated in Canadian dollars. The underlying investments held by the ETFs are exposed to the US dollar. The BMO S&P 500 Hedged to CAD Index ETF has been hedged back to the Canadian dollar and therefore has little to no currency risk. The Plan is subject to the risk that the fair value of future cash flows of the BMO S&P 500 Index ETF, which are not hedged back to Canadian dollar, will fluctuate because of changes in foreign exchange rates. As at June 30, 2020, if the exchange rate had increased or decreased by 5%, with all other variables held constant, the net assets attributable to subscribers and beneficiaries would have increased or decreased by approximately \$0.7 million (\$0.6 million as at December 31, 2019).

#### b) 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, 2020, 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 \$2.9 million (approximately 1.1% of the total investment portfolio) (December 31, 2019 - \$2.4 million, approximately 1.0% of the total investment portfolio). This analysis has been applied only to the fixed income securities within the portfolio. The investment manager manages interest rate risk through our portfolio managers by diversifying in various investments, as well as through investment committee oversight.

The tables below summarize the Plan's exposure to interest rate risk as at June 30, 2020 and December 31, 2019 by remaining term to maturity.

<b>June 30, 2020</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Short-term investment – Treasury Bill	2,429,794	-	-	2,429,794
Government guaranteed instruments				
Federal	-	2,978,662	1,326,280	4,304,942
Provincial	-	21,168,841	68,132,855	89,301,696
Corporate	615,296	44,413,377	50,662,118	95,690,791
	<b>3,045,090</b>	<b>68,560,880</b>	<b>120,121,253</b>	<b>191,727,223</b>
Percentage of total	1.6%	35.8%	62.6%	100.0%

<b>December 31, 2019</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Short-term investment – Treasury Bill	1,717,485	-	-	1,717,485
Government guaranteed instruments				
Federal	-	13,995,662	29,060,582	43,056,244
Provincial	-	5,721,646	47,721,708	53,443,354
Corporate	-	25,666,956	36,549,853	62,216,809
	<u>1,717,485</u>	<u>45,384,264</u>	<u>113,332,143</u>	<u>160,433,892</u>
Percentage of total	1.1%	28.3%	70.6%	100.0%

c) 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, whether the 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, credit risks, unemployment rates in the North American economy, general business conditions, commodity prices and corporate profits. 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, 2020, if the investment in equities and ETFs had increased or decreased by 5%, with all other variables held constant, the net assets attributable to subscribers and beneficiaries would have increased or decreased by approximately \$4.1 million (\$3.4 million as at December 31, 2019).

### 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. 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 that are traded in an active market and can be easily liquidated.

An exemptive relief was obtained from OSC permitting the Plan to invest up to 40% of the Plan's Net Assets in Equities or ETFs. This may introduce more investment risk but would allow for increased potential growth for plan's investments. Investment objective of the Plan is disclosed in Note 1.

### Fair value measurement

The Plan classifies fair value measurement within a hierarchy that 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.



<b>As of June 30, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investment	-	2,429,794	-	2,429,794
Government guaranteed instruments				
Federal	-	4,304,942	-	4,304,942
Provincial	-	89,301,696	-	89,301,696
Corporate	-	95,690,791	-	95,690,791
Equities & ETFs	82,301,097	-	-	82,301,097
Investments at fair value	82,301,097	191,727,223	-	274,028,320
<b>As of Dec 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investment	-	1,717,485	-	1,717,485
Government guaranteed instruments				
Federal	-	43,056,244	-	43,056,244
Provincial	-	53,443,354	-	53,443,354
Corporate	-	62,216,809	-	62,216,809
Equities & ETFs	68,652,865	-	-	68,652,865
Investments at fair value	68,652,865	160,433,892	-	229,086,757

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 tables illustrate the classification of the Plan's assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2020 and December 31, 2019.

All fair value measurements above are recurring. The carrying values of receivable for investments sold, government grant receivable, interest and dividend receivable, other receivables, payable for investments purchased and accounts payable and other liabilities, principal payable to subscribers 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 period/year ended June 30, 2020 and December 31, 2019, or Level 3 securities held as at June 30, 2020 or December 31, 2019.

## Investments in unconsolidated structured entities

Underlying Fund as at December 31, 2020	Country of establishment and principal place of business	% Ownership in the underlying Fund	Fair value of the Plan's investment in the underlying Fund
BMO S&P 500 Index ETF	Canada	0.18%	311,457
BMO S&P 500 Hedged to CAD Index ETF	Canada	2.42%	973,364

Underlying Fund as at December 31, 2019	Country of establishment and principal place of business	% Ownership in the underlying Fund	Fair value of the Plan's investment in the underlying Fund
BMO S&P 500 Index ETF	Canada	0.17%	12,073,406
BMO S&P 500 Hedged to CAD Index ETF	Canada	2.06%	36,832,794

## 6. Net assets attributable to subscribers and beneficiaries

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

	As at June 30, 2020	As at December 31, 2019
Subscribers' contributions, net of returns	167,088,072	142,161,254
Government grants	92,157,506	79,871,536
Accumulated income		
Education assistance payment account	19,091,502	11,515,526
Income from government grants	9,183,828	7,033,850
Balance – End of period/year	287,520,908	240,582,166

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

	Period ended June 30, 2020	Period ended June 30, 2019
Subscribers' deposits	40,890,981	31,554,643
Enrolment fee deducted	(12,997,436)	(9,238,512)
Special processing fees	(27,279)	(10,119)
Return of contributions	(2,939,447)	(1,954,973)
Net increase in Subscribers' contributions	24,926,819	20,351,039
Balance – Beginning of period	142,161,254	100,144,355
Balance – End of period	167,088,073	120,495,394

## 7. Related party transactions

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 period ended June 30, 2020, exclusive of HST, was 1.30% (year ended December 31, 2019 - 1.30%).

Accounts payable and other liabilities include \$2,635,311 (December 31, 2019 – \$2,858,394) due to Knowledge First Financial relating to Management fees, subscriber fees received by the Plan on behalf of Knowledge First Financial, and education assistance payments and principal paid by Knowledge First Financial on behalf of the Plan.

The Plan also pays remuneration to members of the Independent Review Committee, which is included in Independent Review Committee fees in the Statements of Comprehensive Income.