

Management Report of Fund Performance

For the fiscal year ended December 30, 2018

This document contains the Annual Management Report of Fund Performance (“MRFP”) for the Flex First Plan (the “Plan”). The first preceding fiscal period of December 31, 2017 reflects only 8 months of activity. In October 2017, Knowledge First Foundation along with its wholly-owned subsidiary Knowledge First Financial Inc., obtained approval to change its year end date from April 30 to December 31.

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

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

The investment policies of the Plan, as well as those contained in the Canadian Securities Administrators (“CSA”) policies, limit the Plan’s investments to government bonds, guaranteed investment certificates, guaranteed mortgages, mortgage backed securities and corporate debt instruments (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 has the opportunity 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 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 with a view towards achieving diversification at our investment manager’s discretion and subject to the investment policy for the Plan. Our investment manager actively manages the Plan’s fixed income securities using strategies including sector allocation, duration management, credit research and certain yield curve strategies, and actively selects Canadian equity securities with a bias towards high-quality companies and invests passively in U.S. equities to provide additional diversification.

Risk

The Plan is a conservative investment fund suitable for investors focusing on a long-term savings program, intended to fund post-secondary education, and generally for those investors having a lower tolerance for risk. In fiscal 2013, the Plan commenced operations. 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 44.6% during the fiscal period from \$110.5 million as of December 31, 2017, to \$159.8 million as of December 31, 2018. The increase primarily resulted from deposits, subscribers' savings account, grants, and contributions received by the Plan.

Investments

At December 31, 2018, about 75% of total investments were invested in fixed income, mainly federal, provincial and corporate bonds with the remaining 25% 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 3.9%. For fiscal 2018, the Plan's overall net rate of return was -1.2% versus a return of 1.5% for the FTSE TMX Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index). S&P 500 Index returned -4.4%, while TSX Composite returned -8.9% in 2018. Unlike the Index, the Plan's return is after management fees have been deducted.

2018 started on a positive note for Canadian financial markets, with strong economic data, including expectations for earnings growth and low unemployment. However, sentiment changed quickly, and during the first quarter equity markets generated negative investment returns for investors. Following that period, positive momentum returned, with equity markets ultimately hitting new all-time highs by mid July, offset by mildly negative investment returns for investors in Canadian bonds. This positive-growth sentiment did not last however, and financial markets ended 2018 with great uncertainty. Volatility spiked higher towards the end of the year, causing equity markets to retreat and give back their 2018 gains and turn negative for the year as whole. Towards the end of 2018, fixed income markets responded to this uncertainty with a lower and flatter yield curve, resulting in positive investment returns for fixed income investors during this volatile period. In general, Canadian fixed income markets outperformed U.S. and Canadian equity markets during 2018.

North American equity markets ended 2018 in negative territory. The S&P 500 Index declined by 4.4% during 2018, while the S&P/TSX Composite Index experienced a negative return of 8.9%. The TSX was highly impacted by a steep decline in oil prices, with the Energy sector experiencing negative returns of 18.3% during 2018. The best performing equity sector in Canada was Information Technology, up 13% during 2018.

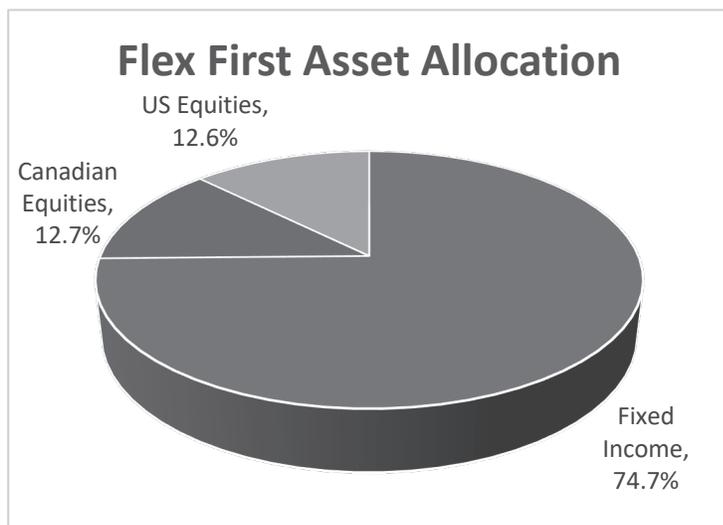
There were many reasons why the equity markets ended the year with negative returns. Concerns about rising interest rates, removal of monetary stimulus, Brexit, a trade dispute between the U.S. and China, and falling oil prices all negatively impacted equity markets and contributed to higher uncertainty.

In fixed income markets, North American yield curves flattened further during 2018, with multiple segments of the yield curve inverting for the first time since 2007, reflecting heightened concerns about the outlook for growth. After maintaining its policy rates at ultra-low levels for most of the past decade, the Bank of Canada hiked its policy rate five times (125 bps in total) since July 2017, and three times alone during 2018. Corporate spreads widened during 2018, suggesting an economy that is nearing the end of a strong economic cycle which started in 2009. Within Canadian fixed income investments, federal bonds outperformed corporate bonds which, in turn, outperformed provincial bonds during 2018.

The Canadian economy grew about 2.1% during 2018, compared to prior year's 3.0% growth. Rising interest rates, stretched household credit, uncertainty about NAFTA, rising concern about a global trade war, falling oil prices and a greater discount for Canadian oil versus global prices for crude, and tighter mortgage rules - all negatively affected the Canadian economy. Canada's elevated household debt compared to historical levels is also a concern for the markets, potentially depressing consumer spending during 2019 and making the economy more sensitive to interest rates.

The Canadian dollar depreciated by about 8% against the U.S. dollar during 2018, primarily reflecting perceived differences in economic growth and prospects for the direction of future interest rates.

The asset allocation as at December 31, 2018 is presented in the chart below:



Recent Developments

None for fiscal 2018.

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, 2018).

Management Fees

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

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

Enrolment Fees

Financial, as the Plan's distributor, deducts enrolment fees from subscribers' deposits to the Plan based on the total contribution goal the subscriber has set for the Plan. This fee will not exceed 9.5% of the total contribution goal. All of the subscribers' deposits to the Plan are applied against the enrolment fee until the total enrolment fee has been paid. Out of the enrolment fees received by the distributor, approximately 63% of the enrolment fees are paid out as sales commissions to the licensed sales representatives and branch directors of the distributor.

Special Processing Fees

Special processing fees are one-time fees for specific transactions in the subscribers' savings account. 100% of special processing fees are paid to Financial as these fees are directly related to plan administration activities. Special processing fees in fiscal 2018 were \$6 thousand (\$2 thousand in the 8-month period ended December 31, 2017; \$1 thousand in the year ended April 30, 2017).

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, 2018	Period ended December 31, 2017	Year ended April 30, 2017	Year ended April 30, 2016	Year ended April 30, 2015
Statements of Financial Position					
Total Assets ⁽¹⁾	161,915	112,023	82,243	43,446	18,708
Net Assets ⁽²⁾	159,758	110,500	81,094	42,614	17,894
% Change of Net Assets	44.6%	36.3%	90.3%	138%	258%
Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries					
Scholarship Awards (Educational Assistance Payments)	156	43	22	4	0.3
Government Grants (net) ⁽³⁾	17,309	9,827	12,002	9,743	5,381
Statements of Comprehensive Income					
Net Investment Income ⁽⁴⁾	1,067	412	327	176	244

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

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

⁽³⁾ Government grants are grants received or receivable from the government net of repayments 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 (\$2 thousand in the 8-month period ended December 31, 2017; \$1 thousand in the year ended April 30, 2017) to Independent Review Inc. (IRI). The independent review committee reviews all conflict of interest matters referred to it by the Foundation.

Summary of Investment Portfolio

The following table indicates the largest 25 holdings of the Plan at the end of fiscal 2018. This summary of investment portfolio may change due to ongoing portfolio transactions. The Plan is prohibited from holding short positions in securities.

	Name	Coupon	Maturity Date	% of Investment
1	BMO S&P 500 HEDGED TO CAD INDEX ETF			9.3%
2	CANADA HOUSING TRUST	2.90%	2024-06-15	6.9%
3	BMO S&P 500 INDEX ETF			3.3%
4	PROVINCE OF BRITISH COLUMBIA	2.85%	2025-06-18	3.2%
5	CANADA HOUSING TRUST	1.90%	2026-09-15	2.8%
6	ROYAL BANK OF CANADA	2.33%	2023-12-05	2.7%
7	PROVINCE OF ONTARIO	2.40%	2026-06-02	2.4%
8	BANK OF MONTREAL	2.12%	2022-03-16	2.3%
9	BANK OF MONTREAL	3.19%	2028-03-01	2.2%
10	BANK OF NOVA SCOTIA	2.87%	2021-06-04	2.2%
11	TORONTO-DOMINION BANK	1.91%	2023-07-18	2.2%
12	PROVINCE OF ONTARIO	2.85%	2023-06-02	2.1%
13	PROVINCE OF ONTARIO	3.15%	2022-06-02	1.9%
14	GOVERNMENT OF CANADA TREASURY BILL	0.00%	2019-02-07	1.9%
15	PROVINCE OF ALBERTA	2.35%	2025-06-01	1.8%
16	PROVINCE OF ALBERTA	2.20%	2026-06-01	1.8%
17	CANADIAN IMPERIAL BANK	2.04%	2022-03-21	1.8%
18	PROVINCE OF BRITISH COLUMBIA	3.30%	2023-12-18	1.7%
19	PROVINCE OF ONTARIO	2.60%	2025-06-02	1.7%
20	BANK OF NOVA SCOTIA	3.10%	2028-02-02	1.6%
21	TORONTO-DOMINION BANK	3.01%	2023-05-30	1.5%
22	GOVERNMENT OF CANADA	1.50%	2026-06-01	1.4%
23	GOVERNMENT OF CANADA	2.25%	2025-06-01	1.3%
24	CANADIAN IMPERIAL BANK	3.30%	2025-05-26	1.3%
25	BANK OF NOVA SCOTIA	2.62%	2026-12-02	1.2%
Largest 25 holdings as a % of total investments				62.6%

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, excluding short-term investments.

Category	Fair Value (\$000s)	% of Total Investments
Federal	24,589	16.4%
Provincial	37,283	24.9%
Corporate	46,170	30.8%
Short-term investments	3,925	2.6%
Equities & ETFs	37,812	25.3%
Total	149,779	100.0

Past Performance

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

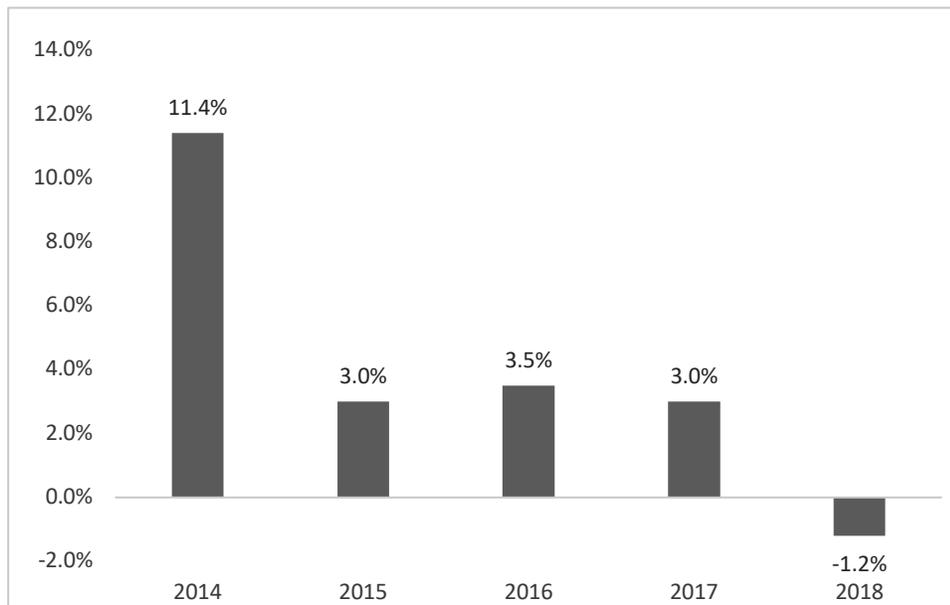
- For the investment portfolio only;
- After the management and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, dividends earned and capital gains distributions are reinvested in the Plan.

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, 2018 and 8- month period ended December 31, 2017.

Year by Year Returns

The following bar chart illustrates the Plan's annual performance over the past five years to December 31, 2018 (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, 2018.

	1 Year	3 Year	5 Year
Flex First Plan	-1.2%	1.7%	3.9%
DEX Universe All Government Bond Index	1.5%	1.5%	3.5%
S&P 500 index	-4.4%	9.3%	8.5%
S&P TSX Composite Index	-8.9%	6.4%	4.1%
S&P 500 in USD	-4.4%	9.3%	8.5%
S&P 500 Index (in CAD)	4.3%	8.8%	14.1%

* 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.