



Evolve ETFs

Interim Report | June 30, 2018

EVOLVE ACTIVE  
CANADIAN PREFERRED  
SHARE ETF

TSX: DIVS

[www.evolveetfs.com](http://www.evolveetfs.com)

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This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim financial statements at your request, and at no cost, by calling 1-844-370-4884, by writing to us at Evolve Funds, 161 Bay Street, Suite 2700, Toronto, ON, M5J 2S1 or by visiting our website at [www.evolveetfs.com](http://www.evolveetfs.com) or SEDAR at [www.sedar.com](http://www.sedar.com). You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Interim Management Discussion of Fund Performance

For the six-month period ended June 30, 2018

### **Notice to Unitholders**

**The accompanying interim financial statements have not been audited and reviewed by the external auditor of the Evolve ETFs**

### **INVESTMENT OBJECTIVE AND STRATEGIES**

The Evolve Active Canadian Preferred Share ETF (the “Fund”) seeks to provide holders of Units with stable income and long-term capital appreciation by investing primarily in a diversified mix of preferred shares of primarily Canadian issuers, in addition to U.S. and international issuers.

### **RISK**

There were no changes to the Fund over the period of this report that materially affected the level of risk associated with an investment in the Fund. Prospective investors should read the Fund’s most recent prospectus and consider the description of risks contained therein.

### **RESULTS OF OPERATIONS**

Since the Fund was launched on September 29, 2017, no performance data can be shown. The Fund’s net assets were \$74.551MM as at June 30, 2018.

### **PORTFOLIO MANAGER COMMENTARY**

The Canadian economy hit a soft patch in the first quarter of this year with consumer spending and housing – sectors that have positively contributed to growth this cycle – accounting for much of the lost momentum. The slowdown in housing has proven to be more persistent than expected, suggesting that higher interest rates and tougher qualifying standards are still having a restraining effect. However, as the second quarter played out, consumer spending was stronger despite a moderation in consumer credit attributed to those higher interest rates – a decent jobs market combined with a sizable jump in hourly earnings has acted as an offset. Looking past the most recent weather-impacted result, a recovery in the retail sales data over the course of the year supports this notion. Overall, growth is expected to be back over 2% annualized this quarter. Headline inflation held above 2% throughout the second quarter with core measures coming in just below that level.

Since tightening monetary policy in January, the Bank of Canada (BoC) has made no further moves. The BoC has made some recent alterations in their communications to the market though, dropping the word ‘gradual’ when referencing its approach to tightening; noting that ‘higher interest rates will be warranted’; and making no further mention of maintaining ‘some monetary policy accommodation’. This despite the economy facing headwinds from trade uncertainty, tariff threats, competitiveness issues as well as still-high household debt. The message that the BoC has broadcast is that the policymakers will need to take these uncertainties into account but not be paralyzed by them, thus a rate hike early in the third quarter has become a distinct possibility.

The domestic bond market reacted to these developments in a manner consistent with the notion of an upcoming tightening of monetary policy. Interest rates rose modestly across the yield curve with short end yields rising at a slightly faster pace thus flattening the full yield curve to a level not seen since 2008. It remains positively sloped but only marginally so. Relative to the U.S. market, Canadian yields rose at a slower rate and the flattening trend progressed at a faster rate south of the border due to the accelerated pace of monetary policy tightening taking place there.

During the quarter, the five-year government bond yield (and most of the yield curve) experienced significant volatility. The 5-year Government of Canada yield rose by about 35 basis points during the first half of the quarter before experiencing a sharp reversal that persisted for all but the last week of the quarter. The 5-year GoC rate finished the quarter up 7 basis points. The movement in the 5-year GoC did lead to volatility in the preferred share market although to a lesser degree than what was seen in bonds. This highlighted the continued benefit of preferred shares as a complimentary asset class to bonds as they reduce a portfolio’s sensitivity to interest rates.



The most notable event during the quarter was the proposal by Enbridge Inc to simplify its organizational structure including subsidiaries such as Enbridge Income Fund Holdings, Enbridge Energy Partners, and Spectra Energy Partners. The simplification would eliminate the public US MLP structure, reduce the amount of cash flow leakage through dividends to public shareholders of the subsidiaries, and provide Enbridge Inc with a much simpler financing strategy for its capital plans.

The proposal provides improved clarity and reduces the complexity of the structure which was viewed favourably by investors. This translated into a meaningful rally in the market price of Enbridge Inc preferred shares which had become a more sizable holding in recent months. Near the end of the quarter Enbridge made headlines again when one of its key projects received a regulatory approval. The approval of this important project removed another significant overhang that was preventing improving sentiment towards Enbridge.

The other notable event in the preferred share market during Q2 was the Government of Canada announcing the acquisition of the Trans Mountain Pipeline system from Kinder Morgan Canada Limited. This was a significant event as in the past, the Trans Mountain Pipeline system and the associated expansion project were topical news headlines that translated into negative sentiment towards the pipeline segment and impacted the prices of its securities. This positive announcement demonstrates the continued support by the Federal Government for essential energy-related infrastructure in Canada.

The portfolio has generated significant value year-to-date despite modestly under-performing the index in Q2. In April and May, we began increasing our exposure to the pipeline segment as it had lagged the broader preferred share market during the second half of Q1 and the beginning of Q2 which supported performance during the latter half of the quarter.

## RECENT DEVELOPMENTS

There are no known changes at this time to the investment strategy of the Fund or the Manager.

## RELATED PARTY TRANSACTIONS

Manager complies with its current policy and procedures regarding investments in related issuers and reports periodically to the Investment Review Committee.

## MANAGEMENT FEES

The management fees are calculated based on 0.65% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the period ended June 30, 2018, the Fund incurred \$150,320 in management fees. These management fees were received by Evolve Funds Group Inc. for the day-to-day operations of the fund, including managing the portfolio, maintaining portfolio systems used to manage the Fund, maintaining the [www.evolveetfs.com](http://www.evolveetfs.com) website, and providing all other services including marketing and promotion.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the period indicated.

## PAST PERFORMANCE

Since the Fund is a reporting issuer for less than one year, with inception date September 29, 2017, providing performance data for the period is not permitted.

## THE FUND'S NET ASSETS PER UNIT<sup>1</sup>

### Unhedged Units - Net Assets per Unit

For the periods ended:	June 30, 2018 (\$)	December 31, 2017 (\$)
Net Assets per Unit, beginning of period	<b>20.64</b>	<b>20.10</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	0.49	0.26
Total expenses	(0.12)	(0.05)
Realized gains (losses)	(0.00)	0.01
Unrealized gains (losses)	(0.37)	0.39
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>–</b>	<b>0.61</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.42)	–
From dividends		(0.06)
From capital gains		(0.01)
Return of capital		(0.14)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.42)</b>	<b>(0.21)</b>
<b>Net Assets per Unit, end of period</b>	<b>20.71</b>	<b>20.64</b>

## THE FUND'S RATIOS/SUPPLEMENTAL DATA

### Unhedged Units - Ratios/Supplemental Data

For the periods ended:	June 30, 2018 (\$)	December 31, 2017 (\$)
Total Net Asset Value (\$) <sup>4</sup>	74,550,615	6,708,228
Number of units outstanding <sup>4</sup>	3,600,000	325,000
Management expense ratio <sup>5</sup>	0.90%	0.89%
Trading expense ratio <sup>6</sup>	0.30%	0.13%
Portfolio turnover rate <sup>7</sup>	16.63%	12.01%
Net Asset Value per unit (\$)	20.71	20.64
Closing market price (\$)	20.64	20.68



1. This information is derived from the Fund's unaudited interim financial statement as at June 30, 2018, and the audited annual financial statements as at December 31, 2017. The Fund began operations on September 29, 2017.
2. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the period.
3. Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.
4. This information is provided as at June 30, 2018 and December 31, 2017.
5. Management expense ratio ("MER") is based on total expenses plus harmonized sales tax (excluding distributions, commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily net assets during the period.
7. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher the Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## PAST PERFORMANCE

Since the Fund is a reporting issuer for less than one year, with inception date September 29, 2017, providing performance data for the period is not permitted.

## Summary of Investment Portfolio

### TOP 25 POSITIONS

As at June 30, 2018

Security	% of Net Asset Value
Enbridge Inc., Preferred, Series D	3.9
Brookfield Office Properties Inc Preferred, 4.85% Series 11	3.1
Canadian Imperial Bank of Commerce Preferred, Series 47	3.1
The Toronto-Dominion Bank, Preferred, Series 18	2.9
BCE Inc., Preferred, Series AI	2.8
Intact Financial Corporation, Preferred, Series 1	2.2
The Toronto-Dominion Bank , Preferred, 3.75% Series	2.2
Pembina Pipeline Corporation, Preferred, 4.90% Series 21	2.2
Pembina Pipelin Corporation Preferred, Cumulative	2.1
Bank of Montreal, Preferred, Series 31	2.1
Canadian Western Bank, Preferred, Series 5	2.0
Manulife Financial Corporation, Preferred, Series 9	2.0
Brookfield Infrastructure Partners LP, Preferred, Series 7	2.0
Brookfield Renewable Partners LP, Preferred Series 11	1.9
Kinder Morgan Canada Limited, Preferred, Series 1	1.9

## Summary of Investment Portfolio (continued)

Security	% of Net Asset Value
Brookfield Renewable Partners LP, Preferred Series 13	1.9
Enbridge Inc., Preferred, Series 17	1.9
Canadian Utilities Limited, Preferred, Series AA	1.8
Brookfield Office Properties Inc., Preferred	1.8
Manulife Financial Corporation, Preferred, Series 11	1.7
Canadian Imperial Bank of Commerce	1.7
TransCanada Corporation, Preferred, Series 4	1.7
Fortis Inc., Preferred, Series J	1.6
TransAlta Corp. Preferred, Series F	1.6
The Toronto-Dominion Bank, Preferred, 3.80% Series 3	1.5
<b>Top holdings as a percentage of net asset value</b>	<b>53.6</b>

## INDUSTRY ALLOCATION

Portfolio by Category	% of Net assets Attributable to Unitholders June 30, 2018
Equities	
Consumer Staples	1.2
Energy	22.4
Financials	51.0
Real Estate	1.1
Telecommunication Services	6.6
Utilities	17.0
Cash and Cash Equivalents	0.6
Other Assets, less Liabilities	0.1
	<b>100.0</b>

The Summary of Investment Portfolio may change due to the ongoing portfolio transactions of the Fund. Updates are available quarterly by visiting our website at [www.evolveetfs.com](http://www.evolveetfs.com).

**Statement of Financial Position** (unaudited)

As at June 30, 2018 and December 31, 2017

(in Canadian dollars, except for number of units)

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	(\$)	(\$)
<b>Assets</b>		
<b>Current Assets</b>		
Investments, at fair value	74,048,348	6,653,572
Cash	484,122	51,884
Subscriptions receivable	13,248	–
Interest, dividends and other receivables	135,483	7,262
	<b>74,681,201</b>	<b>6,712,718</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Payable on investments purchased	51,360	–
Accrued expenses	79,226	4,490
	130,586	4,490
<b>Net assets attributable to holders of redeemable units</b>	<b>74,550,615</b>	<b>6,708,228</b>
<b>Net assets attributable to holders of redeemable units</b>		
Unhedged Units	<b>74,550,615</b>	<b>6,708,228</b>
<b>Net assets attributable to holders of redeemable units per unit</b>		
Unhedged Units	<b>20.71</b>	<b>20.64</b>

Approved on behalf of the Board of Directors of Evolve Funds Group Inc., Manager and Trustee:



Raj Lala  
President & Chief Executive Officer



Elliot Johnson  
Chief Operating Officer, Chief Investment Officer & Director



**Statement of Comprehensive Income** (unaudited)

For the period ended June 30

(in Canadian dollars, except for number of units)

	<b>2018</b>
	<b>(\$)</b>
<b>Income</b>	
Interest for distribution purposes	1
Dividend income	986,745
Changes in fair value of investments	
Net realized gain (loss)	(7,951)
Net change in unrealized appreciation (depreciation)	(730,016)
<b>Total Income (Loss)</b>	<b>248,779</b>
<b>Expenses</b>	
Management fees (Note 4)	150,320
Administrative fees (Note 4)	34,689
Transaction costs (Note 2)	62,230
Total operating expenses	247,239
<b>Increase (decrease) in net assets attributable to unitholders from operations</b>	<b>1,540</b>
<b>Increase (decrease) in net assets attributable to unitholders from operations</b>	
<b>Unhedged Units</b>	<b>1,540</b>
<b>Increase (decrease) in net assets attributable to unitholders per unit from operations</b>	
<b>Unhedged Units</b>	<b>0.00</b>

**Statement of Changes in Net Assets Attributable to Holders of Redeemable Units** (unaudited)

For the period ended June 30

(in Canadian dollars, except for number of units)

	<b>2018</b>
	<b>(\$)</b>
<b>Net assets attributable to holders of redeemable units - beginning of period</b>	
<b>Unhedged Units</b>	6,708,228
Increase (decrease) in net assets attributable to holders of redeemable units from operations	
Unhedged Units	1,540
<b>Distributions to unitholders from:</b>	
Net investment income	(866,250)
	<u>(866,250)</u>
<b>Redeemable unit transactions:</b>	
Proceeds from sale of redeemable units	
Unhedged Units	68,707,097
Net increase (decrease) from redeemable unit transactions	<u>68,707,097</u>
Increase (decrease) in net assets attributable to holders of redeemable units for the period	67,842,387
<b>Net assets attributable to holders of redeemable units - end of period</b>	
Unhedged Units	<u>74,550,615</u>

## Statement of Cash Flows (unaudited)

For the period ended June 30

(in Canadian dollars, except for number of units)

**2018**  
**(\$)**

### Cash Flows from (used in) Operating Activities

Increase (decrease) in net assets attributable to unitholders from operations	1,540
Adjustments for:	
Realized (gain) loss on investments	7,951
Change in unrealized (appreciation) depreciation in the value of investments	730,016
Purchases of investments <sup>2</sup>	(9,631,819)
Proceeds from sale and maturity of investments	6,798,112
(Increase) decrease in interest, dividends and other receivables	(128,221)
Increase (decrease) in accrued expenses	74,736

**Net cash generated by (used in) operating activities** **(2,147,685)**

### Cash Flows from (used in) Financing Activities

Distributions paid to unitholders, net of reinvested distributions	(866,250)
Proceeds from sale of units <sup>2</sup>	3,446,173

**Net cash provided by (used in) financing activities** **2,579,923**

**Net increase (decrease) in cash** 432,238

Cash - beginning of period 51,884

**End of period cash balance** 484,122

### Supplemental Information:<sup>1</sup>

Interest received, net of foreign withholding taxes	1
Dividends received, net of foreign withholding taxes	858,524

<sup>1</sup> Included as part of Cash Flows from Operating Activities

<sup>2</sup> Excludes in-kind transactions, if any

**Schedule of Investment Portfolio** (unaudited)

As at June 30, 2018

No. of Shares		Average Cost (\$)	Fair Value (\$)
<b>Consumer Staples (1.2%)</b>			
40,785	George Weston Limited., Preferred, Series V	<b>918,192</b>	<b>904,203</b>
<b>Energy (22.4%)</b>			
55,489	Enbridge Inc., Preferred, Series 17	1,413,919	1,407,201
51,280	Enbridge Inc., Preferred, Series 7	1,072,375	1,043,548
45,904	Enbridge Inc., Preferred, Series 9	959,030	935,983
146,171	Enbridge Inc., Preferred, Series D	2,880,493	2,864,952
51,375	Enbridge Inc., Preferred, 4% Series P	1,048,497	1,027,500
38,489	Husky Energy Inc., Preferred	702,153	680,870
58,185	Kinder Morgan Canada Limited, Preferred, Series 1	1,467,902	1,451,134
67,860	Pembina Pipelin Corporation Preferred Cummulative Redemption	1,604,393	1,583,174
64,923	Pembina Pipeline Corporation, Preferred, 4.90% Series 21	1,636,129	1,632,164
28,169	TransCanada Corporation, Preferred, Series 15	729,815	721,408
52,396	TransCanada Corporation, Preferred, Series 2	1,067,994	1,050,540
73,539	TransCanada Corporation, Preferred, Series 4	1,246,279	1,248,692
45,760	TransCanada Corporation, Preferred, Series 7	1,053,632	1,033,261
		<b>16,882,611</b>	<b>16,680,427</b>
<b>Financials (51.0%)</b>			
9,135	Artis Real Estate Investment Trust	194,508	187,268
45,092	Bank of Montreal, Preferred, 3.90% Series 29	1,051,191	1,046,134
67,827	Bank of Montreal, Preferred, Series 31	1,564,478	1,558,664
45,698	Brookfield Asset Management Inc., Preferred, Series 13	772,429	783,721
45,188	Brookfield Asset Management Inc., Preferred, Series 2	764,733	770,907
36,033	Brookfield Asset Management Inc., Preferred, Series 26	758,072	738,316
43,301	Brookfield Asset Management Inc., Preferred, Series 4	731,159	740,014
18,660	Brookfield Asset Management Inc., Preferred, Series 9	350,664	353,980
99,458	Brookfield Office Properties Inc Preferred, 4.85% Series 11	2,387,093	2,318,366
87,579	Brookfield Office Properties Inc., Preferred	1,354,481	1,340,834
26,739	Brookfield Office Properties Inc., Preferred, Series W	408,897	408,572
50,634	Canadian Imperial Bank of Commerce	1,278,197	1,262,812
94,758	Canadian Imperial Bank of Commerce Preferred, Series 47	2,331,598	2,277,035
61,234	Canadian Western Bank, Preferred, Series 5	1,480,393	1,498,396

**Schedule of Investment Portfolio (continued)** (unaudited)

As at June 30, 2018

No. of Shares		Average Cost (\$)	Fair Value (\$)
15,711	E-L Financial Corporation Limited, Preferred, Series 2	352,688	348,784
42,951	Fairfax Financial Holdings Limited, Preferred, Series E	820,163	807,479
50,709	Fairfax Financial Holdings Limited, Preferred, Series G	1,046,237	1,036,492
18,690	Fairfax Financial Holdings Limited, Preferred, Series K	446,569	443,327
27,891	Great-West Lifeco Inc. Preferred	724,874	726,561
29,348	Great-West Lifeco Inc., Preferred	728,730	719,613
32,578	Great-West Lifeco Inc., Preferred, Series L	837,757	836,929
42,112	Intact Financial Corporation Series 7	1,051,320	1,042,272
85,014	Intact Financial Corporation, Preferred, Series 1	1,718,121	1,654,372
51,722	Manulife Financial Corporation, Preferred, Series 11	1,285,383	1,286,326
36,628	Manulife Financial Corporation, Preferred, Series 17	864,060	849,403
58,910	Manulife Financial Corporation, Preferred, Series 9	1,467,781	1,463,914
45,327	Power Financial Corporation, Preferred, 3.45% Series A	928,132	965,465
25,651	Royal Bank of Canada, Preferred	625,428	623,832
47,250	Royal Bank of Canada, Preferred, Series BB	1,112,671	1,111,320
47,355	Royal Bank of Canada, Preferred, 4.00% Series AZ	1,112,043	1,114,263
20,834	Sun Life Financial Inc., Class 'D' Preferred, Series 4	445,296	452,098
48,509	Sun Life Financial, Class 'C' Preferred, Series 3	1,032,743	1,045,369
70,851	The Toronto-Dominion Bank , Preferred, 3.75% Series	1,638,348	1,650,120
48,134	The Toronto-Dominion Bank, Preferred, 3.80% Series 3	1,124,191	1,127,298
85,664	The Toronto-Dominion Bank, Preferred, Series 18	2,154,288	2,158,733
17,952	Thomson Reuters Corporation, Preferred, Series B	342,704	354,552
35,828	Toronto-Dominion Bank/The, Preferred,4.50% Series 16	906,707	902,866
		<b>38,194,127</b>	<b>38,006,407</b>
<b>Real Estate (1.1%)</b>			
36,269	Brookfield Office Properties Inc., Preferred, Series S	<b>843,054</b>	<b>827,477</b>
<b>Telecommunication Services (6.6%)</b>			
38,124	BCE Inc., Preferred, 2.954% Series AK	739,967	729,312
49,667	BCE Inc., Preferred, Series AA	995,570	970,493
56,985	BCE Inc., Preferred, Series AG	1,129,572	1,104,369
110,316	BCE Inc., Preferred, Series AI	2,156,865	2,119,170
		<b>5,021,974</b>	<b>4,923,344</b>

**Schedule of Investment Portfolio (continued)** (unaudited)

As at June 30, 2018

No. of Shares		Average Cost (\$)	Fair Value (\$)
<b>Utilities (17.0%)</b>			
58,043	Brookfield Infrastructure Partners LP, Preferred, Series 7	1,461,347	1,453,977
57,835	Brookfield Renewable Partners LP, Preferred Series 11	1,455,650	1,452,815
57,747	Brookfield Renewable Partners LP, Preferred Series 13	1,443,036	1,423,464
59,284	Canadian Utilities Limited, Preferred, Series AA	1,396,470	1,370,646
22,658	Capital Power Corporation, Preferred,	588,295	584,576
38,307	Capital Power Corporation, Preferred, Series 1	658,582	654,667
22,333	Capital Power Corporation, Preferred, Series 3	509,703	501,376
42,491	Capital Power Corporation, Preferred, Series 5	950,985	943,300
37,454	Fortis Inc., Preferred, Series I	684,024	676,794
54,442	Fortis Inc., Preferred, Series J	1,227,739	1,212,968
66,061	TransAlta Corp. Preferred, Series F	1,211,700	1,177,868
23,448	TransAlta Corporation., 5.3% Preferred, Series G	526,925	509,291
29,778	Westcoast Energy Inc., Preferred, Series 7	739,912	744,748
		<b>12,854,368</b>	<b>12,706,490</b>
	<b>Transaction Costs</b>	(8,077)	-
	<b>Total Investments (99.3%)</b>	<b>74,706,249</b>	<b>74,048,348</b>
	<b>Other assets less liabilities (0.7%)</b>		502,267
	<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>		<b>74,550,615</b>

## Fund Specific Notes to Financial Statements (unaudited)

As at June 30, 2018

### FINANCIAL INSTRUMENT RISKS (NOTE 3)

#### Market Price Risk

The table below summarize management's estimate of the effect on net assets of a 10% change in the Fund's value, as at June 30, 2018, with all other variables held constant:

Fund	+/-10% Impact June 30, 2018
Evolve Active Canadian Preferred Share ETF	7,404,835

#### Currency Risk

The majority of the Fund's financial assets and liabilities are denominated in Canadian dollars. As at June 30, 2018, the Fund had no significant investments denominated in any currency other than Canadian dollars.

#### Interest Rate Risk

As at June 30, 2018, the majority of the Fund's financial assets and liabilities are non-interest bearing; accordingly, the Fund is not exposed to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

#### Liquidity Risk

The liquidity of the Fund is managed on a day-to-day basis in order to meet expenses and handle redemption of the Fund's redeemable units. As at June 30, 2018, the Fund did not have a significant amount of financial liabilities with maturities greater than three months.

#### Credit Risk

As at June 30, 2018, the Evolve Active Canadian Preferred Share ETF was invested in preferred shares with the following credit ratings:

Securities by Credit Rating	% of Net Assets Attributable to Unitholders
P1	4.4
P2	70.8
P3	24.1
Total	99.3

Credit ratings for preferred shares are obtained from Dominion Bond Rating Services and Standard & Poor's. A rating of P1 is of superior credit quality, and is supported by entities with strong earnings and balance sheet characteristics. P2 is of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as P1 rated companies. P3 is of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection.

**Fund Specific Notes to Financial Statements (continued)** (unaudited)

As at June 30, 2018

**Portfolio Concentration Risk**

The Fund's significant concentrations by industry sector are as follows:

Portfolio by Category	% of Net assets Attributable to Unitholders	
	June 30, 2018	
Equities		
Consumer Staples		1.2
Energy		22.4
Financials		51.0
Real Estate		1.1
Telecommunication Services		6.6
Utilities		17.0
Cash and Cash Equivalents		0.6
Other Assets, less Liabilities		0.1
		100.0

**Fair Value Measurements**

The following is the fair value measurement hierarchy based on the inputs used as at June 30, 2018 in valuing the Fund's financial assets and liabilities carried at fair value:

	FINANCIAL ASSETS (LIABILITIES) (\$)			Total
	Level 1	Level 2	Level 3	
Equities	74,048,348	–	–	74,048,348
<b>Total</b>	<b>74,048,348</b>	<b>–</b>	<b>–</b>	<b>74,048,348</b>

For the period ended June 30, 2018, there were no transfers of securities between Level 1 and Level 2. There were no level 3 securities at or during the period ended June 30, 2018.

**UNIT TRANSACTIONS (NOTE 5)**

UNHEDGED UNITS	
Number of redeemable units outstanding - Beginning of period	325,000
Issued	3,275,000
Reinvested	-
Redeemed	-
Number of redeemable units outstanding - End of period	<b>3,600,000</b>

**INCOME TAXES (NOTE 6)**

As at June 30, 2018, the Fund had no capital and non-capital loss carryforward balances.



## Notes to Financial Statements (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### 1. ORGANIZATION

The Evolve ETFs (each a “Fund”, collectively, the “Funds”) are exchange-traded funds (“ETFs”) established on the establishment dates noted below as open-ended mutual fund trusts under the laws of the Province of Ontario pursuant to a master declaration of trust dated August 4, 2017 and as amended and restated from time to time. The units of the Funds are listed on the Toronto Stock Exchange (“TSX”) and NEO Exchange (“NEO”) in the case of the Evolve Active Core Fixed Income ETF. The address of the Funds’ registered office is 161 Bay Street, Suite 2700, Toronto, Ontario, M5J 2S1.

The Sphere ETFs (each a “Fund” collectively, the “Funds”) are exchange-traded funds established on the establishment dates noted below as open-ended mutual fund trusts under the laws of the Province of Ontario pursuant to a master declaration of trust dated March 30, 2016 and as amended and restated time to time. The units of the Funds are listed on the Toronto Stock Exchange (“TSX”). The address of the Funds’ registered office is 161 Bay Street, Suite 2700, Toronto, Ontario, M5J 2S1.

Evolve Funds Group Inc. is now the manager of Sphere FTSE Canada Sustainable Yield Index ETF, Sphere FTSE Europe Sustainable Yield Index ETF and Sphere FTSE Emerging Markets Sustainable Yield Index ETF following the acquisition completed on January 12, 2018.

### ACTIVELY MANAGED ETFS

Fund Name	Class	TSX Ticker Symbol	Date of Establishment	Date of Commencement
Evolve Active Canadian Preferred Share ETF	Unhedged Units	DIVS	August 14, 2017	September 29, 2017
Evolve Active Core Fixed Income ETF	Unhedged Units	FIXD	March 21, 2018	March 28, 2018
Evolve Active Short Duration Bond ETF	Hedged Units	TIME	August 14, 2017	October 16, 2017
	Unhedged Units	TIME.B	August 14, 2017	October 16, 2017
Evolve Active US Core Equity ETF	Hedged Units	CAPS	August 14, 2017	October 16, 2017
	Unhedged Units	CAPS.B	August 14, 2017	October 16, 2017
Evolve Blockchain ETF	Unhedged Units	LINK	February 26, 2018	March 5, 2018
Evolve Marijuana ETF	Unhedged Units	SEED	February 5, 2018	February 8, 2018

Nuveen Asset Management, LLC is the sub-advisor for Evolve Active US Core Equity ETF and Evolve Active Short Duration Bond ETF.

Foyston, Gordon & Payne Inc. is the sub-advisor for Evolve Active Canadian Preferred Share ETF and Evolve Active Core Fixed Income ETF.

### INDEX-TRACKING ETFS

Fund Name	Class	TSX Ticker Symbol	Date of Establishment	Date of Commencement
Evolve Automobile Innovation Index ETF	Hedged Units	CARS	August 4, 2017	September 29, 2017
	Unhedged Units	CARS.B	August 4, 2017	September 29, 2017
	USD Unhedged Units	CARS.U	August 4, 2017	October 3, 2017

**Notes to Financial Statements (continued)** (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

Evolve Cyber Security Index ETF	Hedged Units	CYBR	August 4, 2017	September 20, 2017
	Unhedged Units	CYBR.B	August 4, 2017	September 20, 2017
Evolve Innovation Index ETF	Hedged Units	EDGE	April 20, 2018	April 30, 2018
Evolve North American Gender Diversity Index ETF	Hedged Units	HERS	August 4, 2017	September 20, 2017
	Unhedged Units	HERS.B	August 4, 2017	September 20, 2017
Sphere FTSE Canada Sustainable Yield Index ETF	Unhedged Units	SHC	March 30, 2016	April 11, 2016
Sphere FTSE Emerging Markets Sustainable Yield Index ETF	Hedged Units	SHZ	March 30, 2016	September 29, 2016
Sphere FTSE Europe Sustainable Yield Index ETF	Hedged Units	SHE	March 30, 2016	April 13, 2016

Each index-tracking ETF seeks to track, to the extent reasonably possible and before fees and expenses, the performance of a broad widely quoted market index.

**INDEX-TRACKING ETFS WITH ACTIVE COVERED CALL STRATEGIES**

<b>Fund Name</b>	<b>Class</b>	<b>TSX Ticker Symbol</b>	<b>Date of Establishment</b>	<b>Date of Commencement</b>
Evolve Global Healthcare Enhanced Yield ETF	Hedged Units	LIFE	August 4, 2017	October 25, 2017
	Unhedged Units	LIFE.B	August 4, 2017	October 25, 2017
Evolve US Banks Enhanced Yield ETF	Hedged Units	CALL	August 4, 2017	October 16, 2017
	Unhedged Units	CALL.B	August 4, 2017	October 16, 2017

Each index-tracking ETF with active covered call strategies seeks to track, to the extent reasonably possible and before fees and expenses, the performance of a broad widely quoted market index and in addition to provide the return of a strategy of selling call options against not more than 33% of the equity securities of any of the portfolios with the covered call strategies.

Evolve Funds Group Inc. (the "Manager") is the trustee, manager and investment manager of the Funds.

The information provided in the financial statements for the Funds is as at and for the period ended June 30, 2018. The Statement of Financial Position is as at June 30, 2018 for the Evolve Marijuana ETF, the Evolve Blockchain ETF, the Evolve Active Core Fixed Income ETF and the Evolve Innovation Index ETF. The Statement of Financial Position is as at June 30, 2018 and December 31, 2017 for the Evolve Active US Core Equity ETF, the Evolve Active Short Duration Bond ETF, the Evolve Active Canadian Preferred Share ETF, the Evolve Active Floating Rate Loan ETF, the Evolve Cyber Security Index ETF, the Evolve North American Gender Diversity Index ETF, the Evolve Automobile Innovation Index ETF, the Evolve US Banks Enhanced Yield ETF and the Evolve Global Healthcare Enhanced Yield ETF.

The Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows for the Evolve Marijuana ETF, the Evolve Blockchain ETF, the Evolve Active Core Fixed Income ETF and the Evolve Innovation Index ET are for the periods from each respective date of establishment to June 30, 2018. The Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows for the Evolve Active US Core Equity ETF, the Evolve Active Short Duration Bond ETF, the Evolve Active Canadian Preferred Share ETF, the Evolve Active Floating Rate Loan ETF, the Evolve Cyber Security Index ETF, the Evolve North American Gender Diversity Index ETF, the Evolve Automobile Innovation Index ETF, the Evolve US Banks Enhanced Yield ETF and the Evolve Global Healthcare Enhanced Yield ETF are for the periods ended June 30 of the years shown.

**Notes to Financial Statements (continued)** (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Funds have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared on a going concern basis using the historical cost convention except for financial assets and financial liabilities measured at fair value through profit or loss. Each Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Funds’ accounting policies for measuring the fair value of investments and derivatives are consistent with those used in measuring the Net Asset Value for transactions with unitholders.

Upon transition to IFRS 9 Financial Instruments (“IFRS 9”) from IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”), the Funds financial assets and financial liabilities were classified as fair value through profit or loss (“FVTPL”). This classification differs from the classification under the previous IAS 39, therefore there were changes in categorization of certain financial assets and financial liabilities upon transition.

Effective January 1, 2018, all financial assets that had previously been designated as FVTPL and all financial assets and liabilities that were previously classified as financial assets and financial liabilities at amortized cost were reclassified as FVTPL. Derivative assets and derivative liabilities that were previously considered as held-for-trading financial instruments and were classified as FVTPL remain unchanged upon adoption to the new standard. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

In applying IFRS, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Actual results may differ from such estimates.

The following is a summary of significant accounting policies followed by the Funds:

**Classification and Recognition of Financial Instruments**

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives, cash and other receivable and payables. Funds classify and measure financial instruments in accordance with IFRS 9. Upon initial recognition, financial assets and financial liabilities are classified as fair value through profit or loss (FVTPL), or carried at amortized cost. The initial classification of a financial instrument depends on the contractual cash flows characteristics of the financial assets as well as the Fund’s business model for managing the financial assets.

Financial assets and liabilities at fair value through profit or loss

Financial instruments include financial assets and liabilities such as debt and equity securities, exchange -traded investment funds and derivatives, cash and other receivable and payables.

All financial assets and liabilities are recognized in the Statements of Financial Position when a Fund becomes a party to the contractual requirements of the instrument. Financial instruments are derecognized when the right to receive cash flows from the instrument has expired or a Fund has transferred substantially all risks and rewards of ownership. As such, investment purchase and sale transactions are recorded as of the trade date.

Financial assets and financial liabilities are subsequently measured as FVTPL with changes in fair value recognized in the Statements of Comprehensive Income.

**Notes to Financial Statements (continued)** (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

**Measurement of Financial Instruments**

Financial assets and financial liabilities at FVTPL are recorded in the Statement of Financial Position at fair value upon initial recognition. All transaction costs such as brokerage commissions, incurred in the purchase and sale of securities for such instruments are recognized directly in profit or loss.

After initial measurement, the Funds measure financial instruments which are classified as FVTPL, at fair value. Subsequent changes in the fair value of those financial instruments (i.e. the excess/shortfall of the sum of the fair value of portfolio investments over/below the sum of the average cost of each portfolio investment) are recorded in unrealized appreciation (depreciation) in the value of investments. The applicable period change in unrealized appreciation (depreciation) of investments is included on the Statement of Comprehensive Income.

The average cost of portfolio investments represents the sum of the average cost of each portfolio investments. For the purposes of determining the average cost of each portfolio investment, the purchase price of portfolio investments acquired by a Fund is added to the average cost of the particular portfolio investment immediately prior to the purchase. The average cost of a portfolio investment is reduced by the number of shares sold multiplied by the average cost of the portfolio investment at the time of the sale. The average cost per share of each portfolio investment sold is determined by dividing the average cost of the portfolio investment by the number of shares held immediately prior to the sale transaction. Transaction costs incurred in portfolio transactions are excluded from the average cost of investments and are recognized immediately in net income and are presented as a separate expense item in the financial statements. Realized gains and losses from the sale of portfolio investments are also calculated based on the average costs, excluding transaction costs, of the related investment.

The net asset value (“NAV”) per unit of a Fund is calculated each day a Fund is open for business as of regularly scheduled close of regular trading on the TSX and NEO in the case of the Evolve Active Core Fixed Income ETF. NAV per unit per Fund is calculated by dividing the net assets of the Fund by the number of units outstanding of the Fund. Units of the Funds are being issued and sold on a continuous basis and there is no maximum number of units that may be issued. In calculating each class of the Funds’ NAV, investments are valued under policies approved by the Board of Directors of the Manager. Equity securities (including preferred stock) listed or dealt in upon a stock exchange are valued at the last sale price or official closing price on the exchange or system on which they are principally traded when the price falls within the bid-ask spread range. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point when the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. Foreign currency contracts are valued based on the difference between the value of the contract on the valuation date and the value on the date the contract was originated.

**Classification of Redeemable Units**

IAS 32 - Financial Instruments: Presentation, requires that securities of the Funds, which are considered puttable instruments, be classified as either financial liabilities or equity instruments. Under IFRS, the units of the Funds which include contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset are classified as financial liabilities. The Funds’ outstanding units include a contractual obligation to deliver cash or another financial asset on a Fund’s fixed termination date, and therefore the ongoing redemption feature is not a Fund’s only contractual obligation. Also, redemption of units at 95% of the closing price by unitholders gives rise to redemption value that is not substantially based on the NAV of the Funds. Consequently, the Funds’ outstanding redeemable units are classified as financial liabilities in accordance with the requirements.

## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### Fair Value Measurement

IFRS describes fair value as the price that each Fund would receive upon selling an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date. It established a three-tier hierarchy of inputs to be used when determining fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk — for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

*Level 1* – Quoted (unadjusted) prices in active markets for identical assets or liabilities at measurement date.

*Level 2* – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

*Level 3* – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (including each Fund's assumptions in determining the fair value of investments).

The inputs or methodology used for valuation are not necessarily an indication of the risk associated with investing in those investments.

The Funds have included the fair value hierarchy in the Fund Specific Notes to Financial Statements.

### Securities Lending

In order to generate additional returns, each Fund is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – Investment Funds (“NI 81-102”).

Under a securities lending agreement, the borrower must pay the Fund a negotiated securities lending fee, provide compensation to the Fund equal to any distributions received by the borrower on the securities borrowed, and the Fund must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the Fund may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the period is disclosed in the Fund's Statement of Comprehensive Income.

For the period ended June 30, 2018, Evolve Marijuana ETF and Evolve Blockchain ETF participated in the securities lending program.

## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### Investment Transactions and Investment Income

Investment transactions are recorded as of the date that the securities are purchased or sold (trade date). Realized and unrealized gains and losses are calculated on an average cost basis. The cost of investments represent the amount paid for each security and is determined using the average cost method, excluding commissions and transaction costs. Transaction costs, such as brokerage commissions and settlement charges incurred in the purchase and sale of securities, are shown as a separate line item in the Statement of Comprehensive Income and are not part of the cost of investments. Dividend income is recognized on the ex-dividend date, gross of any foreign taxes withheld. The interest for distribution purposes shown on the Statement of Comprehensive Income represents the coupon interest received by the Funds accounted for on an accrual basis.

### Foreign Currency Translation

The Funds' functional and presentation currency is the Canadian dollar. Canadian dollar is the currency of the primary economic environment in which it operates. The Funds' performance is evaluated and their liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Foreign currencies, as well as investment securities and other assets and liabilities denominated in foreign currencies, are translated into Canadian dollars using exchange rates prevailing on the respective dates of such transactions. Realized and unrealized foreign exchange gains and losses on investments are included as a component of net realized gain (loss) on sale of investments and change in unrealized appreciation (depreciation) of investments, respectively, on the Statement of Comprehensive Income. Net realized and unrealized foreign exchange gains or losses arising from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses recognized between the trade and settlement dates on investment transactions, and the difference between the amounts of dividends and foreign withholding taxes recorded on the Funds' books and the Canadian dollar equivalent of the amounts actually received or paid are included in net realized gain (loss) on foreign currency contracts and foreign currency translations and/or change in unrealized appreciation (depreciation) of foreign currency contracts and foreign currency translations in the Statement of Comprehensive Income.

### Forward Foreign Currency Contracts

A forward foreign currency contract ("Forward Contract") involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are principally traded in the inter-bank market conducted directly between currency traders (usually large, commercial banks) and their customers. A Forward Contract generally does not require an initial margin deposit and no commissions are charged at any stage for trades. However, if a Fund is in an unrealized loss position on a Forward Contract, it may be required to pledge collateral (or additional collateral) to the counterparty.

Risks may arise upon entering into a Forward Contract from the potential inability of the counterparties to meet the terms of their contracts and from unanticipated movements in the value of foreign currencies relative to the Canadian dollar.

A Forward Contract is valued at fair value of the gain or loss that would be realized on a valuation date if the positions was to be closed out.

### Options Contracts

Premiums received from writing options are included in the Statements of Financial Position as a liability and subsequently adjusted to fair value. When a written option expires unexercised, the Funds will realize a gain equal to the premium received. When a written option is closed, the Funds will realize a gain or loss equal to the difference between the cost at which the contract was closed and the premium received.

## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### Cash

Cash is comprised of cash on deposit with a Canadian financial institution and is stated at fair value.

### Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units from Operations per Unit

The increase (decrease) in net assets attributable to holders of redeemable units from operations per unit is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units from operations by the weighted average number of units outstanding during the period.

### Significant accounting judgments, estimates and assumptions

The preparation of the Fund's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts recognized in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### (i) Judgements

In the process of applying the Funds' accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

##### Assessment as investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are, as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Funds' prospectus details the objective of providing investment management services to investors, which includes investing in equities, fixed income securities, private equity and property investments for the purpose of returns in the form of investment income and capital appreciation.

The Funds report to its investors via quarterly investor information, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by IFRS in the Funds' financial statements. The Funds have a clearly documented exit strategy for all of its investments.

The Fund manager has also concluded that the Funds meet the additional characteristics of an investment entity, in that it has more than one investment; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties.

These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.



## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### 3. FINANCIAL INSTRUMENT RISKS

The Funds' activities may expose them to a variety of financial risks associated with financial instruments, including market risk (foreign currency risk, interest rate risk and market price risk), concentration risk, credit risk and liquidity risk. The manager seeks to minimize potential adverse effects of these risks on the Funds' performance by employing professional, experienced portfolio managers, by daily monitoring of the Funds' position and market events, by diversifying the investment portfolio within the constraints of the investment objective and periodically, as appropriate, by using forward currency contracts to hedge certain risk exposures.

Details of each of the Fund's exposure to financial instrument risks are available in the Fund Specific Notes to Financial Statements, as applicable.

#### Concentration Risk

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

#### Market Price Risk

Market price risk is the risk that the fair values of future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager mitigates this risk through the use of investment strategies that seek to minimize the Funds' tracking error versus market indexes within the parameters of the investment strategy. The maximum risk resulting from a financial instrument is equivalent to its fair value. The Funds' equities and debt are susceptible to other market risk arising from uncertainties about the future prices of the instruments.

#### Currency Risk

Currency risk arises from financial instruments that are denominated in foreign currencies. The Funds are exposed to the risk that the value of securities denominated in foreign currencies will fluctuate due to changes in exchange rates. When the value of the Canadian dollar falls in relation to foreign currencies, then the value of foreign investments rises. When the value of the Canadian dollar rises, the value of foreign investments falls.

The Funds held securities, primarily equity instruments, denominated in foreign currencies during the reporting period. Other financial assets (including dividends, interest receivable and receivables for investments sold) and financial liabilities (including payable for investments purchased) that are denominated in foreign currencies do not expose the Funds to significant foreign exchange risk. The Funds may hedge its foreign currency exposure by entering into forward contracts to reduce foreign currency risk.

#### Interest Rate Risk

Interest rate risk is the risk that the market value of the Fund's interest-bearing financial instruments will fluctuate due to changes in market interest rates.



## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### Liquidity Risk

Liquidity risk is the possibility that investments in a fund cannot be readily converted into cash when required. The Funds will likely maintain sufficient liquidity to meet expenses and redemption of units by investing primarily in liquid securities. However, unexpected heavy demand for redemptions of units could result in the Funds having to dispose of investments at a time when it is not optimal in order to meet such redemption requests. To manage the Funds' overall liquidity and enable the Funds to meet its obligations, the assets of the Fund are invested primarily in securities that are traded on active markets and that the Funds manager believes can be readily disposed of through market facilities under normal circumstances. Additionally, sufficient cash and cash equivalents are maintained to fund anticipated cash redemptions.

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds. To help manage the credit risk of the Funds, the manager carefully monitors the creditworthiness and operational robustness of counterparties that conduct transactions on behalf of the Funds. Generally, the greater the credit rating of a security, the lower the probability of the issuer defaulting on its obligations.

Credit ratings for preferred shares are obtained from Dominion Bond Rating Services and Standard & Poor's. A rating of P1 is of superior credit quality, and is supported by entities with strong earnings and balance sheet characteristics. P2 is of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as P1 rated companies. P3 is of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection.

Credit ratings for fixed income securities are obtained from Standard & Poor's. An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments on the obligation. An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments on the obligation. An obligation rated 'CCC' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments on the obligation.

### Offsetting Financial Instruments

Each Fund's risk of loss from counterparty credit risk on over-the-counter ("OTC") derivatives is generally limited to the aggregate unrealized gain netted against any collateral held by the Fund. The Fund attempts to mitigate counterparty risk by only entering into agreements with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. For financial reporting purposes, financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Funds enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position.

In order to better define its contractual rights and to secure rights that will help a Fund mitigate its counterparty risk, a Fund may enter into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with its counterparties.

## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

### 4. RELATED PARTY TRANSACTIONS

#### Administrative Fees

Each Fund below will pay the Manager administration fee as set forth in the table below based on the average daily NAV of the units of the Funds to pay for expenses incurred during the day-to-day operating of the funds. The below specified fees are the same for all classes per fund where applicable. The administration fee, plus applicable taxes, will be accrued daily and paid monthly in arrears. Administrative fees are the same for all classes on a fund level.

<b>Fund Name</b>	<b>Administration Fee (annual rate)</b>
Evolve Active Canadian Preferred Share ETF	0.15% of NAV
Evolve Active Core Fixed Income ETF	0.15% of NAV
Evolve Active Short Duration Bond ETF	0.15% of NAV
Evolve Active US Core Equity ETF	0.15% of NAV
Evolve Automobile Innovation Index ETF	0.15% of NAV
Evolve Blockchain ETF	0.25% of NAV
Evolve Cyber Security Index ETF	0.15% of NAV
Evolve Global Healthcare Enhanced Yield ETF	0.15% of NAV
Evolve Innovation Index ETF	0.15% of NAV
Evolve Marijuana ETF	0.25% of NAV
Evolve North American Gender Diversity Index ETF	0.15% of NAV
Evolve US Banks Enhanced Yield ETF	0.15% of NAV
Sphere FTSE Canada Sustainable Yield Index ETF	0.15% of NAV
Sphere FTSE Europe Sustainable Yield Index ETF	0.15% of NAV
Sphere FTSE Emerging Markets Sustainable Yield Index ETF	0.25% of NAV

Prior to the acquisition on January 12, 2018, Sphere FTSE Canada Sustainable Yield Index ETF, Sphere FTSE Emerging Markets Sustainable Yield Index ETF and Sphere FTSE Europe Sustainable Yield Index ETF paid for all of their operating Expenses.

Unless otherwise waived or reimbursed by the Manager or an affiliate of the Manager, and subject to compliance with NI 81-102, including but not limited to: the applicable management fee, fees payable to the custodian, the registrar and transfer agent, the fund administrator, the auditors and other service providers retained by the Manager, expenses related to the implementation and on-going operation of the IRC, brokerage expenses and commissions, any costs associated with the printing and distribution of any documents that the securities regulatory authorities require be sent or delivered to purchasers of units of the Fund, the fees under any derivative instrument used by the Fund, the cost of complying with governmental or regulatory requirements introduced after the establishment of the applicable Fund; extraordinary expenses, any GST/HST on those expenses and any income, withholding or other taxes. Such expenses also included expenses of any action, suit or other proceedings in which or in relation to which the Manager, the custodian, the IRC and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by a Fund.

## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

Subsequent to the acquisition on January 12, 2018, a fixed administration fee is applied that results in a cap on certain operating expenses of 0.15% of net asset value in respect of Sphere FTSE Canada Sustainable Yield Index ETF, and Sphere FTSE Europe Sustainable Yield Index ETF and 0.25% of net asset value in respect of Sphere FTSE Emerging Markets Sustainable Yield Index ETF.

### Management Fees

Each Fund will pay the Manager a management fee as set forth in the table below based on the average daily NAV of the units of the Funds. Management Fees are the same for all classes on a fund level. The Manager, in its capacity as manager of each Fund, manages the day-to-day business of each Fund, including negotiating contractual agreements with service providers and preparing reports to Unitholders and securities regulatory authorities. The management fee, plus applicable taxes, will be accrued daily and paid monthly in arrears. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged at any given time. Expense payable to the Manager and receivable on expense waived by the Manager are disclosed in the Statement of Financial Position.

Fund Name	Management Fee (annual rate)
Evolve Active Canadian Preferred Share ETF	0.65% of NAV
Evolve Active Core Fixed Income ETF	0.45% of NAV
Evolve Active Short Duration Bond ETF	0.70% of NAV
Evolve Active US Core Equity ETF	0.70% of NAV
Evolve Automobile Innovation Index ETF	0.40% of NAV
Evolve Blockchain ETF	0.75% of NAV
Evolve Cyber Security Index ETF	0.40% of NAV
Evolve Global Healthcare Enhanced Yield ETF	0.45% of NAV
Evolve Innovation Index ETF	0.40% of NAV
Evolve Marijuana ETF	0.75% of NAV
Evolve North American Gender Diversity Index ETF	0.40% of NAV
Evolve US Banks Enhanced Yield ETF	0.45% of NAV
Sphere FTSE Canada Sustainable Yield Index ETF	0.45% of NAV
Sphere FTSE Emerging Markets Sustainable Yield Index ETF	0.54% of NAV
Sphere FTSE Europe Sustainable Yield Index ETF	0.50% of NAV

### Notes:

1. The management fee is exclusive of applicable GST/HST.
2. The management fee for Sphere FTSE Canada Sustainable Yield Index ETF was lowered from 0.54% to 0.45% of NAV on January 15th, 2018 following the change in manager from Sphere Investments Inc. to Evolve Funds Group Inc.
3. The management fee for Sphere FTSE Europe Sustainable Yield Index ETF was lowered from 0.54% to 0.50% of NAV on January 15th, 2018 following the change in manager from Sphere Investments Inc. to Evolve Funds Group Inc.

**Notes to Financial Statements (continued)** (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

The Manager may, in its discretion, agree to charge a reduced management fee as compared to the management fee that it otherwise would be entitled to receive from the Fund, provided an amount equal to the difference between the management fee otherwise chargeable and the reduced management fee is distributed periodically by the Fund to the applicable unitholders as a management fee distribution.

Costs and expenses payable by the Manager, or an affiliate of the Manager, include the initial organization costs of each of the Funds and the costs of the preparation and filing of the preliminary prospectus and initial prospectus.

**5. REDEEMABLE UNITS**

The market price quoted on the TSX per unit as at June 30, 2018 is presented in the following table:

<b>Fund Name</b>	<b>TSX Ticker Symbol</b>	<b>Market Price as at June 30, 2018</b>
Evolve Active Canadian Preferred Share ETF (Unhedged)	DIVS	20.64
Evolve Active Short Duration Bond ETF (Hedged)	TIME	19.15
Evolve Active Short Duration Bond ETF (Unhedged)	TIME.B	20.34
Evolve Active US Core Equity ETF (Hedged)	CAPS	22.04
Evolve Active US Core Equity ETF (Unhedged)	CAPS.B	23.44
Evolve Automobile Innovation Index ETF (Hedged)	CARS	20.51
Evolve Automobile Innovation Index ETF (Unhedged)	CARS.B	21.70
Evolve Automobile Innovation Index ETF (USD Unhedged)	CARS.U	24.63
Evolve Blockchain ETF (Unhedged)	LINK	14.93
Evolve Cyber Security Index ETF (Hedged)	CYBR	24.64
Evolve Cyber Security Index ETF (Unhedged)	CYBR.B	26.61
Evolve Global Healthcare Enhanced Yield ETF (Hedged)	LIFE	18.27
Evolve Global Healthcare Enhanced Yield ETF (Unhedged)	LIFE.B	19.82
Evolve Innovative Index ETF (Hedged)	EDGE	20.41
Evolve Marijuana ETF (Unhedged)	SEED	16.85
Evolve North American Gender Diversity Index ETF (Hedged)	HERS	21.24
Evolve North American Gender Diversity Index ETF (Unhedged)	HERS.B	22.49
Evolve US Banks Enhanced Yield ETF (Hedged)	CALL	20.45
Evolve US Banks Enhanced Yield ETF (Unhedged)	CALL.B	21.66
Sphere FTSE Canada Sustainable Yield Index ETF (Unhedged)	SHC	12.11
Sphere FTSE Emerging Markets Sustainable Yield Index ETF (Hedged)	SHZ	11.00
Sphere FTSE Europe Sustainable Yield Index ETF (Hedged)	SHE	10.33

The market price quoted on the NEO per unit as at June 30, 2018 is presented in the following table:

<b>Fund Name</b>	<b>TSX Ticker Symbol</b>	<b>Market Price as at June 30, 2018</b>
Evolve Active Core Fixed Income ETF (Unhedged)	FIXD	19.83

## Notes to Financial Statements (continued) (unaudited)

For the period ended June 30, 2018

(in Canadian dollars, unless otherwise indicated)

Each Fund is authorized to issue an unlimited number of redeemable, transferable units, each of which represents an equal, undivided interest in the net assets of that Fund. The units of the Funds are denominated in Canadian dollars.

All units of a Fund have equal rights and privileges. Each whole unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally with respect to any and all distributions made by a Fund to unitholders, other than management fee distributions, including distributions of net income and net realized capital gains and distributions upon the termination of the Fund. Any special distributions payable in units of a Fund will increase the aggregate adjusted cost base of a unitholder's units. Immediately following payment of such a special distribution in units, the number of units of that Fund outstanding will be automatically consolidated such that the number of units that each unitholder will hold after such distribution will be equal to the number of units held by such unitholder immediately prior to such distribution, except in the case of a non-resident unitholder to the extent tax is required to be withheld in respect of the distribution. Capital gains distributions are automatically reinvested in additional units of the Fund, which are immediately consolidated so that the NAV per unit remains unchanged. Units are issued only as fully-paid and are non-assessable.

On any trading day, unitholders may exchange the prescribed number of units (or an integral multiple thereof) for baskets of securities and/or cash. On any trading day, unitholders may redeem units of any Fund for cash at a redemption price per unit equal to 95% of the closing price for the applicable units on the TSX or NEO (the applicable exchange the units of the Fund being redeemed is trading on) on the effective day of redemption, subject to a maximum redemption price per unit equal to the NAV per unit on the effective day of redemption. A right to redeem units of a Fund may be suspended with the approval of the Canadian Securities Administrators.

Transactions in units for each Fund are disclosed in the Fund Specific Note to Financial Statements. The consideration for the purchase of creation units of a Fund generally consists of the in-kind contribution of a designated portfolio of equity securities constituting a portfolio sampling representation of the securities included in the relevant Fund's underlying Index and an amount of cash. Investors purchasing and redeeming creation units may be charged a purchase transaction fee and a redemption transaction fee to offset transfer and other transaction costs associated with the issuance and redemption of creation units.

Units issued and outstanding are considered to be capital of the Funds. The Funds are not subject to externally imposed capital requirements and have no legal restrictions on the issue, repurchase or resale of redeemable shares beyond those included in the Funds' prospectus. The capital received by a Fund is managed to achieve its investment objective of the Fund while maintaining liquidity to satisfy unitholder redemptions.

### 6. INCOME TAXES

The Funds, except for Evolve Active US Core Equity ETF, Evolve Active Short Duration Bond ETF and Evolve Global Healthcare Enhanced Yield ETF, qualify or intends to qualify as mutual fund trusts, under the provisions of the Income Tax Act (Canada) ("Act"). As at June 30, 2018, and December 31, 2017, the Evolve Active US Core Equity ETF, the Evolve Active Short Duration Bond ETF and the Evolve Global Healthcare Enhanced Yield ETF are considered to be financial institutions under the "Act" and are therefore subject to the mark-to-market rules with respect to their investments that qualify as 'mark to market property' under the Act. As a result, all realized gains and losses, and changes in unrealized gains and losses, with respect to mark-to-market property are taxed as income on a yearly basis.

Capital losses and non-capital losses available in the Funds are presented in the Fund Specific Notes to Financial Statements, as applicable. Capital losses may be carried forward indefinitely and used to reduce future realized capital gains. Non-capital losses may be used to reduce future net income and capital gains for up to twenty years. The Funds may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statement of Comprehensive Income.

Occasionally, distributions by the Funds will exceed the net investment income and taxable capital gains realized by the Funds. To the extent that the excess is not designated by the Funds to be income for Canadian tax purposes and taxable to holders of redeemable units, this excess distribution is a return of capital and is not immediately taxable to unitholders.