

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively  
referred to as The Children's Education Trust of Canada)

## Management Report of Fund Performance and Audited Financial Statements

December 31, 2017





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# Management Report of Fund Performance

This annual management report of fund performance contains financial highlights and the complete annual audited financial statements of The Children's Education Trust of Canada (the "Plans"). You may obtain a copy of the annual financial statements at your request, and at no cost, by calling our Customer Service at 1-800-246-1203, by writing to us at 3221 North Service Road, Burlington, Ontario, L7N 3G2 or by visiting our website at [www.cefi.ca](http://www.cefi.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Plan holders may also contact us using one of these methods to request a copy of the Foundation's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Investment Objective

The Plans invest funds contributed by parents, grandparents and others to fund tuition and other expenses for children who intend to pursue a post-secondary education (the "Beneficiaries"). The Plans' primary investment objectives are achieving long-term growth of income on Savings while ensuring the preservation of Savings. In an effort to provide investment returns superior to the benchmark index, our fixed-income Investment Advisors utilize active portfolio management strategies. These strategies include yield curve and duration management, sector allocation, credit analysis, intra-market-spread trades and investment in variable rate securities with a guarantee of principal. Beginning in May 2014, pursuant to an undertaking executed on November 22, 2013, the Income of each Plan may now be invested in exchange-traded equity securities listed on a Canadian stock exchange.

## Investment Strategies

In order to achieve the investment objectives of the Plans, savings and investment income earned on savings are invested according to the standard investment restrictions and practices contained in National Policy 15 of the Canadian Securities Administrators and, as such, shall always be limited to "qualified investments" as defined under the Income Tax Act in respect of Registered Education Savings Plans ("RESP").

The Plans are invested primarily in bonds, which have been issued or guaranteed by either the Federal or any Provincial Government, and Financial Institution bonds, corporate bonds and Government of Canada Treasury Bills. All of the variable rate securities held in the portfolio have an "approved credit rating" as defined in National Instrument 81-102.

Pursuant to an undertaking executed November 22, 2013, the Income of each Plan may now be invested exchange-traded equity securities listed on a stock exchange in Canada including ETFs subject to certain restrictions. As at December 31, 2017, approximately 24% of plan assets had been invested in common shares of Canadian listed equity securities.

Assets of the Plans are managed by our investment advisors: Fiera Capital; Franklin Templeton; Guardian Capital and TD Waterhouse. Assets are allocated across market segments and sectors according to the investment advisors' outlook, the Foundation Investment Policy, and securities regulation. Ongoing allocations to each of the investment advisors are based on the results of regular internal performance reviews, quarterly meetings with the investment advisors and qualitative assessment of the investment advisors as deemed by the Plans' management to be important to the management of the assets.

## Risk

Beginning in May 2014, the Income of each Plan is now being invested in exchange-traded equity securities listed on a Canadian stock exchange which entails the undertaking of equity risk, the financial risk involved in holding equities in a particular investment.

However, this risk is mitigated through our investment policy

statement with the equity manager which stipulates, among other things, concentration limits, sector and individual security exposure parameters as well as minimum market capitalization requirements for securities held in order to minimize the liquidity risk inherent in certain equity securities.

With respect to variable rate securities, these assets carry a guarantee of principal and a minimum interest yield when specified. The value of the securities and amount of interest payable at maturity may fluctuate based on the performance of the underlying market index. Though variable rate securities enhance portfolio diversification, there currently is no active secondary market in which these securities trade. However, at this time, the Foundation's strategy is to hold all variable rate securities until maturity.

## Results of Operations

Assets of the Plans increased by 1.51% compared to the prior year and totaled \$1.09 billion at the end of 2017. The overall Rate of Return on the Plans' investments in 2017 was positive 4.54%. The benchmark used for comparison purposes is comprised of the FTSE TMX Canada All Government Bond Index, the total return of the S&P/TSX Composite High Dividend Index and the total return of the S&P 500 Index on a hedged basis. The benchmark return in 2017 was 3.54%.

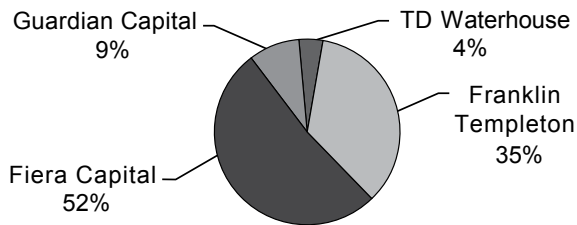
## Market Commentary

The global capital markets climbed despite an impressive list of worries: a dysfunctional U.S. government as President Trump was largely unable to push his pro-growth (and inflationary) policies through to law, the willingness of the U.S. to tear up free trade agreements, stalled Brexit negotiations, increasing tensions between the U.S. and North Korea, increasing tensions between Sunni and Shia Muslims (Saudi Arabia vs Iran), the speed of global monetary policy 'normalization' and questions about overall equity market valuation to name few.

The Canadian Bond Universe posted a decent gain of 2.52% in 2017, with provincial bonds outperforming corporates, which in turn outperformed federal bonds. Sector spreads narrowed during the year as the 'risk-on' mentality continued and the yield curve flattened.

The Canadian market (S&P/TSX Composite) started 2017 off on a strong note up 4.2%. However, the 'Trump' rally in the equities only lasted in Canada until mid-February. From that point to the end of August the Canadian market gave back all of those early gains. However, in September positive sentiment returned and the market posted strong gains, ending the year up 9.1%. The high dividend yield portion of the Canadian equity market (as measured by the S&P/TSX High Dividend Index) posted a respectable performance in 2017 advancing 7.6% to December 31st 2017. Of the larger sectors in the Index, the strongest performing sectors were Financials (up 13%), Telecommunications (up 13%) and Utilities (up 9%).

As at December 31, 2017, the investment advisors managed the following percentage of assets on behalf of the Plan:



### Recent Developments

Inflation is currently not a problem in the U.S. or Canada. U.S. CPI year over year peaked at 2.7% in early 2017 and has been in a slowing trend. Inflation pressures eased with low energy prices, slowing health care costs, stabilizing rents, and weak auto prices. For 2018, we see a slight increase in inflation with upward pressures in energy prices, higher unit labour costs, stronger demand from hurricane rebuilding and the effects of a weak U.S. dollar. Secular forces including demographics, automation and globalization will continue to keep inflation in check.

The Fed began to raise interest rates in late 2015 and has continued hiking rates as recently as December. We see 2 or 3 rate hikes in 2018. It has indicated a path of gradual tightening and has viewed soft inflation as transitory and with risks of a potential overheating of an economy at near full employment. The Fed has officially started its gradual balance sheet normalization program. The Bank of Canada has started raising rates in 2017 and should raise rates once in the first half of 2018 and 1 or 2 more in the second half depending on economic data. We believe the longer term trend is to higher yields, but for yields to be generally range bound in 2018 with 10-year US yields trading between 2.00% and 2.75%. Yields are currently in the middle of this range.

Overall, we see signs of a pickup in global economy with growth in the U.S. estimated at 3.0% for the first half of 2018. U.S. trade will improve with a lower dollar and a pickup in global growth. The Canadian economy, which typically does better than the U.S. in these late cycle stages, but could slow to 2.25% from the 3.0% pace in 2017. Canada is facing a few unique challenges including uncertain NAFTA talks, a highly indebted consumer, a slowing housing sector and a somewhat stronger Canadian dollar. Overall, bonds will continue to provide a steady level of income for investors, and if risks do arise help protect capital.

### Future Accounting Changes

#### Financial instruments

In July 2014, the International Accounting Standards Board ("IASB") issued the International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9") which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has three main phases: classification and measurement, impairment and general hedging. The new standard requires assets to be classified based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets will be measured at fair value through profit or loss ("FVTPL") unless certain conditions are met which permit measurement at amortized cost or fair value through other comprehensive income. The classification and measurement of financial liabilities remain generally unchanged, with the exception of financial liabilities recorded at FVTPL. For financial liabilities designated at FVTPL, IFRS 9 requires the presentation of the effects of changes in our own credit risk in other comprehensive income instead of decrease in net assets attributable to subscribers and beneficiaries. IFRS 9 also introduces an impairment model for financial instruments not measured at FVTPL that requires recognition of expected losses at

initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Foundation continues to evaluate the impact of IFRS 9 although it is not expected to have a material effect on the financial statements.

#### Revenue

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 replaces most of the guidance on revenue recognition that currently exists under IFRS. IFRS 15 introduces a five-step model to determine when to recognize revenue and at what amounts. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Foundation continues to evaluate the impact of IFRS 15 although it is not expected to have a material effect on the financial statements.

### Related Party Transactions

Children's Education Funds Inc. ("CEFI") is registered as a scholarship plan dealer under the securities legislation in each of the provinces and territories of Canada. It has been approved by Canada Revenue Agency ("CRA") to operate Registered Education Saving Plans and approved by Human Resources and Skills Development Canada ("HRSDC") to process deposits from Planholders to obtain government grants (Canada Education Savings Grants, Canada Learning Bond, British Columbia Training and Education Savings Grant, Quebec Education Savings Incentive and The Saskatchewan Advantage Grant for Education) on behalf of the Planholders.

By agreement with the Foundation, Children's Education Funds Inc. has been appointed as the Scholarship Plan Dealer for the Children's Educational Foundation of Canada and as such is the exclusive distributor and administrator of the Plans. Under the terms of this agreement and in accordance with the prospectus, the Scholarship Plan Dealer is entitled to receive sales charges, depository charges, administrative fees and service charges. Since the Scholarship Plan Dealer is a marketing and administrative organization which is beneficially owned by a Director of the Foundation, the Scholarship Plan Dealer is considered to be a related party.

### Management Fees

#### Annual Administration Fee

All expenses of distribution and administration of the Plans are currently paid by the Scholarship Plan Dealer. Sales representatives across Canada provide distribution of the Plans. The administration of the Plans includes covering ongoing costs of maintaining and administering the Plans. The Scholarship Plan Dealer is compensated for its expenses by way of an annual administration fee calculated and payable semi-annually at the annual rate of 1/2% of all Savings for Subscribers under the Group Option Plan, 1½% of all Savings for Subscribers under the Self-Initiated Option Plan and 0.95% of all Savings for subscribers under the Achievers Plan, including any government grant plus all income earned. In 2017, administration fees of \$5,781,735 were paid to the Scholarship Plan Dealer.

#### Depository Trustee Fee

During 2017, Scotiabank, the Depository Trustee and Scholarship Trustee, was paid fees totaling \$162,840. In return for the fees, the Trustee receives monies for investment, receives income, settles investment trades, provides safekeeping of assets, and maintains investment records.

#### Portfolio Management Fee

The Plans retain the services of four professional investment advisors to manage the investments of the Plans. The fees are calculated monthly based on the ending value of the net assets managed by each investment advisor. The average 2017 portfolio management fee based on net assets was approximately 0.135%

## Financial Highlights

The following tables show selected key financial information about the Plans and are intended to help you understand the financial performance for the past 5 years.

	2017	2016	2015	2014	2013*
<b>Statement of Net Assets</b>					
Total Assets	\$1,107,085,557	\$1,095,969,301	\$1,126,506,297	\$1,057,673,411	\$974,904,655
Net Assets	\$1,095,677,352	\$1,079,414,014	\$1,028,615,084	\$1,039,541,482	\$967,577,198
% Change of Net Assets	2%	5%	-1%	7%	1%
<b>Statement of Operations</b>					
Net Investment Income	\$35,049,851	\$40,674,414	\$36,222,496	\$48,277,019	\$24,164,323
<b>Statement of Changes in Net Assets</b>					
Scholarship Awards	\$24,096,263	\$22,207,466	\$20,729,438	\$20,022,866	\$14,972,171
Grants	\$14,163,915	\$12,399,587	\$11,521,459	\$10,341,768	\$7,566,457
<b>Other</b>					
Total Number of Units in plans	595,028	618,960	632,307	644,523	655,189
% Change in the Total Number of Units	-4%	-2%	-2%	-2%	0%

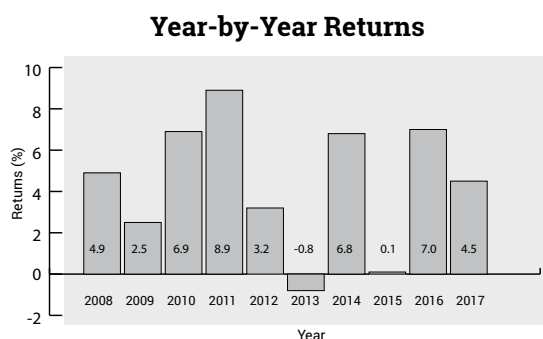
\*Restated to reflect transition to International Financial Reporting Standards in fiscal 2014.

## Past Performance

The Plans achieved its investment objectives and produced positive results for the subscribers and beneficiaries of the plans. Past performance of the Plans does not necessarily indicate how it will perform in the future.

## Year-by-Year Returns

The following graph indicates the time-weighted Market Value Year-by-Year Rate of Return for the Plans after fees for the past 10 years in percentage terms.



## Annual Compounded Returns

The following table illustrates the Plans' annual compounded returns for the periods ending December 31, 2017. The FTSE TMX Canada All Government Bond Index, a broad index of the Canadian investment-grade fixed income market, is the most appropriate measure for comparison purpose for the 3 year, 5 year and 10 year periods as equity trading did not begin until 2014. The 1 year weighted average of the FTSE TMX Canada All Government Bond Index and the equity benchmark based on December 31, 2017 holdings was 3.54%.

	1 Year	3 Years	5 Years	10 Years
Net Plans Return (%)	4.54%	3.83%	3.46%	4.35%
FTSE TMX Canada All Government Bond Index (%)	2.18%	2.30%	2.77%	4.34%
Equity Benchmark (%)*	7.94%	6.18%	n/a	n/a

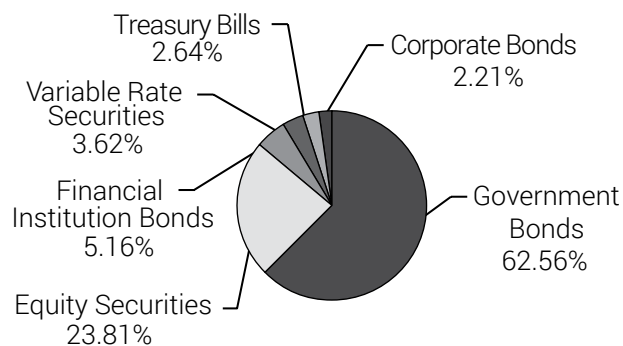
\*Note our equity allocation benchmark consists of 95% of the total return of the S&P / TSX Composite Dividend Index and 5% of the total return of the S&P 500 Index on a Canadian dollar hedged basis.

## Summary of Investment Portfolio

The allocation of the Plans' investments by asset class for the year ended December 31, 2017 is:

Asset class	% of Total
Government Bonds	62.56%
Equity Securities	23.81%
Financial Institution Bonds	5.16%
Variable Rate Securities	3.62%
Treasury Bills	2.64%
Corporate Bonds	2.21%
<b>Total</b>	<b>100.00%</b>

## Asset Mix



# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Top 25 holdings as a percentage of the total investment portfolio

December 31, 2017

Face Value/ Shares	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)	% of Portfolio
21,240,000	PROVINCE OF ONTARIO	4.000%	02Jun2021	22,980,995	22,588,528	2.1%
22,253,000	GOVERNMENT OF CANADA	0.500%	01Aug2018	22,198,076	22,144,405	2.0%
21,096,000	PROVINCE OF ONTARIO	2.100%	08Sep2018	21,255,670	21,183,548	1.9%
18,733,000	PROVINCE OF ONTARIO	3.450%	02Jun2045	20,183,989	20,454,001	1.9%
441,759	PEMBINA PIPELINE CORP			17,963,250	20,097,582	1.8%
247,150	BANK OF NOVA SCOTIA			17,450,487	20,045,865	1.8%
17,855,000	GOVERNMENT OF CANADA	2.750%	01Dec2048	20,032,572	19,768,699	1.8%
17,710,000	GOVERNMENT OF CANADA	0.000%	22Feb2018	17,687,115	17,683,435	1.6%
170,575	ROYAL BANK OF CANADA			13,806,803	17,508,196	1.6%
322,350	ENBRIDGE INC			18,336,408	15,844,344	1.4%
15,112,000	PROVINCE OF ONTARIO	4.400%	02Jun2019	15,759,301	15,670,842	1.4%
322,075	TELUS CORPORATION			14,794,577	15,328,775	1.4%
10,000,000	TORONTO DOMINION BANK US INDEXED LINKED NOTE	0.000%	11Oct2022	10,000,000	15,283,000	1.4%
12,284,000	ROYAL OFFICE FINANCE LP	5.209%	12Nov2032	14,185,847	14,843,126	1.4%
13,190,000	PROVINCE OF ALBERTA	3.900%	01Dec2033	14,685,733	14,830,440	1.4%
13,825,000	PROVINCE OF QUEBEC	2.750%	01Sep2025	14,244,199	14,052,698	1.3%
373,783	BMO S&P 500 INDEX ETF			8,795,054	13,803,806	1.3%
13,045,000	PROVINCE OF ONTARIO	3.150%	02Jun2022	13,795,196	13,566,148	1.2%
10,058,000	TCHC ISSUER TRUST	5.395%	22Feb2040	13,396,656	13,240,754	1.2%
10,000,000	TORONTO DOMINION BANK CANADIAN INDEXED LINKED NOTE	0.000%	11Oct2022	10,000,000	12,635,000	1.2%
12,225,000	PROVINCE OF ONTARIO	1.105%	27Jun2022	12,225,000	12,305,685	1.1%
11,742,000	PROVINCE OF QUEBEC	4.500%	01Dec2018	12,013,228	12,049,171	1.1%
11,660,000	CANADA HOUSING TRUST NO.1	1.950%	15Jun2019	11,812,543	11,701,510	1.1%
10,598,000	CADILLAC FAIRVIEW FINANCE	4.310%	25Jan2021	10,970,577	11,253,274	1.0%
461,884	RIOCAN REIT			12,103,042	11,235,275	1.0%
<b>Top 25 holdings as a percentage of the total investment portfolio</b>				<b>380,676,318</b>	<b>399,118,107</b>	<b>36.5%</b>



# Management's Responsibilities for Financial Reporting

The accompanying financial statements of the Children's Educational Foundation of Canada (the "Foundation") are prepared by management and are approved by the Board of Directors. Management is responsible for the information and representations contained in these financial statements.

Management maintains appropriate processes to ensure that relevant and reliable information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting

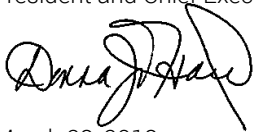
policies which management believes are appropriate for the Foundation are described in Note 3 to the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

KPMG LLP are the external auditors of the Foundation. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Board of Directors their opinion on the financial statements. Their report is set out below.

## Donna J. Haid

President and Chief Executive Officer



March 28, 2018

## Melissa Boughner

Chief Financial Officer



# Independent Auditor's Report

To the Board of Directors of The Children's Educational Foundation of Canada

We have audited the accompanying financial statements of The Children's Educational Foundation of Canada, which comprise the statement of financial position as at December 31, 2017 and 2016, the statements of comprehensive income, changes in net assets attributable to subscribers and beneficiaries and cash flows for the years then ended, the schedules of investment portfolio for subscriber deposits under scholarship agreements, government grants, subscriber deposits under escrow agreements, funds of scholarship enhancements, and the summary of schedules of investment portfolio as at December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

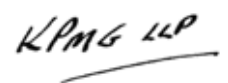
March 28, 2018  
Toronto, Canada

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Children's Educational Foundation of Canada as at December 31, 2017 and 2016 and its financial performance, changes in its net assets and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



**Chartered Professional Accountants,  
Licensed Public Accountants**

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Statements of Financial Position

December 31, 2017

December 31, 2016

### Assets

Cash	\$2,121,393	\$3,282,929
Investments, at fair value (Note 6)	1,093,356,478	1,083,057,125
Accrued interest	4,235,105	4,064,964
Dividends receivable	1,239,467	1,203,782
Government grants receivable	1,341,972	1,507,811
Receivables for securities sold	4,791,142	2,852,690
<b>Total assets</b>	<b>1,107,085,557</b>	<b>1,095,969,301</b>

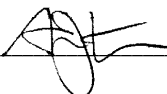
### Liabilities

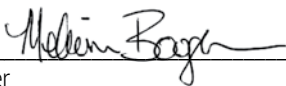
Due to Scholarship Plan Dealer (Note 11)	460,958	1,075,647
Payables for securities purchased	4,322,297	9,235,895
Subscriber liability due to terminations	6,624,950	6,243,745
	<b>11,408,205</b>	<b>16,555,287</b>
<b>Net assets attributable to subscribers and beneficiaries</b>	<b>\$1,095,677,352</b>	<b>\$1,079,414,014</b>

### Net assets attributable to subscribers and beneficiaries represented by:

Subscriber deposits received in advance	\$914,802	\$1,068,369
Subscriber deposits under scholarship agreements	563,557,122	567,656,866
Subscriber deposits under escrow agreements	2,056,472	1,906,921
Accumulated investment income earned on subscriber deposits	225,727,534	214,902,428
Accumulated investment income earned under escrow agreements	970,017	873,785
Government grants (Note 3)	214,837,629	211,079,841
Accumulated investment income earned on government grants	79,269,370	73,751,762
Funds for Scholarship Enhancements (Note 9)	8,228,194	8,083,953
Funds for Enrichment (Note 9)	116,212	90,089
<b>Net assets attributable to subscribers and beneficiaries</b>	<b>\$1,095,677,352</b>	<b>\$1,079,414,014</b>

Approved by the Board of Directors of The Children's Educational Foundation of Canada:

  
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Arie Gaertner Director

  
\_\_\_\_\_  
Melissa Boughner Director

See accompanying notes to the audited financial statements.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Statements of Comprehensive Income

For the year ended  
December 31, 2017

For the year ended  
December 31, 2016

### Income

Interest income earned on subscriber deposits	\$13,696,601	\$15,383,454
Interest income earned on subscriber deposits under escrow agreements	73,541	46,350
Interest income earned on government grants	4,902,505	4,201,948
Interest income earned on funds for Scholarship Enhancements	70,094	65,565
Investment income earned on funds for Enrichment	822	486
Dividend income earned on subscriber deposits	8,910,099	8,162,632
Dividend income earned on government grants	2,571,704	2,276,377
Realized gains on sale of investments	6,962,493	12,771,927
Net change in unrealized gains	11,444,929	26,804,533
<b>Total income</b>	<b>48,632,788</b>	<b>69,713,272</b>

### Expenses

Administration fees	479,625	303,440
Trustee fees	162,840	172,831
Portfolio management fees	1,464,353	1,732,973
Independent Review Committee fees and expenses	19,190	12,821
Directors fees	12,000	12,260
<b>Total expenses</b>	<b>2,138,008</b>	<b>2,234,325</b>

### Increase in net assets attributable to subscribers and beneficiaries

<b>\$46,494,780</b>	<b>\$67,478,947</b>
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See accompanying notes to the audited financial statements.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries

	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>Net assets attributable to subscribers and beneficiaries, beginning of year</b>	<b>\$1,079,414,014</b>	\$1,028,615,084
Increase in net assets attributable to subscribers and beneficiaries	<b>46,494,780</b>	\$67,478,947
<b>Transactions with subscribers and beneficiaries</b>		
Subscriber deposits	<b>64,025,691</b>	69,156,553
Fees deducted from subscriber deposits (Note 11)	<b>(12,877,962)</b>	(13,546,094)
Subscriber deposit withdrawals due to termination	<b>(7,874,152)</b>	(5,985,781)
Subscriber deposit withdrawals due to maturing plans	<b>(48,166,355)</b>	(45,314,973)
Canada Education Savings Grants	<b>11,191,693</b>	12,582,358
Canada Learning Bonds	<b>1,286,874</b>	1,248,525
Provincial Savings Grants	<b>687,176</b>	819,454
Income paid to Designated Educational Institutions	-	(789,017)
Total transactions with subscribers and beneficiaries	<b>8,272,965</b>	18,171,025
<b>Disbursements to beneficiaries</b>		
Education assistance payments		
Scholarships	<b>24,096,263</b>	22,207,466
Government grants	<b>14,163,915</b>	12,399,587
Refund of sales charge	<b>244,229</b>	243,989
Total disbursements to beneficiaries	<b>38,504,407</b>	34,851,042
Increase in net assets attributable to subscribers and beneficiaries	<b>16,263,338</b>	\$50,798,930
<b>Net assets attributable to subscribers and beneficiaries, end of year</b>	<b>\$1,095,677,352</b>	\$1,079,414,014

See accompanying notes to the audited financial statements.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

	For the year ended December 31, 2017	For the year ended December 31, 2016
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## Statements of Cash Flows

### Operating Activities

Increase in net assets attributable to subscribers and beneficiaries	<b>\$46,494,780</b>	\$67,478,947
Non-cash items		
Realized gains on sale of investments	<b>(6,962,493)</b>	(12,771,927)
Net change in unrealized gains	<b>(11,444,929)</b>	(26,804,533)
Amortization of discounts and premiums on investments	<b>6,006,084</b>	6,192,043
Increase in accrued interest	<b>(170,141)</b>	(258,010)
(Increase) decrease in dividends receivable	<b>(35,685)</b>	332,268
(Decrease) increase in amounts due to Scholarship Plan Dealer	<b>(614,689)</b>	760,416
Purchases of investments	<b>(1,931,664,843)</b>	(3,442,569,588)
Proceeds from the sale of investments	<b>1,926,914,777</b>	3,420,639,756
	<b>28,522,861</b>	12,999,372

### Financing Activities

Subscriber deposits received under scholarship agreements	<b>63,645,218</b>	68,718,876
Payments out of subscriber deposits under scholarship agreements	<b>(68,306,341)</b>	(64,602,169)
Subscriber deposits received under escrow agreements	<b>380,473</b>	437,679
Payments out of subscriber deposits under escrow agreements	<b>(230,922)</b>	(247,488)
Government grants received	<b>13,331,582</b>	14,779,963
Education assistance payments	<b>(38,260,178)</b>	(34,607,053)
Return of enrolment fees	<b>(244,229)</b>	(243,989)
Income paid to Designated Educational Institution	-	(789,017)
	<b>(29,684,397)</b>	(16,553,198)

Cash flow from (used in) financing activities	<b>(29,684,397)</b>	(16,553,198)
Net decrease in cash	<b>(1,161,536)</b>	(3,553,826)
Cash, beginning of year	<b>3,282,929</b>	6,836,755

### Cash, end of year

	<b>2,121,393</b>	\$3,282,929
Supplemental information:		
Interest received	<b>\$30,446,293</b>	\$35,609,885
Dividends received, net of withholding tax	<b>\$11,446,118</b>	\$10,771,276

See accompanying notes to the audited financial statements.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Subscriber deposits under Scholarship Agreements

December 31, 2017

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)
<b>Fixed Income Securities</b>					
490,000	GOVERNMENT OF CANADA		25Jan2018	489,709	489,657
880,000	GOVERNMENT OF CANADA		8Feb2018	879,173	879,032
17,615,000	GOVERNMENT OF CANADA		22Feb2018	17,592,237	17,588,578
5,575,000	GOVERNMENT OF CANADA		8Mar2018	5,564,640	5,564,296
473,000	ROYAL BANK OF CANADA	0.900%	2Jan2018	473,000	473,000
920,000	UNITED STATES TREASURY BILL		18Jan2018	1,153,116	1,148,716
2,930,000	407 INTERNATIONAL INC	3.830%	11May2046	2,913,427	3,093,142
115,000	ANHEUSERBUSCH INBEV FINANCE	2.600%	15May2024	115,459	112,279
635,000	BANK OF MONTREAL	1.880%	31Mar2021	635,830	625,043
625,000	BANK OF MONTREAL	2.270%	11Jul2022	624,972	617,956
405,000	BANK OF MONTREAL	2.700%	11Sep2024	404,950	404,166
105,000	BANK OF MONTREAL	3.320%	1Jun2026	107,377	106,718
245,000	BANK OF NOVA SCOTIA	3.270%	11Jan2021	252,771	251,402
1,155,000	BANK OF NOVA SCOTIA	1.830%	27Apr2022	1,154,621	1,122,117
1,625,000	BANK OF NOVA SCOTIA	2.290%	28Jun2024	1,624,910	1,583,026
245,000	BHP BILLITON FINANCE	3.230%	15May2023	237,411	248,266
10,598,000	CADILLAC FAIRVIEW FINANCE	4.310%	25Jan2021	10,970,577	11,253,274
100,000	CAMECO CORPORATION	5.670%	2Sep2019	104,727	103,684
9,400,000	CANADA HOUSING TRUST	1.950%	15Jun2019	9,520,463	9,433,464
1,950,000	CANADA HOUSING TRUST	1.450%	15Jun2020	1,960,459	1,931,534
3,090,000	CANADA HOUSING TRUST	2.350%	15Sep2023	3,242,177	3,111,785
2,820,000	CANADA HOUSING TRUST	2.900%	15Jun2024	3,024,331	2,925,976
4,240,000	CANADA HOUSING TRUST	2.350%	15Jun2027	4,238,065	4,223,210
8,000,000	CANADA HOUSING TRUST NO.1	2.050%	15Jun2018	8,043,549	8,027,360
9,960,000	CANADA HOUSING TRUST NO.1	2.000%	15Dec2019	10,132,408	10,001,832
6,270,000	CANADA HOUSING TRUST NO.1	3.350%	15Dec2020	6,580,980	6,525,691
4,125,000	CANADA HOUSING TRUST NO.1	3.800%	15Jun2021	4,457,559	4,371,840
2,835,000	CANADA HOUSING TRUST NO.1	1.150%	15Dec2021	2,735,434	2,738,412
4,355,000	CANADA HOUSING TRUST NO.1	2.400%	15Dec2022	4,494,839	4,405,344
3,450,000	CANADA HOUSING TRUST NO.1	3.150%	15Sep2023	3,709,881	3,621,189
625,000	CANADA HOUSING TRUST NO.1	1.950%	15Dec2025	604,331	606,800
1,540,000	CANADA HOUSING TRUST NO.1	1.900%	15Sep2026	1,493,073	1,482,281
140,000	CANADIAN NATURAL RESOURCES	3.420%	1Dec2026	140,743	137,162
98,000	CANADIAN UTILITIES LTD.	3.122%	9Nov2022	101,820	100,834
850,000	CAPITAL DESJARDINS INC.	5.187%	5May2020	901,575	902,930
1,000,000	CAPITAL DESJARDINS INC.	4.954%	15Dec2026	1,106,865	1,085,310
455,000	CANADIAN IMPERIAL BANK OF COMMERCE	1.900%	26Apr2021	455,457	448,052
145,000	CANADIAN IMPERIAL BANK OF COMMERCE	2.300%	11Jul2022	145,146	143,572
8,832,000	CDP FINANCIAL INC	4.600%	15Jul2020	9,239,697	9,377,641
220,000	CITIGROUP INC	4.090%	9Jun2025	229,265	226,730
230,000	EMPIRE LIFE INSURANCE CO	3.664%	15Mar2028	230,000	231,182
155,000	ENBRIDGE INCOME FUND	3.950%	19Nov2024	155,952	159,569
375,000	FEDERATION DES CAISSES	2.394%	25Aug2022	375,000	371,843
22,253,000	GOVERNMENT OF CANADA	0.500%	1Aug2018	22,198,076	22,144,405
647,000	GOVERNMENT OF CANADA	1.750%	1Mar2019	656,022	648,391
445,000	GOVERNMENT OF CANADA	0.750%	1Sep2020	445,378	433,697
351,000	GOVERNMENT OF CANADA	3.250%	1Jun2021	379,252	367,911
8,725,000	GOVERNMENT OF CANADA	2.250%	1Jun2025	9,057,154	8,875,681
1,170,000	GOVERNMENT OF CANADA	1.500%	1Jun2026	1,196,053	1,122,358
2,675,000	GOVERNMENT OF CANADA	1.000%	1Jun2027	2,472,046	2,436,898
1,580,000	GOVERNMENT OF CANADA	5.750%	1Jun2029	2,184,174	2,160,840
3,550,000	GOVERNMENT OF CANADA	4.000%	1Jun2041	4,585,909	4,653,411
3,392,000	GOVERNMENT OF CANADA	3.500%	1Dec2045	4,542,995	4,238,881
17,855,000	GOVERNMENT OF CANADA	2.750%	1Dec2048	20,032,572	19,768,699
2,150,000	GREATER TORONTO AIRPORTS AUTHORITY	5.300%	25Feb2041	2,684,454	2,908,047
715,000	GREAT-WEST LIFECO INC	4.650%	13Aug2020	763,477	756,213
1,187,734	HOSPITAL INFRASTRUCTURE	5.439%	31Jan2045	1,414,841	1,390,100

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Subscriber deposits under Scholarship Agreements

December 31, 2017 (Continued)

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)
775,000	HSBC BANK CANADA	2.170%	29Jun2022	775,690	760,151
890,000	HSBC BANK CANADA	2.542%	31Jan2023	890,000	881,794
65,000	HYDRO ONE INC	5.490%	16Jul2040	85,018	84,256
210,000	IGM FINANCIAL INC	3.440%	26Jan2027	210,922	210,204
1,015,000	LABRADOR-ISLAND LINK FDG TR	3.760%	1Jun2033	1,151,964	1,136,211
850,000	LABRADOR-ISLAND LINK FDG TR	3.860%	1Dec2045	1,062,399	999,286
545,000	MANUFACTURERS LIFE INSURANCE CO.	2.811%	21Feb2024	553,038	548,842
260,000	MANUFACTURERS LIFE INSURANCE CO.	3.181%	22Nov2027	263,147	265,333
1,105,000	MANULIFE BANK OF CANADA	2.082%	26May2022	1,104,864	1,079,187
435,000	MANULIFE FINANCIAL CORP	3.049%	20Aug2029	435,000	430,959
445,000	MANULIFE FINANCIAL CORP	7.405%	31Dec2108	494,081	484,743
3,699,000	MCGILL UNIVERSITY HEALTH CARE	5.360%	31Dec2043	4,728,227	4,924,664
1,125,000	MUSKRAT FALLS LABRADOR	3.630%	1Jun2029	1,254,359	1,248,098
435,000	NATIONAL BANK OF CANADA	2.105%	18Mar2022	432,541	428,175
447,216	NEW BRUNSWICK PROJECT	6.470%	30Nov2027	534,779	526,373
795,000	NHA MTGE BACKED SECURITIES	1.720%	1Oct2020	732,215	682,102
230,000	NHA MTGE BACKED SECURITIES	1.430%	1Jan2021	199,214	210,151
2,645,000	NHA MTGE BACKED SECURITIES	1.800%	1Apr2021	2,039,782	1,875,189
575,000	NHA MTGE BACKED SECURITIES	1.450%	1Oct2021	537,281	520,479
405,000	NHA MTGE BACKED SECURITIES	1.620%	1Mar2022	382,809	373,224
385,000	NHA MTGE BACKED SECURITIES	1.420%	1Jun2022	375,132	374,307
290,000	NHA MTGE BACKED SECURITIES	1.890%	1Sep2022	282,842	285,877
550,000	NHA MTGE BACKED SECURITIES	2.360%	1Dec2022	485,267	476,229
995,000	NHA MTGE BACKED SECURITIES	5.375%	1Jul2028	676,135	636,452
335,000	NORTH WEST REDWATER	3.200%	22Jul2024	341,707	341,120
2,680,000	NORTH WEST REDWATER	4.150%	1Jun2033	2,673,841	2,889,013
250,000	OMERS REALTY CORP	2.858%	23Feb2024	250,742	251,865
3,000,000	OPB FINANCE TRUST	2.980%	25Jan2027	2,998,586	3,027,780
4,170,000	OPB FINANCE TRUST	3.890%	4Jul2042	4,200,973	4,562,063
4,499,392	ORNGE ISSUER TRUST	5.727%	11Jun2034	4,869,954	5,222,659
125,000	PEMBINA PIPELINE CORP	3.540%	3Feb2025	121,870	125,865
320,000	PEPSICO INC	2.150%	6May2024	312,182	309,898
1,800,000	PROVINCE OF ALBERTA	2.350%	1Jun2025	1,772,310	1,775,826
3,676,000	PROVINCE OF ALBERTA	2.200%	1Jun2026	3,681,274	3,560,390
1,735,000	PROVINCE OF ALBERTA	2.550%	1Jun2027	1,733,676	1,718,379
8,240,000	PROVINCE OF ALBERTA	3.900%	1Dec2033	9,128,757	9,264,809
1,170,000	PROVINCE OF ALBERTA	3.450%	1Dec2043	1,246,840	1,261,248
1,414,000	PROVINCE OF ALBERTA	3.300%	1Dec2046	1,423,794	1,491,120
1,967,000	PROVINCE OF ALBERTA	3.050%	1Dec2048	1,912,525	1,986,709
5,000,000	PROVINCE OF BRITISH COLUMBIA	3.250%	18Dec2021	5,281,536	5,218,650
4,960,000	PROVINCE OF BRITISH COLUMBIA	5.700%	18Jun2029	6,394,429	6,425,184
1,000,000	PROVINCE OF BRITISH COLUMBIA	6.350%	18Jun2031	1,309,880	1,405,160
2,260,000	PROVINCE OF BRITISH COLUMBIA	4.300%	18Jun2042	2,674,170	2,821,361
3,339,000	PROVINCE OF MANITOBA	3.300%	2Jun2024	3,380,911	3,503,746
1,920,000	PROVINCE OF MANITOBA	4.400%	5Sep2025	2,172,795	2,157,101
2,135,000	PROVINCE OF MANITOBA	6.300%	5Mar2031	2,932,957	2,928,046
500,000	PROVINCE OF MANITOBA	5.700%	5Mar2037	680,111	695,175
2,130,000	PROVINCE OF MANITOBA	4.600%	5Mar2038	2,599,395	2,634,640
1,627,000	PROVINCE OF MANITOBA	2.850%	5Sep2046	1,619,965	1,561,578
1,966,000	PROVINCE OF NEW BRUNSWICK	1.550%	4May2022	1,928,075	1,911,778
2,505,000	PROVINCE OF NEW BRUNSWICK	2.850%	2Jun2023	2,594,882	2,565,295
2,175,000	PROVINCE OF NEW BRUNSWICK	5.500%	27Jan2034	2,825,871	2,861,669
3,250,000	PROVINCE OF NEW BRUNSWICK	4.650%	26Sep2035	3,873,791	3,970,688
875,000	PROVINCE OF NEW BRUNSWICK	4.550%	26Mar2037	1,005,690	1,063,353
2,065,000	PROVINCE OF NEWFOUNDLAND	2.300%	2Jun2025	2,026,320	2,008,873
460,000	PROVINCE OF NEWFOUNDLAND	3.000%	2Jun2026	476,899	466,836
3,965,000	PROVINCE OF NEWFOUNDLAND	3.300%	17Oct2046	3,744,321	4,004,333

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Subscriber deposits under Scholarship Agreements

December 31, 2017 (Continued)

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)
8,773,000	PROVINCE OF NOVA SCOTIA	2.150%	1Jun2025	8,675,905	8,537,884
6,000,000	PROVINCE OF NOVA SCOTIA	4.400%	1Jun2042	6,933,390	7,426,200
13,576,000	PROVINCE OF ONTARIO	2.100%	8Sep2018	13,677,542	13,632,340
5,812,000	PROVINCE OF ONTARIO	4.400%	2Jun2019	6,039,415	6,026,928
2,140,000	PROVINCE OF ONTARIO	4.200%	2Jun2020	2,286,321	2,254,383
15,280,000	PROVINCE OF ONTARIO	4.000%	2Jun2021	16,497,410	16,250,127
4,885,000	PROVINCE OF ONTARIO	3.150%	2Jun2022	5,157,513	5,080,156
4,810,000	PROVINCE OF ONTARIO	1.105%	27Jun2022	4,810,000	4,841,746
4,446,000	PROVINCE OF ONTARIO	3.500%	2Jun2024	4,781,012	4,728,810
9,605,000	PROVINCE OF ONTARIO	2.600%	2Jun2025	9,755,944	9,660,613
2,005,000	PROVINCE OF ONTARIO	2.400%	2Jun2026	2,023,536	1,978,253
1,660,000	PROVINCE OF ONTARIO	2.600%	2Jun2027	1,659,950	1,658,257
4,335,000	PROVINCE OF ONTARIO	6.500%	8Mar2029	5,837,111	5,895,383
695,000	PROVINCE OF ONTARIO	5.850%	8Mar2033	924,702	952,171
2,500,000	PROVINCE OF ONTARIO	5.600%	2Jun2035	3,396,908	3,434,275
1,250,000	PROVINCE OF ONTARIO	4.700%	2Jun2037	1,312,938	1,581,963
5,764,000	PROVINCE OF ONTARIO	4.650%	2Jun2041	7,119,681	7,415,271
9,388,000	PROVINCE OF ONTARIO	3.450%	2Jun2045	10,101,838	10,250,476
3,051,000	PROVINCE OF ONTARIO	2.800%	2Jun2048	3,057,696	2,963,650
8,048,000	PROVINCE OF PRINCE EDWARD ISLAND	4.250%	24Sep2019	8,164,082	8,368,793
2,000,000	PROVINCE OF PRINCE EDWARD ISLAND	6.100%	29Jul2027	2,156,470	2,534,420
11,742,000	PROVINCE OF QUEBEC	4.500%	1Dec2018	12,013,228	12,049,171
1,275,000	PROVINCE OF QUEBEC	4.500%	1Dec2020	1,381,531	1,365,092
7,450,000	PROVINCE OF QUEBEC	4.250%	1Dec2021	8,110,185	8,038,550
1,810,000	PROVINCE OF QUEBEC	3.000%	1Sep2023	1,895,795	1,875,124
9,800,000	PROVINCE OF QUEBEC	3.750%	1Sep2024	10,656,445	10,594,584
2,860,000	PROVINCE OF QUEBEC	1.830%	13Oct2024	2,863,624	2,908,849
13,205,000	PROVINCE OF QUEBEC	2.750%	1Sep2025	13,608,466	13,422,486
2,430,000	PROVINCE OF QUEBEC	5.750%	1Dec2036	3,377,683	3,442,241
490,000	PROVINCE OF QUEBEC	4.250%	1Dec2043	599,371	606,341
1,002,000	PROVINCE OF QUEBEC	3.500%	1Dec2045	1,107,823	1,108,122
8,290,000	PROVINCE OF QUEBEC	3.500%	1Dec2048	9,252,697	9,255,619
425,000	PROVINCE OF SASKATCHEWAN	5.800%	5Sep2033	561,800	584,923
595,000	PROVINCE OF SASKATCHEWAN	5.600%	5Sep2035	813,658	813,466
2,195,000	PROVINCE OF SASKATCHEWAN	4.750%	1Jun2040	2,769,534	2,819,982
2,573,000	PROVINCE OF SASKATCHEWAN	3.400%	3Feb2042	2,608,595	2,742,586
2,575,000	PROVINCE OF SASKATCHEWAN	2.750%	2Dec2046	2,470,885	2,441,255
1,486,000	PROVINCE OF SASKATCHEWAN	3.300%	2Jun2048	1,487,989	1,573,778
2,780,000	PSP CAPITAL INC	3.290%	4Apr2024	2,791,083	2,918,444
795,000	ROYAL BANK OF CANADA	2.030%	15Mar2021	797,290	786,366
230,000	ROYAL BANK OF CANADA	1.583%	13Sep2021	230,000	223,029
210,000	ROYAL BANK OF CANADA	2.333%	5Dec2023	210,000	206,287
1,920,000	ROYAL BANK OF CANADA	4.930%	16Jul2025	2,267,546	2,195,520
130,000	ROYAL BANK OF CANADA	3.310%	20Jan2026	132,334	132,061
12,284,000	ROYAL OFFICE FINANCE LP	5.209%	12Nov2032	14,185,847	14,843,126
1,500,000	SINAI HEALTH SYSTEM	3.527%	9Jun2056	1,500,000	1,538,205
170,000	SMART REIT	3.444%	28Aug2026	167,330	165,335
967,553	SNC-LAVALIN INNISFREE	6.632%	30Jun2044	1,242,677	1,258,835
150,000	SUN LIFE FINANCIAL INC	2.750%	23Nov2027	149,938	149,063
290,000	SUNCOR ENERGY INC	3.000%	14Sep2026	289,869	285,459
735,000	SUNLIFE CAP TRUST II	5.863%	31Dec2108	821,961	778,608
10,058,000	TCHC ISSUER TRUST	5.395%	22Feb2040	13,396,656	13,240,754
860,000	THE CANADA LIFE ASSURANCE	6.400%	11Dec2028	1,077,520	1,095,296
1,500,000	THE HOSPITAL FOR SICK KIDS	3.416%	7Dec2057	1,500,000	1,493,595
270,000	TORONTO DOMINION BANK	2.045%	8Mar2021	271,133	267,489
300,000	TORONTO DOMINION BANK	2.621%	22Dec2021	306,102	302,139
770,000	TORONTO DOMINION BANK	1.994%	23Mar2022	770,578	755,439
850,000	TORONTO DOMINION BANK	3.226%	24Jul2024	906,896	876,911



# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Subscriber deposits under Scholarship Agreements

December 31, 2017 (Continued)

Face Value	Security Description		Maturity Date	Average Cost (\$)	Fair Value (\$)	
310,000	TORONTO DOMINION BANK	3.224%	25Jul2029	311,615	309,392	
2,730,000	TORONTO DOMINION BANK	4.859%	4Mar2031	2,730,000	3,007,696	
170,000	TORONTO DOMINION BANK ONT DEP	1.909%	18Jul2023	170,000	163,866	
360,000	TRANSCANADA PIPELINES LTD	3.300%	17Jul2025	376,459	369,875	
100,000	TRANSCANADA TR	4.650%	18May2077	100,165	99,583	
300,000	WELLS FARGO	3.874%	21May2025	307,945	307,140	
750,000	WELLS FARGO	2.975%	19May2026	735,314	727,950	
1,725,000	YUKON DEVELOPMENT CORP	5.000%	29Jun2040	2,202,217	2,242,966	
2,000,000	ONTARIO HYDRO		11Apr2031	1,384,702	1,323,720	
<b>Total Fixed Income Securities</b>				<b>\$550,389,964</b>	<b>\$552,775,340</b>	69.9%
<b>Variable Rate Securities</b>						
5,000,000	TORONTO DOMINION BANK FIX 8 NORTH AMERICAN COMPANIES LINKED NOTE		2Apr2018	5,000,000	5,966,000	
5,000,000	TORONTO DOMINION BANK NORTH AMERICAN COMPANIES LINKED NOTE		3Apr2019	5,000,000	5,715,000	
10,000,000	TORONTO DOMINION BANK CANADIAN INDEX LINKED NOTE		11Oct2022	10,000,000	12,635,000	
10,000,000	TORONTO DOMINION BANK US INDEX LINKED NOTE		11Oct2022	10,000,000	15,283,000	
<b>Total Variable Rate Securities</b>				<b>\$30,000,000</b>	<b>\$39,599,000</b>	5.0%
<b>Shares / Units</b>	<b>Equity Securities</b>					
366,900	ALGONQUIN POWER & UTILITIES			4,190,502	5,147,327	
74,900	BANK OF MONTREAL			7,267,579	7,533,485	
188,300	BANK OF NOVA SCOTIA			13,293,437	15,272,654	
77,228	BCE INC			4,637,132	4,660,710	
299,975	BMO S&P 500 INDEX ETF			7,102,914	11,078,077	
131,100	BROOKFIELD INFRASTRUCTURE			7,490,900	7,384,948	
130,500	BROOKFIELD RENEWABLE			5,078,695	5,723,759	
65,100	CANADIAN APARTMENT PROPERTIES REIT			1,759,163	2,424,018	
48,541	CANADIAN IMPERIAL BANK OF COMMERCE			4,680,085	5,944,655	
36,500	CANADIAN NATIONAL RAILWAY			3,786,137	3,784,525	
153,800	CHEMTRADE LOGISTICS INCOME FUND			3,037,413	2,968,340	
118,600	EMERA INC			5,681,270	5,556,661	
245,500	ENBRIDGE INC			13,969,240	12,066,964	
40,000	FORTIS INC			1,599,951	1,843,914	
134,700	GREAT-WEST LIFECO INC			4,990,890	4,719,265	
115,300	KEYERA CORP			4,648,136	4,068,937	
65,252	MORNEAU SHEPELL INC			1,435,267	1,449,247	
137,300	NORTH WEST CO INC			4,326,177	4,119,000	
167,355	NORTHVIEW APARTMENT REIT			3,458,530	4,157,098	
336,549	PEMBINA PIPELINE CORP			13,683,271	15,311,111	
167,219	PEYTO EXPLORATION & DEVELOPMENT CORP			5,601,170	2,503,613	
161,779	POWER FINANCIAL CORP			5,561,139	5,574,437	
351,850	RIOCAN REIT			9,221,066	8,558,711	
129,900	ROYAL BANK OF CANADA			10,511,856	13,333,224	
236,300	SHAW COMMUNICATIONS INC.			6,199,317	6,778,743	
245,300	TELUS CORPORATION			11,268,325	11,674,761	
439,400	TORC OIL & GAS LTD NEW			3,032,521	3,253,458	
42,800	TORONTO DOMINION BANK			2,373,175	3,151,831	
182,743	TRANSCANADA CORPORATION			11,316,123	11,176,181	
166,806	VERMILION ENERGY INC			8,707,653	7,613,910	
<b>Total Equity Securities</b>				<b>\$189,909,034</b>	<b>\$198,833,564</b>	25.1%
				<b>770,298,998</b>	<b>791,207,904</b>	100.0%

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Government Grants

December 31, 2017

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)
95,000	GOVERNMENT OF CANADA		22Feb2018	94,877	94,858
40,000	GOVERNMENT OF CANADA		08Mar2018	39,926	39,923
706,000	ROYAL BANK OF CANADA	0.900%	02Jan2018	706,000	706,000
1,480,000	UNITED STATES TREASURY BILL		18Jan2018	1,854,617	1,847,934
190,000	ANHEUSER-BUSCH INBEV FINANCE	2.600%	15May2024	190,759	185,505
1,065,000	BANK OF MONTREAL	1.880%	31Mar2021	1,064,769	1,048,301
935,000	BANK OF MONTREAL	2.270%	11Jul2022	934,958	924,463
650,000	BANK OF MONTREAL	2.700%	11Sep2024	649,919	648,661
175,000	BANK OF MONTREAL	3.320%	01Jun2026	178,961	177,863
495,000	BANK OF NOVA SCOTIA	3.270%	11Jan2021	511,027	507,934
1,905,000	BANK OF NOVA SCOTIA	1.830%	27Apr2022	1,904,475	1,850,765
700,000	BANK OF NOVA SCOTIA	2.290%	28Jun2024	699,961	681,919
490,000	BHP BILLITON FINANCE	3.230%	15May2023	474,821	496,532
175,000	CAMECO CORPORATION	5.670%	02Sep2019	183,272	181,447
2,260,000	CANADA HOUSING TRUST	1.950%	15Jun2019	2,292,080	2,268,046
4,910,000	CANADA HOUSING TRUST	2.350%	15Sep2023	5,152,860	4,944,616
4,360,000	CANADA HOUSING TRUST	2.350%	15Jun2027	4,356,582	4,342,734
6,254,000	CANADA HOUSING TRUST NO.1	3.800%	15Jun2021	6,528,799	6,628,239
245,000	CANADIAN NATURAL RESOURCES	3.420%	01Dec2026	246,301	240,034
166,000	CANADIAN UTILITIES LTD.	3.122%	09Nov2022	172,470	170,801
1,355,000	CAPITAL DESJARDINS INC.	5.187%	05May2020	1,438,625	1,439,376
1,550,000	CAPITAL DESJARDINS INC.	4.954%	15Dec2026	1,709,928	1,682,231
790,000	CANADIAN IMPERIAL BANK OF COMMERCE	1.900%	26Apr2021	789,727	777,937
250,000	CANADIAN IMPERIAL BANK OF COMMERCE	2.300%	11Jul2022	250,243	247,538
305,000	CITIGROUP INC	4.090%	09Jun2025	317,599	314,330
375,000	EMPIRE LIFE INSURANCE CO	3.664%	15Mar2028	375,000	376,928
265,000	ENBRIDGE INCOME FUND	3.950%	19Nov2024	264,543	272,812
525,000	FEDERATION DES CAISSES	2.394%	25Aug2022	525,000	520,580
1,045,000	GOVERNMENT OF CANADA	1.750%	01Mar2019	1,059,090	1,047,247
665,000	GOVERNMENT OF CANADA	0.750%	01Sep2020	665,704	648,109
536,000	GOVERNMENT OF CANADA	3.250%	01Jun2021	580,156	561,824
1,900,000	GOVERNMENT OF CANADA	1.500%	01Jun2026	1,932,561	1,822,632
2,790,000	GOVERNMENT OF CANADA	1.000%	01Jun2027	2,582,893	2,541,662
5,383,000	GOVERNMENT OF CANADA	3.500%	01Dec2045	7,148,593	6,726,974
1,125,000	GREAT-WEST LIFECO INC	4.650%	13Aug2020	1,199,884	1,189,845
1,225,000	HSBC BANK CANADA	2.170%	29Jun2022	1,226,090	1,201,529
1,310,000	HSBC BANK CANADA	2.542%	31Jan2023	1,310,000	1,297,922
110,000	HYDRO ONE INC	5.490%	16Jul2040	143,877	142,588
370,000	IGM FINANCIAL INC	3.440%	26Jan2027	371,624	370,359
1,720,000	LABRADOR-ISLAND LINK FDG TR	3.760%	01Jun2033	1,944,621	1,925,402
1,270,000	LABRADOR-ISLAND LINK FDG TR	3.860%	01Dec2045	1,599,952	1,493,050
780,000	MANUFACTURERS LIFE INSURANCE CO.	2.811%	21Feb2024	793,112	785,499
445,000	MANUFACTURERS LIFE INSURANCE CO.	3.181%	22Nov2027	450,344	454,127
1,715,000	MANULIFE BANK OF CANADA	2.082%	26May2022	1,714,283	1,674,938
740,000	MANULIFE FINANCIAL CORP	3.049%	20Aug2029	740,000	733,125
690,000	MANULIFE FINANCIAL CORP	7.405%	31Dec2108	766,103	751,624
1,720,000	MUSKRAT FALLS LABRADOR	3.630%	01Jun2029	1,914,921	1,908,202
720,000	NATIONAL BANK OF CANADA	2.105%	18Mar2022	713,008	708,703
1,655,000	NHA MTGE BACKED SECURITIES	1.720%	01Oct2020	1,523,696	1,419,973
375,000	NHA MTGE BACKED SECURITIES	1.430%	01Jan2021	324,806	342,638
4,360,000	NHA MTGE BACKED SECURITIES	1.800%	01Apr2021	3,366,596	3,091,048
935,000	NHA MTGE BACKED SECURITIES	1.450%	01Oct2021	873,666	846,343
625,000	NHA MTGE BACKED SECURITIES	1.620%	01Mar2022	590,754	575,963
610,000	NHA MTGE BACKED SECURITIES	1.420%	01Jun2022	594,365	593,058
460,000	NHA MTGE BACKED SECURITIES	1.890%	01Sep2022	448,646	453,459
925,000	NHA MTGE BACKED SECURITIES	2.360%	01Dec2022	816,131	800,930
1,795,000	NHA MTGE BACKED SECURITIES	3.250%	01Jul2028	1,219,148	1,148,172
465,000	NORTH WEST REDWATER	3.200%	22Jul2024	472,815	473,496
505,000	OMERS REALTY CORP	2.858%	23Feb2024	506,462	508,767
165,000	PEMBINA PIPELINE CORP	3.540%	03Feb2025	160,868	166,142
515,000	PEPSICO INC	2.150%	06May2024	502,418	498,741
2,915,000	PROVINCE OF ALBERTA	2.350%	01Jun2025	2,870,158	2,875,852

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Government Grants

December 31, 2017 (Continued)

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)	
2,830,000	PROVINCE OF ALBERTA	2.550%	01Jun2027	2,827,394	2,802,889	
4,950,000	PROVINCE OF ALBERTA	3.900%	01Dec2033	5,556,976	5,565,632	
1,890,000	PROVINCE OF ALBERTA	3.450%	01Dec2043	2,020,870	2,037,401	
1,900,000	PROVINCE OF BRITISH COLUMBIA	5.700%	18Jun2029	2,432,921	2,461,260	
3,160,000	PROVINCE OF MANITOBA	4.400%	05Sep2025	3,567,945	3,550,228	
3,445,000	PROVINCE OF MANITOBA	6.300%	05Mar2031	4,741,003	4,724,645	
660,000	PROVINCE OF MANITOBA	5.700%	05Mar2037	897,746	917,644	
3,505,000	PROVINCE OF MANITOBA	4.600%	05Mar2038	4,283,700	4,335,405	
4,061,000	PROVINCE OF NEW BRUNSWICK	2.850%	02Jun2023	4,175,038	4,158,748	
3,515,000	PROVINCE OF NEW BRUNSWICK	5.500%	27Jan2034	4,577,509	4,624,721	
5,205,000	PROVINCE OF NEW BRUNSWICK	4.650%	26Sep2035	6,219,655	6,359,209	
1,435,000	PROVINCE OF NEW BRUNSWICK	4.550%	26Mar2037	1,651,781	1,743,898	
3,395,000	PROVINCE OF NEWFOUNDLAND	2.300%	02Jun2025	3,333,079	3,302,724	
700,000	PROVINCE OF NEWFOUNDLAND	3.000%	02Jun2026	725,682	710,402	
3,190,000	PROVINCE OF NEWFOUNDLAND	3.300%	17Oct2046	3,099,922	3,221,645	
7,520,000	PROVINCE OF ONTARIO	2.100%	08Sep2018	7,578,128	7,551,208	
9,300,000	PROVINCE OF ONTARIO	4.400%	02Jun2019	9,719,887	9,643,914	
3,505,000	PROVINCE OF ONTARIO	4.200%	02Jun2020	3,741,958	3,692,342	
5,960,000	PROVINCE OF ONTARIO	4.000%	02Jun2021	6,483,585	6,338,400	
7,705,000	PROVINCE OF ONTARIO	3.150%	02Jun2022	8,156,176	8,012,815	
7,415,000	PROVINCE OF ONTARIO	1.105%	27Jun2022	7,415,000	7,463,939	
3,315,000	PROVINCE OF ONTARIO	2.400%	02Jun2026	3,352,290	3,270,778	
2,650,000	PROVINCE OF ONTARIO	2.600%	02Jun2027	2,649,921	2,647,218	
3,040,000	PROVINCE OF ONTARIO	6.500%	08Mar2029	4,066,164	4,134,248	
4,011,000	PROVINCE OF ONTARIO	5.600%	02Jun2035	5,453,389	5,509,951	
9,280,000	PROVINCE OF ONTARIO	3.450%	02Jun2045	10,015,961	10,132,554	
2,000,000	PROVINCE OF QUEBEC	4.500%	01Dec2020	2,164,613	2,141,320	
2,965,000	PROVINCE OF QUEBEC	3.000%	01Sep2023	3,101,808	3,071,681	
4,345,000	PROVINCE OF QUEBEC	1.830%	13Oct2024	4,352,082	4,419,213	
2,480,000	PROVINCE OF QUEBEC	5.750%	01Dec2036	3,484,289	3,513,069	
1,670,000	PROVINCE OF QUEBEC	3.500%	01Dec2045	1,859,597	1,846,870	
900,000	PROVINCE OF SASKATCHEWAN	5.600%	05Sep2035	1,236,953	1,230,453	
3,650,000	PROVINCE OF SASKATCHEWAN	4.750%	01Jun2040	4,618,705	4,689,265	
792,000	PROVINCE OF SASKATCHEWAN	3.400%	03Feb2042	817,788	844,201	
1,135,000	ROYAL BANK OF CANADA	2.030%	15Mar2021	1,135,138	1,122,674	
395,000	ROYAL BANK OF CANADA	1.583%	13Sep2021	395,000	383,028	
360,000	ROYAL BANK OF CANADA	2.333%	05Dec2023	360,000	353,635	
3,070,000	ROYAL BANK OF CANADA	4.930%	16Jul2025	3,626,680	3,510,545	
230,000	ROYAL BANK OF CANADA	3.310%	20Jan2026	234,141	233,646	
285,000	SMART REIT	3.444%	28Aug2026	280,524	277,180	
240,000	SUN LIFE FINANCIAL INC	2.750%	23Nov2027	239,900	238,500	
256,000	SUNCOR ENERGY INC	3.000%	14Sep2026	255,884	251,991	
1,085,000	SUNLIFE CAP TRUST II	5.863%	31Dec2108	1,215,505	1,149,373	
1,390,000	THE CANADA LIFE ASSURANCE	6.400%	11Dec2028	1,728,336	1,770,304	
390,000	TORONTO DOMINION BANK	2.045%	08Mar2021	390,689	386,373	
480,000	TORONTO DOMINION BANK	2.621%	22Dec2021	489,112	483,422	
1,190,000	TORONTO DOMINION BANK	1.994%	23Mar2022	1,190,572	1,167,497	
1,480,000	TORONTO DOMINION BANK	3.226%	24Jul2024	1,580,408	1,526,857	
435,000	TORONTO DOMINION BANK	3.224%	25Jul2029	437,266	434,147	
330,000	TORONTO DOMINION BK ONT DEP	1.909%	18Jul2023	330,000	318,094	
670,000	TRANSCANADA PIPELINES LTD	3.300%	17Jul2025	701,020	688,378	
180,000	TRANSCANADA TR	4.650%	18May2077	180,296	179,249	
485,000	WELLS FARGO	3.874%	21May2025	499,513	496,543	
1,250,000	WELLS FARGO	2.975%	19May2026	1,225,523	1,213,250	
3,200,000	ONTARIO HYDRO		11Apr2031	2,246,907	2,117,952	
<b>Total Fixed Income Securities</b>				<b>\$236,157,373</b>	<b>\$234,370,778</b>	79.2%
<b>Shares / Units</b>	<b>Equity Securities</b>					
114,825	ALGONQUIN POWER & UTILITIES			1,313,515	1,610,907	
23,445	BANK OF MONTREAL			2,273,631	2,358,111	
58,850	BANK OF NOVA SCOTIA			4,157,050	4,773,211	

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Investment Portfolio for Government Grants

December 31, 2017 (Continued)

Shares / Units	Equity Securities	Average Cost (\$)	Fair Value (\$)	
24,089	BCE INC	1,445,945	1,453,771	
73,808	BMO S&P 500 INDEX ETF	1,692,140	2,725,729	
41,000	BROOKFIELD INFRASTRUCTURE	2,342,692	2,309,557	
40,875	BROOKFIELD RENEWABLE	1,591,658	1,792,786	
20,500	CANADIAN APARTMENT PROPERTIES REIT	555,612	763,324	
15,209	CANADIAN IMPERIAL BANK OF COMMERCE	1,469,821	1,862,596	
11,400	CANADIAN NATIONAL RAILWAY	1,182,519	1,182,016	
48,075	CHEMTRADE LOGISTICS INCOME FUND	949,165	927,848	
37,100	EMERA INC	1,777,193	1,738,214	
76,850	ENBRIDGE INC	4,367,168	3,777,372	
12,500	FORTIS INC	500,385	576,223	
42,075	GREAT-WEST LIFE CO INC	1,557,785	1,474,113	
35,975	KEYERA CORP	1,448,953	1,269,558	
20,420	MORNEAU SHEPELL INC	449,189	453,528	
42,900	NORTH WEST CO INC	1,351,817	1,287,000	
52,427	NORTHVIEW APARTMENT REIT	1,084,238	1,302,287	
105,210	PEMBINA PIPELINE CORP	4,279,979	4,786,471	
52,321	PEYTO EXPLORATION & DEVELOPMENT CORP	1,745,482	783,353	
50,623	POWER FINANCIAL CORP	1,740,057	1,744,322	
110,034	RIOCAN REIT	2,881,975	2,676,564	
40,675	ROYAL BANK OF CANADA	3,294,947	4,174,972	
73,950	SHAW COMMUNICATIONS INC.	1,941,285	2,121,405	
76,775	TELUS CORPORATION	3,526,252	3,654,014	
137,400	TORC OIL & GAS LTD NEW	948,274	1,017,353	
13,525	TORONTO DOMINION BANK	750,945	995,993	
57,036	TRANSCANADA CORPORATION	3,531,638	3,488,203	
52,139	VERMILION ENERGY INC	2,719,429	2,379,900	
	<b>Total Equity Securities</b>	<b>\$58,870,739</b>	<b>\$61,460,701</b>	20.8%
		<b>295,028,112</b>	<b>295,831,479</b>	100.0%

## Schedule of Investment Portfolio for Subscriber deposits under Escrow Agreements

December 31, 2017

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)	
229,000	CANADA HOUSING TRUST	1.421%	15Sep2020	228,017	229,804	
292,000	CANADA HOUSING TRUST NO.1	1.250%	15Dec2020	291,905	286,437	
30,000	GOVERNMENT OF CANADA	0.250%	01May2018	29,968	29,907	
250,000	GOVERNMENT OF CANADA	1.500%	01Jun2026	249,834	239,820	
21,000	GOVERNMENT OF CANADA	3.500%	01Dec2045	27,537	26,243	
115,000	PROVINCE OF ALBERTA	3.450%	01Dec2043	118,472	123,969	
139,000	PROVINCE OF MANITOBA	2.550%	02Jun2023	141,984	140,430	
94,000	PROVINCE OF MANITOBA	6.300%	05Mar2031	124,801	128,916	
120,000	PROVINCE OF NEW BRUNSWICK	4.650%	26Sep2035	140,094	146,610	
200,000	PROVINCE OF ONTARIO	3.150%	02Jun2022	211,652	207,990	
140,000	PROVINCE OF ONTARIO	2.400%	02Jun2026	141,012	138,132	
105,000	PROVINCE OF ONTARIO	5.850%	08Mar2033	138,958	143,853	
252,000	PROVINCE OF ONTARIO	3.500%	02Jun2043	265,216	276,414	
30,000	PROVINCE OF ONTARIO	3.450%	02Jun2045	30,549	32,756	
150,000	PROVINCE OF QUEBEC	1.762%	10Jun2020	150,956	151,721	
165,000	PROVINCE OF QUEBEC	1.830%	13Oct2024	165,193	167,818	
275,000	PROVINCE OF QUEBEC	2.750%	01Sep2025	282,008	279,531	
20,000	PROVINCE OF SASKATCHEWAN	3.400%	03Feb2042	20,651	21,318	
	<b>Total Fixed Income Securities</b>			<b>\$2,758,807</b>	<b>\$2,771,669</b>	100.0%

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

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## Schedule of Investment Portfolio for Subscriber deposits under Scholarship Enhancement Fund

December 31, 2017

Face Value	Security Description	Coupon Rate (%)	Maturity Date	Average Cost (\$)	Fair Value (\$)	
292,000	CANADA HOUSING TRUST	1.421%	15Sep2020	290,845	293,025	
362,000	CANADA HOUSING TRUST NO.1	1.250%	15Dec2020	361,897	355,104	
39,000	GOVERNMENT OF CANADA	0.250%	01May2018	38,959	38,879	
330,000	GOVERNMENT OF CANADA	1.500%	01Jun2026	329,835	316,562	
26,000	GOVERNMENT OF CANADA	3.500%	01Dec2045	33,978	32,491	
150,000	PROVINCE OF ALBERTA	3.450%	01Dec2043	154,825	161,699	
177,000	PROVINCE OF MANITOBA	2.550%	02Jun2023	180,837	178,821	
125,000	PROVINCE OF MANITOBA	6.300%	05Mar2031	166,256	171,431	
148,000	PROVINCE OF NEW BRUNSWICK	4.650%	26Sep2035	172,352	180,819	
255,000	PROVINCE OF ONTARIO	3.150%	02Jun2022	269,856	265,187	
187,000	PROVINCE OF ONTARIO	2.400%	02Jun2026	188,405	184,505	
130,000	PROVINCE OF ONTARIO	5.850%	08Mar2033	172,165	178,104	
323,000	PROVINCE OF ONTARIO	3.500%	02Jun2043	339,945	354,292	
35,000	PROVINCE OF ONTARIO	3.450%	02Jun2045	35,641	38,215	
195,000	PROVINCE OF QUEBEC	1.762%	10Jun2020	196,243	197,237	
218,000	PROVINCE OF QUEBEC	1.830%	13Oct2024	218,275	221,723	
345,000	PROVINCE OF QUEBEC	2.750%	01Sep2025	353,725	350,684	
25,000	PROVINCE OF SASKATCHEWAN	3.400%	03Feb2042	25,814	26,648	
<b>Total Fixed Income Securities</b>				<b>\$3,529,853</b>	<b>\$3,545,426</b>	100.0%

## Summary of Schedules of Investment Portfolio

December 31, 2017

	Average Cost (\$)	Fair Value (\$)
Schedule of Investment Portfolio for Subscriber deposits under Scholarship Agreements	770,298,998	791,207,904
Schedule of Investment Portfolio for Government Grants	295,028,112	295,831,479
Schedule of Investment Portfolio for Subscriber deposits under Escrow Agreements	2,758,807	2,771,669
Schedule of Investment Portfolio for the Scholarship Enhancement Fund	3,529,853	3,545,426
	<b>1,071,615,770</b>	<b>1,093,356,478</b>

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Notes to the Financial Statements

December 31, 2017

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### 1. Nature of business

The Children's Educational Foundation of Canada (the "Foundation") was incorporated as a non-profit corporation under the laws of Canada on April 23, 1990. During 1991, the Foundation commenced offering scholarship agreements through its exclusive Scholarship Plan Dealer, Children's Education Funds Inc. These agreements are collectively referred to as The Children's Education Trust of Canada (the "Plans").

The Foundation offers scholarship plans to enable the subscriber and their designated beneficiaries to save for a beneficiary's post-secondary education. The Foundation's assets are invested in equity securities, bonds and treasury bills, and equity-linked notes in accordance with the guidelines of the Foundation's investment policy statement established by the Trustees and also within the investment restrictions and practices contained in National Policy 15 of the Canadian Securities Administrators. Under an agreement with the securities regulators in May, 2014, the Foundation was allowed to invest in equity securities and was no longer permitted to acquire any new equity-linked notes (the "Undertaking").

The Foundation is not a trust company and, accordingly, is not registered under any federal or provincial trust company legislation nor does it carry on, or intends to carry on, the business of a trust company.

Agreements are registered with appropriate government authorities if all required information is provided, and once registered are subject to the rules for Registered Education Savings Plans ("RESPs") under the Income Tax Act (Canada). The current tax legislation provides that income credited to subscribers' principal is not taxable income of the subscriber unless withdrawn as an accumulated income payment subject to certain eligibility requirements being met. The deposits are not deductible for income tax purposes and are not taxable when returned to the subscriber. Government grants and investment income earned on Government grants will constitute taxable income of that student in the year that the payments are made.

The address of the head office is 3221 North Service Road, Burlington, Ontario.

The financial statements include the education assistance payments (including scholarships and government grants) paid to beneficiaries in the fiscal year. Most payments are typically paid out in September of each fiscal year and, therefore, education assistance payments will be significantly higher in the last six months of the year.

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### 2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and under the historical cost convention, as modified by revaluation of certain financial assets. Accounting policies are consistently applied to all years presented, unless otherwise stated.

The financial statements were authorized for issue by the Board of Directors of the Foundation on March 28, 2018.

### 3. Summary of significant accounting policies

#### Financial Instruments

##### (a) Recognition, initial measurement and classification

The Foundation's financial instruments consist of cash, accrued interest, dividend receivable, government grants receivable, receivables for securities sold, investments, due to Scholarship Plan Dealer, payables for securities purchased, subscriber liability due to terminations and the Foundation's obligation for net assets attributable to subscribers and beneficiaries. Net assets attributable to subscribers and beneficiaries comprise subscriber deposits received in advance, subscriber deposits under scholarship agreements, subscriber deposits under escrow agreements, accumulated interest and dividend income earned on subscriber deposits, accumulated interest and dividend income earned on subscriber deposits under escrow agreements, government grants, accumulated interest and dividend income earned on government grants, funds for Scholarship Enhancements and funds for Enrichment.

The Foundation's investments have been designated at fair value through profit or loss ("FVTPL"). Financial assets and financial liabilities at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss. Purchases and sales of financial assets are recognized on their trade date. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, where appropriate, at the contract's effective interest rate.

Net assets attributable to subscribers and beneficiaries is measured at redemption amount and is considered to be a residual interest in the assets of the Plan after deducting all of its liabilities. Net assets attributable to subscribers and beneficiaries are classified as a financial liability given the Foundation's obligation to pay out. The increase or decrease in the redemption amount is shown in the Statements of Comprehensive Income as a change in the net assets attributable to subscribers and beneficiaries.

##### (b) 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 the measurement date. The fair value of financial assets that are traded in active markets, which includes equity securities, bonds and treasury bills, are based on quoted market prices at the close of trading on the reporting date. The Foundation uses the last bid price to value these financial assets at each reporting date.

The fair value of financial assets that are not traded in an active market, which includes equity-linked notes, is determined using valuation techniques. Valuation techniques include discounted cash flow analysis, reference to other instruments, comparable recent arm's-length transactions, and making maximum use of observable inputs. Equity-linked notes are valued at fair values using external pricing models to value their components. The Foundation uses an external pricing model that values its equity-linked notes based on the price at which these securities could be sold to the counterparty. These equity-linked notes have been issued by a Canadian bank.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Notes to the Financial Statements

December 31, 2017

### 3. Summary of significant accounting policies (continued)

#### Investment transactions and income recognition

Interest income from investments in bonds and treasury bills are recognized at the effective interest rate. Dividends are recognized as income on the ex-dividend date. Accrued interest and dividends receivable are calculated as the difference between amounts received and amounts earned which have been recorded in income.

Realized gains and losses from investment transactions are calculated with reference to the amortized cost of the related investments and are recognized in the period in which these occurred. Amortized cost is the original purchase price adjusted for amortization of any premiums or discounts.

Unrealized gains and losses are calculated as the difference between fair value and the amortized cost of the related investments at the dates of the statements of financial position. Unrealized gains and losses are not allocated to specific beneficiaries until they are realized by the Foundation. As at December 31, 2017 there was a net unrealized gain of \$21,725,135 (2016 – gain of \$10,311,729) included in net assets attributable to subscribers and beneficiaries.

#### Foreign currency

The financial statements are presented in Canadian dollars, which is the Foundation's functional and presentation currency.

#### Impairment of financial assets

As at each reporting date, the Foundation assesses whether there is objective evidence that a financial asset measured at amortized cost is impaired. If such evidence exists, the Foundation recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent years if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

#### Subscribers' deposits

Subscribers' principal balances reflect only amounts received from subscribers and do not include amounts receivable on outstanding agreements, as subscribers may terminate their plans at any time. The principal deposits are returned to the subscriber (or the subscriber's beneficiary if certain conditions are met) either on termination or maturity of the scholarship agreement. Subscriber deposits, upon termination of the plan or cancellation by the subscriber, are shown in liabilities. The financial statements reflect all other subscriber deposits in net assets attributable to subscribers and beneficiaries. As the subscriber deposits are due on demand, they are recorded at their fair value. Subscriber deposits received in advance of plan payments terms are recorded in subscriber deposits received in advance. Subscriber deposits received prior to receipt of the beneficiary's social insurance number are held in subscriber deposits under escrow agreements.

The Foundation deducts sales charges, depository fees, administrative fees, where applicable, and other service charges and insurance premiums from deposits made by subscribers in accordance with the terms of the Prospectus (see Note 11).

#### Government grants

Since January 1998, the Government of Canada has provided for the payment of Canada Education Savings Grants ("CESG") on behalf of eligible beneficiaries of the Foundation's RESPs. Eligible beneficiaries are entitled to CESG equal to 20% of the eligible contributions. *The Canada Education Savings Act*, passed into law on December 15, 2004, enhanced the CESG program by providing additional grant amounts to beneficiaries based upon family income. Generally, families with annual income less than \$46,605 are eligible for an additional 20% of CESG on the first \$500 contributed. Families with annual income between \$46,605 and \$93,208 are eligible for an additional 10% of CESG on the first \$500 contributed. In addition, the *Canada Education Savings Act* introduced the Canada Learning Bond ("CLB"). Children born on or after January 1, 2004 will be eligible for CLB in each year that the beneficiary's family is entitled to the National Child Benefit Supplement up to and including the year in which the beneficiary turns 15 years of age. CLB is \$500 in the first year of entitlement and \$100 thereafter.

On March 26, 2015, the Government of Alberta issued an information bulletin announcing the closure of the *Alberta Centennial Education Savings Plan* ("ACES") for children born to Alberta residents effective January 1, 2005. As such, subscribers could no longer apply for ACES grants after July 31, 2015. The ACES Plan closed on January 1, 2016 and ACES applications are no longer being accepted. After January 1, 2016, all awarded ACES Plan grants were treated the same as accumulated income in an RESP.

In 2007, the Government of Quebec introduced an education savings incentive for beneficiaries residing in the Province of Quebec. The incentive is applicable for contributions made after February 20, 2007 and is equal to 10% of the first \$2,500 contributed. Generally, families with annual income less than \$43,055 are eligible for an additional 10% on contributions to a maximum of \$50. Families with annual income between \$43,056 and \$86,105 are eligible for an additional 5% on contributions to a maximum of \$25. Family income thresholds are indexed for inflation and will be revised annually by the Quebec Ministry of Revenue. The maximum lifetime education savings incentive is \$3,600 per beneficiary.

The Government of Saskatchewan introduced the *Saskatchewan Advantage Grant for Education Savings* ("SAGES") that provides a grant of 10% on contributions made since January 1, 2013, into the RESP of a beneficiary who is a Saskatchewan resident to a maximum of \$250 per beneficiary per year. The maximum lifetime SAGES grant is \$4,500 per beneficiary. The Government of Saskatchewan has suspended SAGES effective January 1, 2018.

Effective August 15, 2015, the Government of British Columbia introduced a one-time grant (*British Columbia Training and Education Savings Grant*) of \$1,200 into the RESP for any British Columbia resident child who is born on or after January 1, 2006.

The Foundation is receiving grants in respect of eligible RESPs. The financial statements reflect the funds received for these grants in net assets attributable to subscribers and beneficiaries and an accrual for the estimated amount of grants receivable based on subscriber deposits. Grants are recorded at their face value as they are due on demand. Repayable government grants are netted against government grants receivable if a plan is terminated by the

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Notes to the Financial Statements

December 31, 2017

### 3. Summary of significant accounting policies (continued)

Foundation or cancelled by the subscriber as the funds must be reimbursed to the government.

#### Operating segments

The Foundation is organized into one main operating segment, which invests contributed funds in order to provide investment returns. Accordingly, all significant operating decisions are based upon an analysis of the Foundation as one operating segment. Substantially all of the investment income is derived from Canadian investments with foreign investments accounting for approximately 1% of investments as at December 31, 2017. The financial results of this segment are equivalent to the financial statements of the Foundation as a whole.

#### Future accounting changes

##### Financial instruments

In July 2014, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"), which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires assets to be classified based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets will be measured at FVTPL unless certain conditions are met, which permit measurement at amortized cost or fair value through other comprehensive income. The classification and measurement of financial liabilities remain generally unchanged, with the exception of financial liabilities recorded at FVTPL. For financial liabilities designated at FVTPL, IFRS 9 requires the presentation of the effects of changes in our own credit risk in other comprehensive income instead of decrease in net assets attributable to subscribers and beneficiaries. IFRS 9 also introduces an impairment model for financial instruments not measured at FVTPL that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Foundation continues to evaluate the impact of IFRS 9 although it is not expected to have a material effect on the financial statements.

##### Revenue

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 replaces most of the guidance on revenue recognition that currently exists under IFRS. IFRS 15 introduces a five-step model to determine when to recognize revenue and at what amounts. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Foundation continues to evaluate the impact of IFRS 15 although it is not expected to have a material effect on the financial statements.

### 4. Tax status

Scholarship agreements are submitted to Canada Revenue Agency for registration as RESPs under the Income Tax Act (Canada). The Plans are exempt from income taxes under 146.1 of the Income Tax Act (Canada). As a result of such registration, investment income earned on the net assets attributable to subscribers

and beneficiaries of the Foundation will not be subject to current income tax. Qualifying beneficiaries are taxed at the time amounts of accumulated investment income are disbursed.

### 5. 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 accounting judgments and estimates that the Foundation has made in preparing the financial statements:

#### *Fair value measurement of securities not quoted in an active market*

The Foundation holds financial assets that are not traded in an active market, including equity-linked notes, whose fair value is determined using valuation techniques. Valuation techniques which make maximum use of observable inputs are used. Refer to Note 6 for further information.

#### *Measurement of investments and application of the fair value option*

In measuring financial instruments held by the Foundation, the manager is required to make significant judgments about whether or not the business of the Foundation is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, *Financial Instruments: Recognition and Measurement*. The most significant judgments made include management's assertion that equity-linked notes may be designated as FVTPL.

### 6. Risks associated with financial instruments

The Foundation is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include credit risk, liquidity risk and market risk (which includes interest rate risk, price risk and currency risk). These risks and related risk management practices employed by the Foundation are discussed below. There have been no changes in the risks and management of such risks from the previous year.

#### Credit risk

The Foundation 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. The majority of the credit risk to which the Foundation is exposed arises from cash and its investments in debt securities. Credit risk relating to cash relates to the financial institution where the cash is held. The Foundation maintains its cash with a single Canadian financial institution. Credit risk for the investment in debt securities relates to the capability of the issuer of debt securities to make interest payments and repay the principal. The Foundation's maximum exposure to credit risk is limited to the carrying amount of cash and investments in debt securities as summarized below:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Cash	<b>\$ 2,121,393</b>	\$ 3,282,929
Investment in debt securities	<b>833,062,203</b>	816,169,606
	<b>\$ 835,183,596</b>	\$ 819,452,535



# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

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## Notes to the Financial Statements

December 31, 2017

### 6. Risks associated with financial instruments (continued)

The table below analyzes the investment in debt securities by type of counterparty:

<b>Asset Class</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Government – Federal	<b>\$223,758,397</b>	\$ 209,833,424
Government – Provincial	<b>\$487,953,677</b>	479,643,728
Financial institution bonds	<b>\$57,549,425</b>	58,063,516
Corporate bonds	<b>\$24,201,704</b>	20,975,938
Equity-linked notes	<b>\$39,599,000</b>	47,653,000
	<b>\$833,062,203</b>	\$ 816,169,606

The debt securities (and all other securities) are invested according to the standard investment restrictions and practices contained in National Policy 15 of the Canadian Securities Administrators. The investments in the Foundation primarily comprise of bonds which have been issued or guaranteed by either the Federal or any provincial government, and financial institution bonds, corporate bonds and Government of Canada treasury bills. All of the variable rate securities held in the portfolio have an "approved credit rating" as defined in National Instrument 81-102. In addition, the Foundation invests in equity-linked notes. Under the terms of the Undertaking described in Note 1, the Foundation may no longer purchase equity-linked notes. These equity-linked notes are issued or guaranteed by a Canadian chartered bank. Risk is managed through guidelines mandated by the Canadian Securities Administrators.

The Foundation is invested in debt instruments with the following credit ratings:

Debt instruments* by credit rating	Percentage of total debt instruments*	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
AAA	<b>30.5%</b>	28.4%
AA	<b>46.4%</b>	42.9%
A	<b>21.8%</b>	27.8%
BBB	<b>1.3%</b>	0.9%

\* Excludes Government of Canada treasury bills and Money Market deposits

All investments represent a risk of loss of capital. The investment advisors of the Foundation moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Foundation's investment objective, policies and restrictions. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Foundation's overall market positions are monitored on a daily basis by the investment advisors of the Foundation.

The Foundation's activities may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For the majority of transactions, the Plans mitigate this risk by conducting settlements through an intermediary to ensure that the trade is settled only when both parties have fulfilled their contractual settlement obligations.

#### Liquidity risk

Liquidity risk is defined as the risk that the Foundation may not be able to settle or meet its obligations on time. The Foundation's exposure to liquidity risk is concentrated in principal repayments to subscribers and payments of educational assistance payments. The Foundation moderates liquidity risk by investing primarily in bonds and treasury bills that are traded in an active secondary market. The Foundation also invests in equity securities of issuers traded on a Canadian stock exchange which may contain inactive issuers with wide bid-ask spreads. This risk is mitigated by the Investment Policy Statement which stipulates investment in equity securities with a sufficiently large market capitalization to ensure adequate liquidity in execution and minimization of trading costs.

Equity-linked notes, however, do not trade on stock exchanges or other secondary markets. These investments are considered to be buy-and-hold investments and it is the intention of the Foundation to hold these investments until maturity. The Foundation was limited to a weighting of 30% of the aggregate amount of Subscribers' deposits in equity-linked notes and pursuant to the Undertaking, is no longer permitted to purchase equity-linked notes.

All of the Foundation's financial liabilities are due on demand.

The Foundation retains sufficient cash to meet liquidity requirements.

#### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, price risk and currency risk.

The value of the investments within the Foundation can fluctuate on a daily basis and the level of risk depends on the Foundation's investment objectives and the securities it invests in. The investment objective of the Foundation is to achieve long-term growth of income on subscribers' savings while ensuring the preservation of those savings. In an effort to provide investment returns superior to the benchmark index, the investment advisors of the Foundation utilize active portfolio management strategies. These strategies include duration management, sector allocation, credit analysis and investment in equity-linked notes with a guarantee of principal. Pursuant to an Undertaking, interest and dividend income on subscribers' savings and government grants may be invested in equity securities traded on a Canadian stock exchange. As such, beginning May 2014, the Foundation began investing in equity securities. Currently, the Foundation utilizes the investment advisory services of four registered investment advisors to assist the Foundation in investing subscriber savings and government grants and interest and dividend income earned thereon. Each of these investment advisors provides advisory and discretionary managed account services with respect to purchasing, selling and otherwise dealing in securities and other investments comprising the investment portfolios. The investment advisors are charged with broad diversification across issuers and securities and constantly monitor how the various risks affect the investment portfolios.

#### (i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of investments. If

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(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Notes to the Financial Statements

December 31, 2017

### 6. Risks associated with financial instruments (continued)

interest rates decrease or increase, the value of the investments will increase or decrease, respectively. The Foundation's investment advisors are required to manage the investments in accordance with their Investment Policy Statement. To moderate risk, the investment advisors must maintain a modified duration of their portfolio within approved limits of the benchmark index, the FTSE TMX Canada All Government Bond Index.

The Foundation's holding of debt instruments by maturity is as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Due in one year or less	<b>12.5%</b>	5.0%
Due one year through five years	<b>33.6%</b>	35.7%
Due after five years	<b>53.9%</b>	59.3%

As at December 31, 2017, if prevailing interest rates had increased or decreased by 25 basis points, assuming a parallel shift in the yield curve with all other variables held constant, the investment portfolio of debt instruments of \$793,463,203 (2016 - \$768,516,605) which excludes equity-linked notes would have decreased or increased by approximately \$15,481,000 (2016 - \$16,316,000). In practice, the actual trading results may differ materially.

#### (ii) Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Financial instruments held are susceptible to market price risk arising from uncertainties about future prices of instruments. Equity securities and equity-linked notes are most impacted by price risk. The total fair value of equity securities on hand as at December 31, 2017 was \$260,294,275 (2016 - \$266,887,520). As at December 31, 2017, if underlying index prices increased or decreased by 1%, with all other variables held constant, the investment portfolio of equity securities and equity-linked notes of \$299,893,275 (2016 - \$314,540,520) would increase or decrease by approximately \$2,913,555 (2016 - \$2,962,875). In practice, the actual trading results may differ materially. Investments in equity-linked notes carry a guarantee at maturity of principal. The amount of interest, if any, payable on equity-linked notes at maturity will be based on the performance of the underlying assets or market index. Investments in equity-linked notes are made on a long buy and hold basis.

The equity-linked notes are subject to pricing based on the returns on the underlying investments for each note. The pricing is also impacted by the value attributable to the extent of principal protection provided in the note.

#### (iii) Currency risk

The Foundation invests in an exchange-traded fund ("ETF") denominated in Canadian dollars and US dollar investments. These investments create currency risk as the underlying investments within this ETF are exposed to the US dollar and therefore the Foundation is directly and indirectly exposed to the risk that the fair

value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The total fair value of equity ETFs and US dollar investments exposed to the US dollar as at December 31, 2017 was \$32,148,147 (2016 - \$12,338,576). As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5%, with all other variables held constant, the total value of equity ETFs and US dollar investments exposed to the US dollar would increase or decrease by approximately \$1,607,407 (2016 - \$616,929).

#### Fair value of financial instruments

Financial instrument disclosures require a three-level fair value hierarchy. Level 1 financial instruments are valued using quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 financial instruments are valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 financial instruments are valued using unobservable inputs. 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 Foundation's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the transaction giving rise to the transfer.

Investments are measured at fair value on a recurring basis. The carrying values of cash, accrued interest, dividends receivable, government grants receivable, receivables for securities sold, due to Scholarship Plan Dealer, payables for securities purchased, subscriber liability due to terminations and the Foundation's obligation for net assets attributable to subscribers and beneficiaries approximate their fair values due to their short-term nature.

The Foundation's management is responsible for performing the fair value measurements, including Level 3 measurements. The Foundation's management obtains pricing from a third party pricing vendor.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

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## Notes to the Financial Statements

December 31, 2017

### 6. Risks associated with financial instruments (continued)

The following is a summary of the classification of the Foundation's investments, the only financial instrument measured at fair value, as at December 31, 2017 and December 31, 2016:

As at December 31, 2017

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 260,294,275	\$ -	\$ -	\$ 260,294,275
Bonds and treasury bills	-	793,463,203	-	793,463,203
Equity-linked notes	-	-	39,599,000	39,599,000
	\$ 260,294,275	\$ 793,463,203	\$ 39,599,000	\$ 1,093,356,478

As at December 31, 2016

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 266,887,520	\$ -	\$ -	\$ 266,887,520
Bonds and treasury bills	-	768,516,605	-	768,516,605
Equity-linked notes	-	-	47,653,000	47,653,000
	\$ 266,887,520	\$ 768,516,605	\$ 47,653,000	\$ 1,083,057,125

#### Equities

The Foundation's equity positions are classified as Level 1 when the security is actively traded and a quoted price is available.

#### Bonds and treasury bills

Bonds and treasury bills traded on secondary markets are classified as Level 2. The Foundation uses the last bid price to value these financial assets at each reporting date.

#### Equity-linked notes

Equity-linked notes are not traded in an active market nor otherwise valued using observable inputs. The Foundation uses an external pricing model that values its equity-linked notes based on the price for which these securities could be sold to the counterparty. The unobservable inputs used in the external pricing model relate to the impact of the following attributes of each individual note: all notes have principal protection which relies on the credit capacity of TD Bank, which is the issuer of each note. The notes are non-interest bearing and the return on the notes to the maturity date of the note are a basket of specific securities or specific indices as follows:

#### **Equity-linked note**

TD Bank Canadian Index Linked Note  
 TD Bank Fix-8 North American Linked Note  
 TD Bank North American Linked Note  
 TD Bank US Index Linked Note

#### **Basis for underlying return**

S&P TSX 60 index  
 Twenty North American publicly traded companies  
 Ten North American publicly traded companies  
 Two US equity indices

The Ornge Issuer Trust Bond was reclassified from Level 3 to Level 2 in 2016. Except for the Ornge Issuer Bond, there were no financial instruments that were transferred into or out of Level 1 or 2 during the years ended December 31, 2017 and December 31, 2016. The change in unrealized gains is recorded in net changes in unrealized gains (losses) on the Statements of Comprehensive Income.

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

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## Notes to the Financial Statements

December 31, 2017

### 6. Risks associated with financial instruments (continued)

The reconciliation of financial instruments measured at fair value using unobservable inputs (Level 3) is presented as follows:

<b>Level 3 – Equity-linked notes</b>	<b><u>For the year ended</u> <u>December 31, 2017</u></b>	<b><u>For the year ended</u> <u>December 31, 2016</u></b>
Balance - beginning of year	\$ 47,653,000	\$ 65,474,710
Maturity of Notes	(10,000,000)	(20,000,000)
Increase (decrease) in unrealized gains	1,946,000	2,178,290
Balance - end of year	<u>\$ 39,599,000</u>	<u>\$ 47,653,000</u>

<b>Level 3 – Bonds and treasury bills</b>	<b><u>For the year ended</u> <u>December 31, 2017</u></b>	<b><u>For the year ended</u> <u>December 31, 2016</u></b>
Balance - beginning of year	\$ -	\$5,748,940
Reclassification of bonds from level 2	-	(5,748,940)
Balance - end of year	<u>\$ -</u>	<u>\$ -</u>

### 7. Financial instruments by category

The following table presents the carrying amounts of the Foundation's financial assets by category as at December 31, 2017 and December 31, 2016. All of the Foundation's financial liabilities as at December 31, 2017 and December 31, 2016 were measured at amortized cost.

As at December 31, 2017

#### Financial assets at fair value

	<b><u>Designated at</u> <u>FVTPL</u></b>	<b><u>Financial assets at</u> <u>amortized cost</u></b>	<b><u>Total</u></b>
Investments	\$ 1,093,356,478	\$ -	\$ 1,093,356,478
Cash	-	2,121,393	2,121,393
Accrued interest	-	4,235,105	4,235,105
Dividends receivable	-	1,239,467	1,239,467
Government grants receivable	-	1,341,972	1,341,972
Receivables for securities sold	-	4,791,142	4,791,142
	<u>\$ 1,093,356,478</u>	<u>\$ 13,729,079</u>	<u>\$ 1,107,085,557</u>

As at December 31, 2016

#### Financial assets at fair value

	<b><u>Designated at</u> <u>FVTPL</u></b>	<b><u>Financial assets at</u> <u>amortized cost</u></b>	<b><u>Total</u></b>
Investments	\$ 1,083,057,125	\$ -	\$ 1,083,057,125
Cash	-	3,282,929	3,282,929
Accrued interest	-	4,064,964	4,064,964
Dividends receivable	-	1,203,782	1,203,782
Government grants receivable	-	1,507,811	1,507,811
Receivables for securities sold	-	2,852,690	2,852,690
	<u>\$ 1,083,057,125</u>	<u>\$ 12,912,176</u>	<u>\$ 1,095,969,301</u>

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Notes to the Financial Statements

December 31, 2017

### 7. Financial instruments by category (continued)

Equity-linked notes are recorded at FVTPL. These financial assets are part of a group of financial assets that are managed and their performance evaluated on a fair value basis, in accordance with the documented investment strategy, and information about the financial assets as a group is provided internally on that basis to the Foundation's key management personnel.

### 8. Capital risk management

The capital of the Plans is represented by subscribers' units in the Plans. The units of the Plans are entitled to subscribers' contributions, government grants received and the accumulated income thereon. At maturity or cancellation, subscribers will be entitled to their net contributions, as outlined in the Plans' Prospectus. Restrictions on Subscribers' contributions, are outlined in the Plans' Prospectus and defined by the Income Tax Act (Canada). Restrictions on payments from the Plans are also outlined in the Plans' Prospectus and are dependent on whether the beneficiary qualifies for payments under the Plan. The relevant movements are shown on the Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries. The Foundation endeavors to invest the subscriptions received in

appropriate investments while maintaining sufficient liquidity to meet its obligations.

### 9. Funds for Scholarship Enhancements and Enrichment

Under the terms of the Scholarship Plan agreements, there are specified periods, whereby investment income is accrued to the beneficiaries (typically to Maturity Date which is an earlier date than the payment of Educational Assistance Payments). Investment income after Maturity Date and other discretionary contributions made by the Scholarship Plan Dealer in any year are excluded from comprehensive income.

These amounts are then allocated to funds for Scholarship Enhancements and Enrichment for additional Educational Assistance Payments, the timing of which is at the discretion of the Foundation's Trustees. The Trustees determine the amount of any Scholarship Enhancements and Enrichment on an annual basis. The payments of Scholarship Enhancements and Enrichments are included as distributions to beneficiaries in the Statement of Changes in Net Assets Attributable to Subscribers and Beneficiaries.

The balance of the funds for Scholarship Enhancements and funds for Enrichment at each year end is determined as follows:

#### *Funds for Scholarship Enhancements*

	<b><u>For the year ended</u></b> <b><u>December 31, 2017</u></b>	<u>For the year ended</u> <u>December 31, 2016</u>
Balance, beginning of year	<b>\$ 8,083,953</b>	\$ 6,446,413
Interest and dividend income after maturity date	<b>4,234,227</b>	5,467,125
Investment income earned on fund balance	<b>72,364</b>	63,984
Return of sales charges	<b>(227,911)</b>	(228,048)
Net change in unrealized (losses) gains	<b>31,522</b>	(13,527)
Additional educational assistance payments	<b>(3,965,961)</b>	(3,651,994)
Balance, end of year	<b>\$ 8,228,194</b>	\$ 8,083,953

#### *Funds for Enrichment*

	<b><u>For the year ended</u></b> <b><u>December 31, 2017</u></b>	<u>For the year ended</u> <u>December 31, 2016</u>
Balance, beginning of year	<b>\$ 90,089</b>	\$ 54,598
Interest and dividend income after maturity date	<b>41,619</b>	50,945
Investment income earned on fund balance	<b>822</b>	486
Return of sales charges	<b>(16,318)</b>	(15,940)
Balance, end of year	<b>\$ 116,212</b>	\$ 90,089

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Notes to the Financial Statements

December 31, 2017

### 10. Education assistance payments

	<b>2017</b>	<b>2016</b>
Number of units		
First scholarship	<b>17,265</b>	14,288
Second scholarship	<b>13,754</b>	11,530
Third scholarship	<b>10,443</b>	9,841
Amount of scholarships per unit		
First scholarship	<b>\$500</b>	\$530
Second scholarship	<b>\$500</b>	\$530
Third scholarship	<b>\$500</b>	\$530

The education assistance payments comprise the specified per unit scholarship payments as well as additional payments of \$2,140,600 (2016 - \$2,073,423) for students where the qualifying programs are less than four full years.

The Foundation also made education assistance payments of \$582,172 (2016 - \$616,910) and \$145,030 (2016 - \$127,370) for students enrolled in plans under the self-initiated option and Achievers plans, respectively.

Under the Group Option Plan, a beneficiary may advance the year of eligibility to an earlier year. Such advancement may result in a present valued education assistance payment. In addition, late applications for education assistance payments are subject to fees. The adjustments to scholarship payments as a result of the above amounted to \$212,845 (2016 - \$207,813). During the year, scholarships for late applications totaling \$710,306 were paid based on the 2016 Scholarship rate. Total scholarships paid in 2017 for 41,462 units (2016 - 35,659 units) of \$500 per unit (2016 - \$530), net of the above adjustments, and including the payments of \$2,140,600 (2016 - \$2,073,423), \$582,172 (2016 - \$616,910) and \$145,030 (2016 - \$127,370) for programs less than 4 years, payments under the self-initiated option and Achievers plans respectively, were \$24,096,263 (2016 - \$22,207,466)

### 11. Related party transactions

#### *Fees to Scholarship Plan Dealer*

The distribution and administration of the Plans is carried out on behalf of the Foundation by the Scholarship Plan Dealer, Children's Education Funds Inc. By agreement with the Foundation, the Scholarship Plan Dealer has been appointed as exclusive distributor and administrator of the Plans. Under the terms of a distribution and administration agreement and in accordance with the Prospectus, the Scholarship Plan Dealer is entitled to receive fees which are approved on an annual basis and consequently, occur at the negotiated exchange amount in accordance with the agreement. Fees charged in the years ended December 31, 2017 and December 31, 2016 are as follows:

	<b>For the year ended December 31, 2017</b>	<b>For the year ended December 31, 2016</b>
<i>Paid directly by subscriber</i>		
Sales charges	<b>\$ 2,836,642</b>	\$ 3,318,060
Group insurance premiums	<b>2,376,334</b>	2,692,516
Depository fees	<b>1,240,499</b>	1,068,362
Annual administration fees on subscriber deposits	<b>5,302,110</b>	5,383,305
Service charges	<b>1,122,377</b>	1,083,852
<i>Deducted from Foundation's income</i>		
Administration fees	<b>\$ 479,625</b>	\$ 303,440

#### *Independent Review Committee and Directors' Fees*

The total remuneration paid to members of the Independent Review Committee and Directors during the year ended December 31, 2017 were \$31,190 (2016 - \$ 25,081).

# THE CHILDREN'S EDUCATIONAL FOUNDATION OF CANADA

(relating to a group of Registered Education Savings Plans collectively referred to as The Children's Education Trust of Canada)

## Schedule of Scholarship and Escrow Agreements

December 31, 2017 (Unaudited)

Year of eligibility	Opening units	Inflow units	Outflow units	Closing units	Principal deposits	Investment income	Government grants	Investment income on government grants
Plans eligible for assistance payments						\$20,547,811	\$16,706,229	\$12,249,117
2018	38,016	6	11,941	26,081	\$7,686,195	23,737,181	12,634,470	6,948,639
2019	32,811	9,447	-	42,258	77,964,411	33,604,239	20,120,847	9,696,258
2020	35,430	4	255	35,179	61,006,619	22,892,801	15,801,566	6,484,208
2021	39,745	-	377	39,368	61,991,974	21,518,996	16,260,271	6,135,693
2022	40,545	10	412	40,143	58,264,472	18,613,638	15,912,685	5,465,695
2023	43,602	17	614	43,005	56,659,598	16,399,568	18,326,461	5,897,016
2024	44,324	68	557	43,835	51,278,693	13,730,470	18,559,343	6,167,375
2025	43,331	111	835	42,607	45,273,645	10,648,291	17,008,513	5,217,011
2026	37,204	109	618	36,695	35,096,804	7,101,768	13,449,616	3,602,405
2027	33,886	207	780	33,313	27,758,503	4,941,672	11,089,254	2,666,629
2028	30,238	179	712	29,705	21,569,109	3,189,551	8,926,226	1,914,847
2029	27,473	148	821	26,800	16,449,610	2,045,282	7,159,002	1,356,416
2030	24,563	336	576	24,323	12,182,808	1,232,288	5,555,537	923,478
2031	21,077	555	706	20,926	8,316,822	634,446	3,984,584	518,135
2032	16,340	442	427	16,355	4,910,664	265,555	2,546,891	267,343
2033	12,360	958	696	12,622	2,210,763	92,020	1,488,604	125,977
2034	9,966	1,368	537	10,797	983,252	31,753	852,431	43,719
2035	5,187	3,988	741	8,434	329,975	10,414	406,502	8,779
2036	-	5,400	205	5,195	74,613	1,438	72,256	634
Self-initiated	3,526	848	511	3,863	6,980,443	3,338,859	4,356,484	2,059,559
Achievers	56,392	2,358	5,226	53,524	8,624,621	1,197,741	3,619,857	717,070
	<u>596,016</u>	<u>26,559</u>	<u>27,547</u>	<u>595,028</u>	<u>\$565,613,594</u>	<u>205,775,782</u>	<u>\$214,837,629</u>	<u>78,466,003</u>
Unrealized gains(losses)						<u>20,921,769</u>		<u>803,367</u>
						<u>\$226,697,551</u>		<u>\$79,269,370</u>

Represented by:

Scholarship agreements	563,557,122	225,727,534
Escrow agreements	2,056,472	970,017
	<u>\$565,613,594</u>	<u>\$226,697,551</u>

Note: Subscriber deposits held are fully refundable to subscribers



THE CHILDREN'S EDUCATION  
TRUST OF CANADA  
Offered to the public by  
CHILDREN'S EDUCATION FUNDS INC.

Administered by  
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