

# Canadian Scholarship Trust **Founders' Plan**

Semi-Annual Financial Statements  
April 30, 2010  
Unaudited



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# Statements of Net Assets Available for Education Assistance Payments

As at April 30, 2010 and October 31, 2009 (in thousands of dollars)

	Apr 30, 2010	Oct 31, 2009
		(Audited)
<b>Assets</b>		
Investments, at fair value <i>(Note 4 and Schedule I)</i>	\$ 299,599	\$ 315,350
Cash and cash equivalents	18,217	10,867
Short-term investments	22,975	27,474
Accrued interest and other receivables	5,113	4,771
Receivables for securities sold	71	175
Government grants receivable	119	136
	<b>346,094</b>	<b>358,773</b>
<b>Liabilities</b>		
Accounts payable, accrued liabilities and unclaimed contributors’ funds	958	560
Payables for securities purchased	560	572
Contributors’ deposits <i>(Note 6)</i>	152,868	160,637
	<b>154,386</b>	<b>161,769</b>
<b>Net Assets Available for Education Assistance Payments</b>	<b>191,708</b>	<b>197,004</b>
<b>Represented by:</b>		
<b>Non-Discretionary Funds</b>		
Accumulated interest held for future education assistance payments	138,605	141,180
Government grants	34,957	35,081
Interest on government grants	14,230	13,755
General Fund <i>(Note 7)</i>	1,447	364
<b>Unrealized Gains</b>	<b>1,953</b>	<b>6,108</b>
<b>Discretionary Funds</b>		
Donations from the Foundation <i>(Note 7)</i>	516	516
	<b>\$ 191,708</b>	<b>\$ 197,004</b>

# Statements of Investment Operations

For the six months ended April 30, 2010 and 2009 (in thousands of dollars)

	Apr 30, 2010	Apr 30, 2009
<b>Income</b>		
Interest income	\$ 5,807	\$ 5,881
Realized gains	403	949
	<b>6,210</b>	<b>6,830</b>
<b>Expenses</b>		
Plan administration and processing fees <i>(Note 3(a))</i>	491	570
Financial reporting <i>(Note 3(a))</i>	232	270
Portfolio management fees	217	164
Custodian fees	21	24
Trustee fees	13	12
	<b>974</b>	<b>1,040</b>
<b>Net Investment Income</b>	<b>5,236</b>	<b>5,790</b>
<b>Decrease in Unrealized Gains/Losses</b>	<b>(4,155)</b>	<b>(168)</b>
<b>Increase in Net Assets from Investment Operations</b>	<b>\$ 1,081</b>	<b>\$ 5,622</b>

# Statements of Changes in Net Assets Available for Education Assistance Payments

For the six months ended April 30, 2010 and 2009 (in thousands of dollars)

	Apr 30, 2010	Apr 30, 2009
<b>Net Assets Available for Education Assistance Payments, Beginning of Period</b>	<b>\$ 197,004</b>	<b>\$ 217,999</b>
<b>Increase in Net Assets from Investment Operations</b>	<b>1,081</b>	<b>5,622</b>
Transfers to internal and external plans	<b>(2,430)</b>	<b>(2,677)</b>
	<b>(1,349)</b>	<b>2,945</b>
<b>Receipts</b>		
Government grants received (net of repayments)	<b>616</b>	<b>837</b>
<b>Disbursements</b>		
Payments to beneficiaries		
Education assistance payments	<b>(3,968)</b>	<b>(3,804)</b>
Government grants	<b>(346)</b>	<b>(304)</b>
Return of interest	<b>(249)</b>	<b>(203)</b>
	<b>(4,563)</b>	<b>(4,311)</b>
<b>Receipts less Disbursements</b>	<b>(3,947)</b>	<b>(3,474)</b>
<b>Decrease in Net Assets Available for Education Assistance Payments</b>	<b>(5,296)</b>	<b>(529)</b>
<b>Net Assets Available for Education Assistance Payments, End of Period</b>	<b>\$ 191,708</b>	<b>\$ 217,470</b>

# Statements of Cash Flows

For the six months ended April 30, 2010 and 2009 (in thousands of dollars)

	Apr 30, 2010	Apr 30, 2009
<b>Operating Activities</b>		
Increase in Net Assets from Investment Operations	\$ 1,081	\$ 5,622
Items not affecting cash		
Realized gains on sale of investments	(403)	(949)
Decrease in Unrealized Gains/Losses	4,155	168
Changes in other operating activities		
(Increase) decrease in Accrued interest and other receivables	(342)	41
Decrease (increase) in Government grants receivable	17	(87)
Increase in Accounts payable, accrued liabilities and unclaimed contributors’ funds	398	290
Net proceeds on sale of investments	16,498	1,904
Decrease (increase) in Receivables for securities sold	104	(81)
Decrease in Payables for securities purchased	(12)	(2,595)
<b>Cash flow from Operating Activities</b>	<b>21,496</b>	<b>4,313</b>
<b>Financing Activities</b>		
Transfers to internal and external plans	(2,430)	(2,677)
Government grants received	616	837
Decrease in Contributors’ deposits <i>(Note 6)</i>	(7,769)	(10,728)
Payments to beneficiaries	(4,563)	(4,311)
<b>Cash flow from Financing Activities</b>	<b>(14,146)</b>	<b>(16,879)</b>
<b>Net increase (decrease) in Cash and cash equivalents</b>	<b>7,350</b>	<b>(12,566)</b>
<b>Cash and cash equivalents, Beginning of Period</b>	<b>10,867</b>	<b>17,167</b>
<b>Cash and cash equivalents, End of Period</b>	<b>\$ 18,217</b>	<b>\$ 4,601</b>

# Schedule I – Statement of Investment Portfolio

As at April 30, 2010 (in thousands of dollars)

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds</b>			
<b>Federal – 50.4%</b>			
Government of Canada			
2.75% 1 Dec 2010	8,235	8,325	8,452
1.25 1 Jun 2011	14,855	14,841	14,914
3.00 1 Jun 2014	505	509	512
5.00 1 Jun 2014	105	114	111
3.00 1 Dec 2015	1,650	1,639	1,630
4.25 1 Jun 2018	410	432	464
3.75 1 Jun 2019	4,572	4,632	4,678
8.00 1 Jun 2027	825	1,233	1,098
5.75 1 Jun 2029	1,000	1,228	1,108
5.75 1 Jun 2033	8,010	10,040	8,736
5.00 1 Jun 2037	6,516	7,575	7,572
4.00 1 Jun 2041	2,298	2,311	2,295
Business Development Bank of Canada			
4.75 26 Jul 2021	425	450	424
Canada Housing Trust			
0.44 15 Sep 2010	515	515	515
4.60 15 Sep 2011	5,944	6,179	6,227
4.00 15 Jun 2012	12,050	12,493	12,494
4.80 15 Jun 2012	1,885	1,985	1,885
4.55 15 Dec 2012	7,850	8,257	8,100
0.39 15 Jun 2013	3,295	3,284	3,270
3.95 15 Jun 2013	5,000	5,182	4,992
3.15 15 Jun 2014	8,263	8,290	8,424
0.80 15 Sep 2014	2,385	2,416	2,403
2.75 15 Dec 2014	5,161	5,066	5,141
0.48 15 Mar 2015	4,495	4,510	4,503
2.95 15 Mar 2015	1,741	1,718	1,740
4.10 15 Dec 2018	3,000	3,057	3,035
3.75 15 Mar 2020	1,036	1,018	1,027
Farm Credit Corporation			
4.55 12 Apr 2021	820	856	814
Ontario Infrastructure			
3.95 3 Jun 2013	236	242	236
4.70 1 Jun 2037	207	190	205
		118,587	117,005
<b>Municipal and Provincial – 37.0%</b>			
55 School Board Trust Series A Secured Debenture			
5.90 2 Jun 2033	125	135	127
City of Toronto			
4.95 27 Jun 2018	340	352	339
Alberta Capital Finance			
4.45 15 Dec 2025	2,574	2,487	2,483
Province of British Columbia			
5.75 9 Jan 2012	6,150	6,534	6,769
4.25 18 Jun 2014	4,250	4,431	4,545
5.60 1 Jun 2018	700	772	769
4.10 18 Dec 2019	1,018	1,006	1,012
4.80 15 Jun 2021	105	108	106
8.75 19 Aug 2022	239	334	348
5.70 18 Jun 2029	2,011	2,246	2,207
4.70 18 Jun 2037	225	222	227
4.95 18 Jun 2040	220	227	231

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds (continued)</b>			
<b>Municipal and Provincial – 37.0% (continued)</b>			
Province of Manitoba			
4.75% 11 Feb 2020	1,519	1,569	1,531
Province of New Brunswick			
4.55 26 Mar 2037	627	593	610
Province of Newfoundland			
5.60 17 Oct 2033	149	163	164
4.50 17 Apr 2037	886	834	851
Province of Nova Scotia			
5.80 1 Jun 2033	1,413	1,575	1,438
Province of Ontario			
0.29 3 Dec 2010	535	535	534
4.50 8 Mar 2015	1,175	1,230	1,227
4.40 8 Mar 2016	4,660	4,831	4,716
4.30 8 Mar 2017	970	992	926
4.40 2 Jun 2019	4,562	4,605	4,617
8.10 8 Sep 2023	2,500	3,373	3,167
6.50 8 Mar 2029	1,080	1,303	1,292
6.20 2 Jun 2031	1,593	1,875	1,907
5.85 8 Mar 2033	5,175	5,861	5,361
5.60 2 Jun 2035	4,705	5,202	5,414
4.70 2 Jun 2037	6,740	6,598	6,723
4.60 2 Jun 2039	755	730	738
Province of Quebec			
0.41 16 Sep 2013	3,450	3,425	3,461
0.42 10 Dec 2013	680	677	682
0.35 1 Dec 2014	4,720	4,657	4,720
4.50 1 Dec 2016	190	197	199
4.50 1 Dec 2018	95	97	91
5.00 1 Dec 2018	340	349	337
4.50 1 Dec 2019	4,387	4,424	4,471
11.00 15 Aug 2020	612	937	968
4.50 1 Dec 2020	195	195	193
5.75 1 Dec 2036	2,270	2,531	2,449
5.00 1 Dec 2038	4,435	4,478	4,455
Province of Saskatchewan			
5.25 3 Jun 2014	1,500	1,620	1,529
4.65 5 Sep 2017	399	417	409
6.40 5 Sep 2031	1,500	1,821	1,759
4.75 1 Jun 2040	400	401	401
		86,949	86,503
<b>Corporate – 11.0%</b>			
Bank of Montreal			
4.63 29 Dec 2049	500	506	500
5.47 31 Dec 2049	960	1,014	970
6.65 31 Dec 2049	1,564	1,613	1,595
Bank of Nova Scotia			
7.31 31 Dec 2010	1,500	1,554	1,575
6.63 30 Jun 2012	950	1,020	1,004
Canadian Imperial Bank of Commerce			
5.00 10 Sep 2012	900	945	898
3.10 2 Mar 2015	1,000	973	998
European Investment Bank			
4.60 30 Jan 2037	1,920	1,749	1,919

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

# Schedule I – Statement of Investment Portfolio (continued)

As at April 30, 2010 (in thousands of dollars)

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds (continued)</b>			
<b>Corporate – 11.0% (continued)</b>			
GE Capital Canada			
4.38% 28 Sep 2012	2,650	2,739	2,647
Manulife Financial Capital Trust			
6.70 30 Jun 2012	1,430	1,535	1,493
7.41 31 Dec 2108	990	1,131	990
Merrill Lynch Financial Assets			
4.82 12 Feb 2015	830	817	863
4.62 12 Nov 2015	250	239	250
4.85 12 Dec 2015	615	620	615
4.48 12 Jul 2037	350	336	350
Ontrea Inc.			
5.57 9 Apr 2013	321	344	341
PSP Capital Inc.			
4.57 9 Dec 2013	1,584	1,661	1,606
RBC Capital Trust			
4.87 29 Dec 2049	750	771	750
5.81 31 Dec 2053	2,150	2,297	2,150
Real Estate Asset Liquidity Series Class A			
4.62 12 Sep 2016	440	428	440
5.08 12 Oct 2036	355	358	355
Royal Office Finance			
5.21 12 Nov 2032	664	670	663
Sun Life Capital Trust			
6.87 31 Dec 2011	1,900	2,024	1,991
Toronto Community Housing Corporation			
4.88 11 May 2037	91	84	91
5.40 22 Feb 2040	271	272	271
Transcanada Pipelines			
5.65 15 Jan 2014	200	216	199
		25,916	25,524
<b>Plan Investments – 98.4%</b>		<b>231,452</b>	<b>229,032</b>
<b>Plan Cash and Short-term Investments – 1.6%</b>		3,884	3,884
<b>Plan Portfolio Assets – 100.0%</b>		<b>235,336</b>	<b>232,916</b>
<b>Investments Allocation (Note 4)</b>			
<b>Government Grants (Appendix I)</b>		46,591	46,668
<b>Canadian Scholarship Trust Scholarship Pool (Appendix II)</b>		21,556	21,946
<b>Cash and Short-term Investments (Appendices I &amp; II)</b>		37,308	37,308
<b>Total Investment Fund</b>		<b>340,791</b>	<b>338,838</b>
<b>Represented by :</b>			
<b>Investments, at fair value</b>		299,599	
<b>Cash and cash equivalents</b>		18,217	
<b>Short-term Investments</b>		22,975	
		<b>340,791</b>	

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

# Notes to the Financial Statements

(Unaudited) (in thousands of dollars)

## Note 1. Nature of Operations

The Canadian Scholarship Trust Founders’ Plan (“Founders’ Plan” or the “Plan”) is a Pooled Education Savings Plan, established on September 1, 1988. The objective of Founders’ Plan is to assist parents and others to save for the post-secondary education of children.

Deposits are made by a contributor to an account maintained by the depository trustee on behalf of a beneficiary. The contributor authorizes deductions of enrolment fees from deposits and depository charges from their principal deposit balance. The principal accumulated over the term of the education savings plan agreement is returned to the contributor when the plan matures and the beneficiary is a qualified student, or upon termination. The investment income earned on such principal deposits until maturity is used to provide education assistance payments to qualified students. A beneficiary is deemed to be a qualified student upon receipt by the Canadian Scholarship Trust Foundation (the “Foundation”) of evidence of enrolment in a qualifying educational program at an eligible institution.

Effective January 1, 2005, the Federal Government enhanced the Canada Education Savings Grant Program (“CESG”) whereby Registered Education Savings Plans (“RESPs”) receive grant amounts dependent on family income. Any child may be eligible for the subsequent Alberta Centennial Education Savings Grant (“ACES”) if attending school in Alberta at certain eligible ages.

On February 21, 2007, the Québec government introduced the Québec Education Savings Incentive (“QESI”) for beneficiaries who are under eighteen years of age and reside in Québec on December 31 of each year. The amount of QESI to be received by a beneficiary will depend on annual family income.

The Founders’ Plan receives the CESG, ACES and QESI (collectively, “Government Grants”) which are paid directly into a beneficiary’s RESP and invests these funds in accordance with the Plan’s investment policies. The Government Grants along with investment income earned thereon are paid to qualified students.

Contributor education savings plan contracts (“agreements”) are registered, if all required information is provided, with appropriate government authorities and, once registered, are subject to the rules for RESPs under the *Income Tax Act* (Canada). The current tax legislation provides that income credited on contributors’ deposits is not taxable income of the contributor. The deposits are not deductible for income tax purposes and are not taxable when returned to the contributor. Payments made to a qualified student will constitute taxable income of that student in the year that the payments are made.

The Founders’ Plan is administered through the Foundation and its wholly-owned subsidiary, C.S.T. Consultants Inc. (“C.S.T.C.”). The Foundation was created to encourage and promote post-secondary education by making education savings plans available to Canadian families.

## Note 2. Significant Accounting Policies

### (a) Generally accepted accounting principles

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

### (b) Adoption of accounting standards

#### i. Amendments to Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862

In June 2009, the Canadian Accounting Standards Board (“AcSB”) approved amendments to CICA Handbook Section 3862 “Financial Instruments – Disclosures.” The amendments require publicly accountable enterprises to classify fair value measurements based on 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 observable inputs other than quoted prices included in Level 1. “Level 3” financial instruments are valued using unobservable inputs for the asset or liability. The breakdown of the Plan’s Total Investment Fund into the three-level hierarchy is provided in Note 8. Adoption of the amendments did not impact the financial results of the Plan.

#### ii. EIC-173

In January 2009, the CICA’s Emerging Issues Committee issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (“EIC-173”). EIC-173 requires that an entity’s own credit risk and the risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Management has reviewed its policies concerning valuation of assets and liabilities and believes that the fair values ascribed to the financial assets and financial liabilities in the Plan’s financial statements incorporate appropriate levels of credit risk.

### (c) Future accounting standards

In February 2008, the Canadian AcSB confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for publicly accountable enterprises. IFRS will replace Canadian GAAP and becomes effective for the Plan’s interim and annual financial statements relating to fiscal year ending October 31, 2012. Management is in the process of developing a transition plan, which will include identifying differences between the Plan’s current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the financial statements of the Plan.

### (d) Investment valuation

All bonds are carried at fair value, using bid prices at period end. Fair value represents the amount at which a security could be exchanged in an arms’ length transaction and is best evidenced by a quoted bid price, if one exists. If quoted market prices are not



# Notes to the Financial Statements (continued)

(Unaudited) (in thousands of dollars)

## Note 2. Significant Accounting Policies (continued)

### (d) Investment valuation (continued)

available, the fair values presented are estimates derived using present value or other valuation techniques. Such techniques include assumptions related to the assessment and quantification of market, credit, liquidity and currency risks referred to in Note 5.

Variable rate securities are hybrid financial debt instruments issued by governments, Canadian chartered banks and licensed trust and loan companies that have embedded components that change the risk/return profile of the security. Included in this class are structured notes that are debt instruments whose returns are based on indices or underlying assets rather than typical interest payments. Variable rate securities are carried at fair values using external pricing models to value their components.

Short-term notes are carried at fair value.

### (e) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Interest income on investments is recognized using the effective interest method. Realized gains (losses) on the sale of investments and change in unrealized gains (losses) on investments are calculated with reference to the average cost of the related investments and are recognized in the period that such gains (losses) occur.

### (f) Contributors’ deposits and Depository charges

Contributors’ deposits reflect amounts received from contributors net of enrolment fees and depository charges and do not include future amounts receivable on outstanding agreements. Depository charges are paid annually to the Foundation by contributors of the Founders’ Plan from their contributors’ deposits. These charges are accrued throughout the period.

### (g) Income taxes

The Founders’ Plan is exempt from income taxes under Section 146.1 of the *Income Tax Act* (Canada).

### (h) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with a purchase date to maturity of 90 days or less.

### (i) Use of estimates

In preparing the financial statements, management is required to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the current estimates. Significant estimates included in these financial statements relate to valuation of certain investments.

## Note 3. Related Party Transactions

### (a) Administration of the Founders’ Plan

The Foundation has appointed its wholly-owned subsidiary, C.S.T.C., to administer the Founders’ Plan. Depository charges and administration fees (comprising Plan administration and processing fees and Financial reporting expenses) are paid to the Foundation. Administration fees are annual fees of ½ of 1% of the total amount of principal, Government Grants and income earned thereon and are paid monthly.

### (b) Other Related Party Transactions

The Foundation retains the services of Greystone Managed Investments Inc., an investment management firm and wholly-owned subsidiary of Greystone Capital Management Inc. (“Greystone”). As at April 30, 2010, two directors of the Foundation are members of the Board of Greystone. Total ownership of Greystone equity held by the directors is 0.645% (October 31, 2009 – 0.95%). The directors do not participate in any of the Foundation’s Board deliberations concerning the investment management of the Plan, nor do they vote on any resolutions recommended by the Investment Committee of the Foundation.

The Portfolio management fees in the Statements of Investment Operations include fees paid or payable to Greystone of \$43 (2009 – \$49). Included in Accounts payable, accrued liabilities and unclaimed contributors’ funds in the Statements of Net Assets Available for Education Assistance Payments are the accrued amounts owing to Greystone as at April 30, 2010 of \$29 (October 31, 2009 – \$33).

## Note 4. Investment Holdings

The investment holdings are disclosed in Schedule I – Statement of Investment Portfolio and the related Appendices I and II to the schedule which are explained below.

The Government Grants received from Human Resources and Skills Development Canada are collectively invested together with other C.S.T.C. administered plans. The principal and income received are separately tracked for each contributor’s agreement. The portfolio holdings are allocated across all plans based on the proportion of principal and income attributable to agreements within each plan. The Government Grant allocation across the plans is provided in Appendix I to Schedule I.

Upon maturity of each agreement, the investment income accumulated to-date attributable to that agreement is transferred to the Canadian Scholarship Trust Scholarship Pool (the “Pool”), a shared investment pool with Plan II, another plan administered by C.S.T.C. (see Appendix II to Schedule I). From a contributor’s perspective, the income that is transferred is tracked by plan and by year of eligibility. The portfolio holdings of the Pool are allocated based on the Plan’s proportionate share of income remaining in the Pool. Income earned on the Pool is credited to the General Fund (Note 7).

# Notes to the Financial Statements (continued)

(Unaudited) (in thousands of dollars)

## Note 5. Risks Associated with Financial Instruments

In the normal course of business the Plan may be exposed to a variety of risks arising from financial instruments. The Plan's exposures to such risks are concentrated in its investment holdings and are related to market risk (which includes interest rate risk and other price risk), credit risk, liquidity risk and currency risk.

The Plan's risk management process includes monitoring compliance with the Plan's investment policy. The Plan manages the effects of these financial risks to the Plan portfolio performance by retaining and overseeing professional external investment managers. The investment managers regularly monitor the Plan's positions, market events and manage the investment portfolio within the constraints of the investment policy.

### (a) Market risk

#### i. Interest rate risk

Interest rate risk is the risk of a decrease in the Plan's yield on interest-bearing investments as a result of fluctuations in market interest rates. There is an inverse relationship between changes in interest rates and changes in the fair value of bonds. This risk is actively managed using duration, yield curve analysis, sector and credit selection. There is reduced risk to interest rate changes for cash and cash equivalents due to their short-term nature.

The Plan's holdings of debt instruments by maturity are as follows:

Debt Instruments by Maturity Date	% of Total Investment Fund	
	Apr 30, 2010	Oct 31, 2009
Less than 1 year (including short-term investments)	17%	25%
1-3 years	23%	22%
3-5 years	19%	14%
Greater than 5 years	41%	39%
<b>Total debt instruments</b>	<b>100%</b>	<b>100%</b>

As at April 30, 2010, if prevailing interest rates had increased or decreased by 1%, the Total Investment Fund amount of \$340,791 (October 31, 2009 – \$353,691) as per Schedule I – Statement of Investment Portfolio – would have decreased or increased by approximately \$19,826. (October 31, 2009 – \$16,677) This 1% change assumes a parallel shift in the yield curve with all other variables held constant. In practice, the actual trading results may differ materially.

#### ii. Other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, other than those arising from interest rate risk. Factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment affect other price risk. The asset class that is most impacted by other price risk is variable rate securities which represent 1% (October 31, 2009 – 9%) of the Total Investment Fund amount as at April 30, 2010.

The risk is managed by security selection and active management by external managers within approved investment policies and manager mandates.

As at April 30, 2010, if underlying indices prices had increased or decreased by 1%, with all other variables held constant, the Total Investment Fund amount as per the Statement of Investment Portfolio would have increased or decreased by approximately \$4 (October 31, 2009 – \$22). In practice, the actual trading results may differ materially.

### (b) Credit risk

Credit risk refers to the ability of the issuer of debt securities to make interest payments and repay principal. The Plan's portfolio comprises bonds issued or guaranteed by federal or provincial governments along with corporate debt instruments with a minimum approved credit rating as set by the Canadian Securities Administrators, currently A-low. Founders' Plan has a concentration of investments in government and government guaranteed bonds, which are considered to be high credit quality investments thereby moderating credit risk.

The Plan's credit risk exposure is listed below.

Credit rating	Apr 30, 2010		Oct 31, 2009	
	% of Total Investment Fund	Amount (in thousands)	% of Total Investment Fund	Amount (in thousands)
AAA/AAH/AAL	67%	\$ 228,542	59%	\$ 208,344
AA/AH/AL	16%	55,601	25%	87,769
A	5%	15,021	5%	18,568
R-1	12%	41,590	10%	36,535
Short-term unrated	0%	37	1%	2,475
<b>Total Investment Fund</b>	<b>100%</b>	<b>\$ 340,791</b>	<b>100%</b>	<b>\$ 353,691</b>

The Dominion Bond Rating Service was the primary source for obtaining credit ratings. Secondary sources used included Standard & Poor's and Moody's.

### (c) Liquidity risk

Liquidity risk is the risk that the Plan may not be able to meet its obligations on time. The Plan's exposure to liquidity risk is concentrated in principal repayments to subscribers and payments of Education Assistance Payments. The Plan primarily invests in securities that are traded in the active markets and can be readily disposed. The Plan retains sufficient cash and cash equivalents positions to meet liquidity requirements by utilizing cash forecasting models incorporating aging of Accumulated interest and Contributors' deposits. All other financial liabilities are short term and due within one year.

### (d) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Plan is not exposed to currency risk as it only holds Canadian securities.

# Notes to the Financial Statements (continued)

(Unaudited) (in thousands of dollars)

## Note 6. Contributors' Deposits

The changes in Contributors' deposits for the six months ended April 30, 2010 and 2009 are as follows:

	Apr 30, 2010	Apr 30, 2009
Payments from contributors	\$ 3,612	\$ 4,676
Inter-Plan principal transfers	(3,009)	(3,608)
Depository charges	(130)	(171)
Return of principal	(8,242)	(11,625)
<b>Net decrease in Contributors' deposits</b>	<b>(7,769)</b>	<b>(10,728)</b>
<b>Balance, Beginning of Period</b>	<b>160,637</b>	<b>197,602</b>
<b>Balance, End of Period</b>	<b>\$ 152,868</b>	<b>\$ 186,874</b>

## Note 7. General Fund and Donations from the Foundation

The Canadian Scholarship Trust (the "Canadian Trust") is a legal trust registered with Canada Revenue Agency as an Education Savings Plan. Included in the Canadian Trust are Plan I, Plan II and Founders' Plan (the "Plans"). According to the trust indenture, the General Fund may be used to subsidize Education Assistance Payments for qualified students to any of the Plans within the Canadian Trust.

The General Fund derives its income from the following sources:

- i) interest earned on Contributors' deposits and Accumulated interest from the date of maturity to the date the funds are paid to qualified students as Education Assistance Payments;
- ii) interest earned on the interest forfeited when a Contributor's plan is terminated prior to maturity;
- iii) income not collected by beneficiaries before the expiry of the benefit period;
- iv) unclaimed principal and income payments; and
- v) interest earned on the Government Grants applicable to terminated plans. Effective July 1, 2005 government regulations do not allow for the allocation of this interest to the General Fund. Any interest earned thereon is payable to a designated educational institution.

Donations from the Foundation represent a discretionary pool of funds shared between Plan II and Founders' Plan. These funds are used to supplement Education Assistance Payments when the General Fund is depleted. The amount is annually allocated between the above plans according to the payout forecast in each plan.

In accordance with the policy on Transferring General Fund and Donations Between Plans within the same legal trust and based on the forecast liability for Plan II, there will be approximately \$5 million available for transfer to Founders' Plan over a four year period. The forecast will be updated and reviewed annually.

## Note 8. Fair Value of Financial Instruments

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Investments and Cash equivalents are carried at fair value as set out in Note 2. The carrying values of other financial instruments such as Accrued interest and other receivables, Receivables for securities sold, Government grants receivable, Accounts payable, accrued liabilities and unclaimed contributors' funds, Payables for securities purchased and Contributors' deposits approximate their fair values as these financial instruments are short term in nature.

The following table presents the Plan's financial instruments measured at fair value classified by the fair value hierarchy set out in CICA Section 3862 as described in Note 2(b).

### Assets Measured at Fair Value as of April 30, 2010

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 18,217	\$ -	\$ -	\$ 18,217
Short-term Investments	-	22,975	-	22,975
Fixed Income Securities	-	297,088	-	297,088
Variable Rate Securities	-	-	2,511	2,511
<b>Total Investment Fund</b>	<b>\$ 18,217</b>	<b>\$ 320,063</b>	<b>\$ 2,511</b>	<b>\$ 340,791</b>

### Assets Measured at Fair Value as of October 31, 2009

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 10,867	\$ -	\$ -	\$ 10,867
Short-term Investments	-	27,474	-	27,474
Fixed Income Securities	-	282,638	-	282,638
Variable Rate Securities	-	-	32,712	32,712
<b>Total Investment Fund</b>	<b>\$ 10,867</b>	<b>\$ 310,112</b>	<b>\$ 32,712</b>	<b>\$ 353,691</b>

The Plan's financial instruments classified as Level 3 represent the Plan's investment in Equity Linked Notes, which are principal protected by a major Canadian Bank (DBRS rating "AA"). Equity linked notes are hybrid securities comprised of a bond and an option. The price of the variable rate securities is derived from the information on similar publicly traded bonds and options using standard pricing methodology. No alternative pricing methodology is deemed possible.

### Level 3 – Variable Rate Securities

	Apr 30, 2010	Oct 31, 2009
Opening Balance	\$ 32,712	\$ 144,000
Net Sales	(30,189)	(86,402)
Decrease in Unrealized Gains/Losses	(12)	(24,886)
<b>Closing Balance</b>	<b>\$ 2,511</b>	<b>\$ 32,712</b>

# Government Grants

(Appendix I to Schedule I)

## Statement of Investment Portfolio

As at April 30, 2010 (in thousands of dollars)

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds</b>			
<b>Federal – 44.7%</b>			
Government of Canada			
3.75% 1 Jun 2010	5,065	5,079	5,247
2.75 1 Dec 2010	41,550	42,006	42,676
1.25 1 Jun 2011	28,080	28,054	28,161
3.00 1 Jun 2014	10,285	10,357	10,596
4.10 1 Jul 2015	2,000	1,720	1,742
3.00 1 Dec 2015	4,965	4,932	4,905
4.00 1 Jun 2017	4,225	4,397	4,334
4.25 1 Jun 2018	750	791	848
3.75 1 Jun 2019	14,975	15,171	15,465
3.55 1 Sep 2019	4,051	3,818	3,882
5.75 1 Jun 2033	4,475	5,609	5,490
5.00 1 Jun 2037	22,678	26,362	26,308
4.00 1 Jun 2041	6,984	7,024	6,973
Business Development Bank of Canada			
4.75 26 Jul 2021	175	185	175
Canada Housing Trust			
4.60 15 Sep 2011	20,958	21,786	21,899
4.00 15 Jun 2012	7,955	8,247	7,928
4.80 15 Jun 2012	2,785	2,933	2,788
4.55 15 Dec 2012	9,045	9,513	9,444
0.39 15 Jun 2013	3,920	3,906	3,912
3.15 15 Jun 2014	24,729	24,809	25,161
0.80 15 Sep 2014	5,235	5,302	5,277
2.75 15 Sep 2014	5,400	5,318	5,444
2.75 15 Dec 2014	16,424	16,122	16,330
2.95 15 Mar 2015	6,224	6,142	6,214
0.48 15 Mar 2015	15,106	15,157	15,130
4.10 15 Dec 2018	4,400	4,483	4,497
3.75 15 Mar 2020	4,935	4,848	4,898
Farm Credit Corporation			
4.55 12 Apr 2021	350	366	347
Ontario Infrastructure			
3.95 3 Jun 2013	877	898	873
4.70 1 Jun 2037	769	705	760
		286,040	287,704
<b>Municipal and Provincial – 27.0%</b>			
55 School Board Trust Series A Secured Debenture			
5.90 2 Jun 2033	501	542	521
City of Montreal			
5.00 1 Dec 2018	635	652	630
City of Toronto			
4.95 27 Jun 2018	635	658	633
Alberta Capital Finance			
4.45 15 Dec 2025	3,185	3,078	3,121
Province of British Columbia			
4.70 1 Dec 2017	2,250	2,355	2,356
4.10 18 Dec 2019	3,300	3,260	3,280
4.80 15 Jun 2021	441	455	442
8.75 19 Aug 2022	801	1,120	1,155
5.70 18 Jun 2029	5,969	6,668	6,496
4.95 18 Jun 2040	525	542	551

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds (continued)</b>			
<b>Municipal and Provincial – 27.0% (continued)</b>			
Province of Manitoba			
4.75% 11 Feb 2020	4,676	4,830	4,661
Province of New Brunswick			
4.55 26 Mar 2037	1,731	1,636	1,658
Province of Newfoundland			
5.60 17 Oct 2033	488	532	533
4.50 17 Apr 2037	2,501	2,355	2,400
Province of Nova Scotia			
5.80 1 Jun 2033	2,421	2,698	2,767
Province of Ontario			
0.29 3 Dec 2010	4,255	4,255	4,248
3.25 8 Sep 2014	2,400	2,394	2,457
4.40 8 Mar 2016	6,408	6,644	6,773
4.30 8 Mar 2017	7,710	7,887	7,415
4.40 2 Jun 2019	9,471	9,560	9,605
6.50 8 Mar 2029	2,990	3,606	3,565
6.20 2 Jun 2031	4,607	5,422	5,466
5.85 8 Mar 2033	4,000	4,530	4,705
5.60 2 Jun 2035	15,895	17,573	18,124
4.70 2 Jun 2037	16,030	15,693	15,990
4.60 2 Jun 2039	2,400	2,322	2,342
Province of Quebec			
6.25 1 Dec 2010	55	57	59
0.43 16 May 2011	550	550	552
0.41 16 Sep 2013	3,275	3,251	3,280
0.42 10 Dec 2013	2,685	2,672	2,680
0.35 1 Dec 2014	6,790	6,699	6,765
4.50 1 Dec 2016	500	518	524
4.50 1 Dec 2017	1,865	1,916	1,828
4.50 1 Dec 2018	2,570	2,618	2,519
4.50 1 Dec 2019	11,282	11,378	11,562
11.00 15 Aug 2020	1,751	2,681	2,746
4.50 1 Dec 2020	530	530	524
5.75 1 Dec 2036	8,265	9,217	9,300
5.00 1 Dec 2038	11,030	11,136	11,009
Province of Saskatchewan			
4.65 5 Sep 2017	1,109	1,160	1,131
6.40 5 Sep 2031	4,218	5,121	5,066
4.75 1 Jun 2040	1,087	1,089	1,071
		171,860	172,510
<b>Corporate – 21.9%</b>			
407 International Inc.			
7.00 26 Jul 2010	2,895	3,501	3,476
Bank of Montreal			
6.02 2 May 2018	3,060	3,387	3,365
4.63 29 Dec 2049	2,900	2,936	2,826
5.47 31 Dec 2049	3,335	3,524	3,518
Bank of Nova Scotia			
6.63 30 Jun 2012	3,435	3,689	3,766
5.04 8 Apr 2013	3,317	3,493	3,535
6.28 29 Dec 2049	1,900	2,048	2,101

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

# Government Grants (continued)

(Appendix I to Schedule I)

## Statement of Investment Portfolio

As at April 30, 2010 (in thousands of dollars)

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds (continued)</b>			
<b>Corporate – 21.9% (continued)</b>			
BCIMC Realty Corporation			
3.38% 29 Jan 2015	159	156	159
4.65 10 Feb 2015	2,095	2,164	2,161
5.65 5 Jan 2018	1,385	1,485	1,506
Bell Canada			
6.90 15 Dec 2011	2,500	2,677	2,758
Blue Water Bridge Authority			
6.41 9 Jul 2027	2,371	2,181	2,210
Canadian Capital Auto Receivables Asset Trust			
2.00 17 Jul 2016	993	980	993
Canadian Imperial Bank of Commerce			
4.75 22 Dec 2014	8,680	9,068	8,918
Caterpillar Financial Services Ltd.			
5.20 3 Jun 2013	950	1,006	999
CDP Financial			
4.60 15 Jul 2020	793	795	791
Citigroup Finance Canada			
4.75 17 Mar 2014	2,000	1,984	2,060
Enbridge Gas Distribution			
4.49 12 Nov 2019	2,365	2,367	2,363
Gaz Metropolitan Inc.			
4.93 18 Jun 2019	2,500	2,581	2,545
GE Capital Canada			
4.65 11 Feb 2015	5,650	5,850	5,653
4.55 17 Jan 2017	800	801	750
5.53 17 Aug 2017	1,800	1,892	1,782
5.73 22 Oct 2037	2,000	1,970	1,704
Gloucester Credit Card Trust			
5.38 15 May 2014	2,176	2,268	2,277
Great West Lifeco Inc.			
6.14 21 Mar 2018	1,352	1,501	1,482
Greater Toronto Airports			
5.96 20 Nov 2019	3,399	3,732	3,712
Honda Canada Finance Inc.			
5.68 26 Sep 2012	1,200	1,276	1,280
5.08 9 May 2013	83	87	88
5.61 12 Sep 2013	1,135	1,214	1,135
Hydro One Inc			
5.49 16 Jul 2040	3,200	3,269	3,214
Investors Group Inc.			
6.75 9 May 2011	1,545	1,616	1,690
Manulife Financial Capital Trust			
6.70 30 Jun 2012	3,920	4,207	4,346
7.41 31 Dec 2108	1,200	1,371	1,200

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds (continued)</b>			
<b>Corporate – 21.9% (continued)</b>			
Merrill Lynch Financial Assets			
4.82% 12 Feb 2015	815	802	820
4.62 12 Nov 2015	1,235	1,179	1,222
4.85 12 Dec 2015	1,865	1,880	1,880
4.71 12 Nov 2016	1,192	1,180	1,201
4.48 12 Jul 2037	920	883	900
Milit-Air Inc.			
5.75 30 Jun 2019	3,272	3,494	3,535
National Bank of Canada			
5.55 15 Nov 2018	1,456	1,550	1,568
NAV Canada			
4.71 24 Feb 2016	3,500	3,668	3,628
OMERS Realty Corporation			
4.74 4 Jun 2018	3,585	3,660	3,710
Ontrea Inc.			
5.57 9 Apr 2013	1,328	1,424	1,411
Ottawa Hydro Holding Inc.			
4.93 9 Feb 2015	1,453	1,528	1,518
Power Corporation of Canada			
7.57 22 Apr 2019	1,308	1,526	1,502
PSP Capital Inc.			
4.57 9 Dec 2013	4,196	4,400	4,219
RBC Capital Trust			
4.87 29 Dec 2049	6,000	6,164	5,950
Real Estate Asset Liquidity Series Class A			
4.62 12 Sep 2016	1,350	1,313	1,333
5.08 12 Oct 2036	745	752	763
Rogers Wireless Inc.			
4.03 26 May 2015	961	967	961
Royal Bank of Canada			
5.00 20 Jan 2014	3,110	3,290	3,342
3.18 16 Mar 2015	313	307	313
Royal Office Finance			
5.21 12 Nov 2032	2,236	2,256	2,224
Sun Life Capital Trust			
6.87 31 Dec 2011	1,540	1,640	1,711
5.86 31 Dec 2108	2,000	2,072	2,000
Toronto Community Housing Corporation			
4.88 11 May 2037	283	262	284
5.40 22 Feb 2040	791	793	791
Toronto Dominion Bank			
4.85 13 Feb 2013	2,380	2,498	2,538
Transcanada Pipelines			
5.65 15 Jan 2014	4,050	4,378	4,300
8.29 5 Feb 2026	1,800	2,317	2,253

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

# Government Grants (continued)

(Appendix I to Schedule I)

## Statement of Investment Portfolio

As at April 30, 2010 (in thousands of dollars)

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds (continued)</b>			
<b>Corporate – 21.9% (continued)</b>			
Vancouver Fraser			
4.63% 20 Apr 2020	1,243	1,255	1,243
Wells Fargo Finance Canada			
3.60 28 Jun 2010	375	377	372
4.40 12 Dec 2012	1,400	1,446	1,377
		140,337	139,232
<b>Total Fixed Income – 93.6%</b>		<b>598,237</b>	<b>599,446</b>
<b>Variable Rate Securities – 4.7%</b>			
Toronto-Dominion Bank S&P/TSX 60 Index Linked Note			
26 Oct 2010	5,000	4,978	5,000
19 Oct 2011	5,000	5,412	5,000
26 Oct 2012	5,000	4,957	5,000
Toronto-Dominion Bank Global Indices Linked Note			
20 Oct 2011	15,000	14,748	15,000
		30,095	30,000
<b>Total Fixed Income – 98.3%</b>		<b>628,332</b>	<b>629,446</b>
<b>Cash and Short-term Investments – 1.7%</b>		11,681	11,681
<b>Total Portfolio Assets – 100.0%</b>		<b>640,013</b>	<b>641,127</b>
<b>Government Grant Investments Allocation</b>			
Plan II		518	521
Founders’ Plan		46,591	46,668
Group Savings Plan		193,163	193,468
Group Savings Plan 2001		350,998	351,677
Family Savings Plan		34,297	34,344
Individual Savings Plan		2,765	2,768
		<b>628,332</b>	<b>629,446</b>
<b>Cash and Short-term Investments Allocation</b>			
Plan II		31	31
Founders’ Plan		931	931
Group Savings Plan		3,683	3,683
Group Savings Plan 2001		6,488	6,488
Family Savings Plan		522	522
Individual Savings Plan		26	26
		<b>11,681</b>	<b>11,681</b>

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



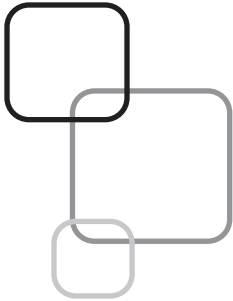
# Canadian Scholarship Trust Scholarship Pool

(Appendix II to Schedule I)

Statement of Investment Portfolio

As at April 30, 2010 (in thousands of dollars)

Security	Par Value (\$)	Fair Value (\$)	Average Cost (\$)
<b>Bonds</b>			
<b>Federal – 17.0%</b>			
Government of Canada			
1.00% 9 Jan 2011	15	15	15
3.75 1 Jun 2012	2,150	2,224	2,256
3.50 1 Jun 2013	1,910	1,966	1,995
4.50 1 Jun 2015	655	702	715
3.75 1 Jun 2019	2,950	2,988	3,017
Canada Housing Trust			
4.60 15 Sep 2011	2,400	2,495	2,537
4.80 15 Jun 2012	1,900	2,001	2,039
4.10 15 Dec 2018	210	214	214
		12,605	12,788
<b>Provincial – 17.0%</b>			
Province of British Columbia			
6.38 23 Aug 2010	2,440	2,483	2,589
4.65 18 Dec 2018	555	576	572
Province of Ontario			
4.40 2 Dec 2011	1,905	1,978	2,014
5.38 2 Dec 2012	1,545	1,652	1,677
4.75 2 Jun 2013	1,540	1,624	1,645
Province of Quebec			
6.00 1 Oct 2012	2,030	2,195	2,238
5.50 1 Dec 2014	1,885	2,056	2,072
		12,564	12,807
<b>Total Investments – 34.0%</b>		<b>25,169</b>	<b>25,595</b>
<b>Cash and Short-term Investments – 66.0%</b>		48,975	48,975
<b>Total Portfolio Assets – 100.0%</b>		<b>74,144</b>	<b>74,570</b>
<b>Total Investments Allocation</b>			
Plan II		3,613	3,649
Founders’ Plan		21,556	21,946
		<b>25,169</b>	<b>25,595</b>
<b>Cash and Short-term Investments Allocation</b>			
Plan II		12,598	12,598
Founders’ Plan		36,377	36,377
		<b>48,975</b>	<b>48,975</b>



Canadian Scholarship Trust Foundation



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## Canadian Scholarship Trust Plan

### Sponsored by

#### Canadian Scholarship Trust Foundation

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### Distributor

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### Bank

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