



Evolve ETFs

Interim Report | June 30, 2018

SPHERE FTSE CANADA  
SUSTAINABLE YIELD  
INDEX ETF

TSX: SHC

[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 Sphere FTSE Canada Sustainable Yield Index ETF (the “Fund”) seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the FTSE Canada Sustainable Yield 150 10% Capped Index (CAD) (the “Benchmark”), or any successor thereto. The Fund invests directly or indirectly in up to 150 Canadian equity securities of public issuers exhibiting relatively high and sustainable yields, as at the time of reconstitution or balancing.

### **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**

The Fund’s units commenced trading on April 11, 2016 with initial net asset value of \$10.00 and subscriptions totaling \$4 million. For the six-month period ended June 30, 2018, the Fund’s net asset value per unit returned -0.01%. This compares to the Benchmark, which returned 0.37% for the same period. The difference in the performance of the Fund relative to the Benchmark can be attributed primarily to management fees and expenses incurred by the Fund. The Fund’s net assets were \$12.325 MM as at June 30, 2018.

### **PORTFOLIO MANAGER COMMENTARY**

For the first six months of 2018, the S&P/TSX Composite Index returned 2%, with the energy sector as the top contributor returning 4.9% benefitting from the rally in the price of oil which appreciated over 20%. The financials sector was the top detractor returning -1.5% as the Bank of Canada raised the overnight lending rate by 25 basis points in January. The portfolio exhibited similar profile over the this period, with energy names being the top contributors and financials being the top detractors for the fund.

As the composition of the Fund’s portfolio is based on replicating the constituents of the Benchmark, macro-economic, political and market movements do not have a direct impact on the Fund’s investment strategy.

### **RECENT DEVELOPMENTS**

The fund is now managed by Evolve Funds Group Inc. following the acquisition that took place on January 12, 2018.

### **RELATED PARTY TRANSACTIONS**

The fund is now under the Management of Evolve Fund Group Inc. following the acquisition of the fund completed on January 12, 2018. The manager does not have an RPT with an affiliate of Canaccord Genuity. 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 0.45% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid quarterly. For the six-month period ended June 30, 2018, the Fund incurred \$35,786 in management fees. These management fees were received by Evolve Funds Group Inc. for the day-to-day operation of the fund, including managing the

## 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.

### 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 (\$)	March 30, 2016 to December 31, 2016 (\$)
Net Assets per Unit, beginning of period <sup>3</sup>	<b>12.33</b>	<b>\$11.77</b>	<b>\$10.00</b>
<b>Increase (decrease) from operations:</b>			
Total revenue	0.24	0.46	0.32
Total expenses	(0.04)	(0.08)	(0.06)
Realized gains (losses)	0.27	0.45	0.11
Unrealized gains (losses)	(0.59)	0.01	1.53
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(0.12)</b>	<b>0.84</b>	<b>1.90</b>
<b>Distributions:</b>			
From income (excluding dividends)	(0.21)	-	-
From dividends	-	(0.36)	(0.18)
From capital gains	-	(0.04)	-
Return of capital	-	(0.04)	-
<b>Total annual distributions<sup>3</sup></b>	<b>(0.21)</b>	<b>(0.44)</b>	<b>(0.18)</b>
<b>Net Assets per Unit, end of period</b>	<b>12.11</b>	<b>12.33</b>	<b>11.77</b>

### THE FUND'S RATIOS/SUPPLEMENTAL DATA

#### Unhedged Units - Ratios/Supplemental Data

For the periods ended:	June 30, 2018 (\$)	December 31, 2017 (\$)	March 30, 2016 to December 31, 2016 (\$)
Total Net Asset Value (\$) <sup>4</sup>	12,325,057	13,561,000	14,124,000
Number of units outstanding <sup>4</sup>	1,017,519	1,100,000	1,200,000
Management expense ratio <sup>5,6</sup>	0.68%	0.71%	0.70%
Management expense ratio before waivers or absorptions <sup>5</sup>	0.75%	1.65%	2.21%
Portfolio turnover rate <sup>7</sup>	33.67%	55.07%	16.25%
Trading expense ratio <sup>8</sup>	0.06%	0.01%	0.01%
Net asset value per unit	12.11	12.33	11.77
Closing market price	12.11	12.29	11.83

<sup>4</sup> The accompanying notes are an integral part of these financial statements.



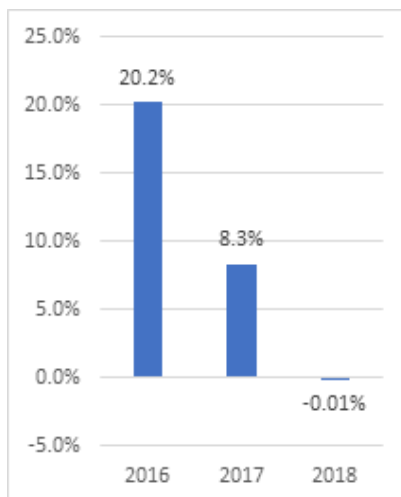
1. This information is derived from the Fund's unaudited interim financial statement as at June 30, 2018 and the audited annual financial statements as at December 31 of the other years shown. The Fund began operations on April 11, 2016.
2. Net assets and distributions are based on the actual number 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 of the other years shown.
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 Manager, at its discretion, absorbed certain expenses otherwise payable by the Fund. The Manager may change the amount absorbed or discontinue absorbing these expenses at any time without notice.
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.
8. 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.

## PAST PERFORMANCE

The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. The performance information shown assumes that all distributions made by the investment Fund in the periods shown were reinvested in additional securities of the investment fund. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

## YEAR-BY-YEAR RETURNS

The bar chart below presents the Fund's performance for the periods shown. The chart illustrates, in percentage terms, how much an investment made in the Fund on the first day (or, on the inception date, as the case may be) would have grown or decreased by the last day of the period.



## Summary of Investment Portfolio

### TOP 25 POSITIONS

As at June 30, 2018

Security	% of Net Asset Value
The Toronto-Dominion Bank	9.6
Royal Bank of Canada	9.4
The Bank of Nova Scotia	8.3
Suncor Energy Inc.	8.1
Enbridge Inc.	6.9
Bank of Montreal	6.1
TransCanada Corporation	4.7
Canadian Imperial Bank of Commerce	4.6
Manulife Financial Corporation	4.3
Nutrien Limited	4.2
Sun Life Financial Inc.	3.0
Pembina Pipeline Corporation	2.1
Rogers Communications Inc., Class 'B'	2.0
National Bank of Canada	2.0
Fortis Inc.	1.6
BCE Inc.	1.5
Thomson Reuters Corporation	1.4
Shaw Communications Inc., Class 'B' NV	1.1
Power Corporation of Canada	1.1
Inter Pipeline Limited	0.9
TELUS Corporation	0.9
Great-West Lifeco Inc.	0.8
RioCan Real Estate Investment Trust	0.7
Power Financial Corporation	0.7
Keyera Corporation	0.7
<b>Top holdings as a percentage of net asset value</b>	<b>86.7</b>

### INDUSTRY ALLOCATION

As at June 30, 2018

Portfolio by Category	% of Net assets Attributable to Unitholders June 30, 2018
Equities	
Consumer Discretionary	1.3
Consumer Staples	0.1
Energy	25.2
Financials	55.2
Industrials	1.8
Materials	4.4
Real estate	2.7
Telecommunication Services	4.4
Utilities	4.4
Cash and Cash Equivalents	0.2
Other Assets, less Liabilities	0.3
	<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)

	June 30, 2018 (\$)	December 31, 2017 (\$)
<b>Assets</b>		
<b>Current Assets</b>		
Investments, at fair value	12,268,001	13,614,356
Cash	18,540	44,203
Amounts receivable from Manager	354	34,548
Interest, dividends and other receivables	47,840	47,986
	<b>12,334,735</b>	<b>13,741,093</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Distributions payable to unitholders	–	128,238
Accrued expenses	9,678	51,830
	9,678	180,068
<b>Net assets attributable to holders of redeemable units</b>	<b>12,325,057</b>	<b>13,561,025</b>
<b>Net assets attributable to holders of redeemable units</b>		
Unhedged Units	<b>12,325,057</b>	<b>13,561,025</b>
<b>Net assets attributable to holders of redeemable units per unit</b>		
Unhedged Units	<b>12.11</b>	<b>12.33</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 periods ended June 30

(in Canadian dollars, except for number of units)

	<b>2018</b>	<b>2017</b>
	(\$)	(\$)
<b>Income</b>		
Dividend income	286,984	292,812
<b>Changes in fair value of investments</b>		
Net realized gain (loss)	320,184	516,095
Net change in unrealized appreciation (depreciation)	(699,743)	(767,145)
<b>Changes in fair value of derivative financial instruments</b>		
Net realized gain (loss)	–	(2)
<b>Other income (loss)</b>		
Net realized gain (loss) on foreign currency translations	129	(9)
Net change in unrealized appreciation (depreciation) on foreign currency translations	36	(29)
<b>Total Income (Loss)</b>	<b>(92,410)</b>	<b>41,722</b>
<b>Expenses</b>		
Management fees (Note 4)	35,786	47,736
Administrative fees (Note 4)	15,954	74,660
Interest expense and bank charges	228	–
Foreign withholding taxes (Note 6)	–	34
Transaction costs (Note 2)	4,082	1,581
Total expenses	56,050	124,011
Less: expenses absorbed by the Manager	(4,498)	(66,807)
<b>Net Expenses</b>	<b>51,552</b>	<b>57,204</b>
<b>Increase (decrease) in net assets attributable to unitholders from operations</b>	<b>(143,962)</b>	<b>(15,482)</b>
<b>Increase (decrease) in net assets attributable to unitholders from operations</b>		
<b>Unhedged Units</b>	<b>(143,962)</b>	<b>(15,482)</b>
<b>Increase (decrease) in net assets attributable to unitholders per unit from operations</b>		
<b>Unhedged Units</b>	<b>(0.12)</b>	<b>(0.01)</b>



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

For the periods ended June 30

(in Canadian dollars, except for number of units)

	2018 (\$)	2017 (\$)
<b>Net assets attributable to holders of redeemable units - beginning of period</b>	13,561,025	14,124,382
<b>Unhedged Units</b>		
<b>Net assets attributable to holders of redeemable units - beginning of period</b>		
Increase (decrease) in net assets attributable to holders of redeemable units from operations		
Unhedged Units	(143,962)	(15,482)
<b>Distributions to unitholders from:</b>		
Net investment income	(241,179)	(228,099)
	(241,179)	(228,099)
<b>Redeemable unit transactions:</b>		
Proceeds from sale of redeemable units	3,316,273	4,826,690
Redemption of units	(4,167,100)	(4,766,040)
Net increase (decrease) from redeemable unit transactions	(850,827)	60,650
Increase (decrease) in net assets attributable to holders of redeemable units for the period	(1,235,968)	(182,931)
<b>Net assets attributable to holders of redeemable units - end of period</b>		
<b>Unhedged Units</b>	12,325,057	13,941,451

**Statement of Cash Flows (unaudited)**

For the periods ended June 30

(in Canadian dollars, except for number of units)

	<b>2018</b>	<b>2017</b>
	<b>(\$)</b>	<b>(\$)</b>
<b>Cash Flows from (used in) Operating Activities</b>		
Increase (decrease) in net assets attributable to unitholders from operations	(143,962)	(15,482)
Adjustments for:		
Change in unrealized foreign exchange (gain) loss on currency	(25)	–
Realized (gain) loss on investments	(320,184)	(516,095)
Realized (gain) loss on derivatives	–	
Change in unrealized (appreciation) depreciation in the value of investments	699,743	767,145
Change in unrealized (appreciation) depreciation in the value of derivatives	–	–
Purchases of investments <sup>2</sup>	(4,630,394)	(7,290,441)
Proceeds from sale and maturity of investments	1,493,357	7,118,265
(Increase) decrease in interest, dividends and other receivables	146	(26,980)
(Increase) decrease in receivable from manager	34,194	2,931
Increase (decrease) in accrued expenses	(42,152)	50,127
<b>Net cash generated by (used in) operating activities</b>	<b>(2,909,277)</b>	<b>89,470</b>
<b>Cash Flows from (used in) Financing Activities</b>		
Distributions paid to unitholders, net of reinvested distributions	(369,417)	(162,549)
Proceeds from sale of units <sup>2</sup>	3,316,273	4,826,690
Payments for units redeemed	(63,267)	(4,766,040)
<b>Net cash provided by (used in) financing activities</b>	<b>2,883,589</b>	<b>(101,899)</b>
Change in unrealized foreign exchange gain (loss) on currency	25	–
<b>Net increase (decrease) in cash</b>	<b>(25,688)</b>	<b>(12,429)</b>
Cash - beginning of period	44,203	62,434
<b>Cash - end of period</b>	<b>18,540</b>	<b>50,005</b>
<b>Supplemental Information:<sup>1</sup></b>		
Dividends received, net of foreign withholding taxes	287,130	295,709

<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 Discretionary (1.3%)</b>			
725	Cineplex Inc.	33,022	21,156
304	Dorel Industries Inc., Class 'B'	9,582	6,779
4,895	Shaw Communications Inc., Class 'B' NV	127,508	131,088
		<b>170,112</b>	<b>159,023</b>
<b>Consumer Staples (0.1%)</b>			
547	The North West Company Inc.	15,467	16,038
<b>Energy (25.2%)</b>			
2,395	Birchcliff Energy Limited	7,904	11,544
17,992	Enbridge Inc.	959,870	845,624
1,441	Enbridge Income Fund Holdings Inc.	46,109	46,458
1,410	Ensign Energy Services Inc.	10,642	8,277
4,328	Inter Pipeline Limited	116,004	106,642
2,333	Keyera Corporation	89,020	85,341
1,470	Parkland Fuel Corporation	39,050	47,481
844	Pason Systems Inc.	15,164	18,163
5,721	Pembina Pipeline Corporation	232,584	260,477
1,908	PEYTO Exploration & Development Corporation	47,687	19,309
18,580	Suncor Energy Inc.	793,955	994,030
10,114	TransCanada Corporation	583,352	575,284
1,239	Vermilion Energy Inc.	57,386	58,741
4,101	Whitecap Resources Inc.	41,353	36,540
		<b>3,040,080</b>	<b>3,113,911</b>
<b>Financials (55.2%)</b>			
1,685	Artis Real Estate Investment Trust	21,480	22,090
7,378	Bank of Montreal	668,073	749,752
1,490	Canadian Apartment Properties Real Estate Investments	45,337	63,519
4,996	Canadian Imperial Bank of Commerce	541,635	571,343

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

As at June 30, 2018

No. of Shares		Average Cost (\$)	Fair Value (\$)
996	Canadian Western Bank	29,866	34,511
2,113	Choice Properties Real Estate Investment Trust	25,140	25,588
2,962	CI Financial Corporation	81,732	69,992
796	Dream Office Real Estate Investment Trust	17,570	18,650
4,374	Element Fleet Management Corporation	37,951	27,031
180	First National Financial Corporation	4,802	5,134
445	Genworth MI Canada Inc.	15,633	19,037
3,176	Great-West Lifeco Inc.	112,907	102,648
940	IGM Financial Inc.	37,500	35,823
1,196	Industrial Alliance Insurance and Financial Services Inc.	60,881	60,697
469	Laurentian Bank of Canada	24,524	21,039
22,329	Manulife Financial Corporation	495,397	527,411
3,844	National Bank of Canada	200,088	242,633
565	Northview Apartment Real Estate Investment Trust	10,866	14,848
4,442	Power Corporation of Canada	136,297	130,772
2,831	Power Financial Corporation	94,577	87,053
11,752	Royal Bank of Canada	1,047,102	1,163,330
6,986	Sun Life Financial Inc.	331,141	369,070
13,763	The Bank of Nova Scotia	999,088	1,024,518
15,731	The Toronto-Dominion Bank	995,420	1,196,972
3,205	Thomson Reuters Corporation	174,083	170,025
593	TMX Group Limited	38,416	51,105
		<b>6,247,506</b>	<b>6,804,591</b>
<b>Industrials (1.8%)</b>			
664	Aecon Group Inc.	11,381	10,265
638	NFI Group Inc.	31,022	31,288
706	Russel Metals Inc.	20,762	18,970
981	TFI International Inc.	28,459	39,780
709	Transcontinental Inc., Class 'A'	14,991	21,646
580	Westshore Terminals Investment Corporation	13,506	13,821
1,156	WSP Global Inc.	54,365	80,018
		<b>174,486</b>	<b>215,788</b>

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

As at June 30, 2018

No. of Shares		Average Cost (\$)	Fair Value (\$)
<b>Materials (4.4%)</b>			
493	Norbord Inc.	23,107	26,652
7,240	Nutrien Limited	460,971	517,805
		<b>484,078</b>	<b>544,457</b>
<b>Real Estate (2.7%)</b>			
1,058	Allied Properties Real Estate Investment Trust	36,895	44,277
1,846	Dream Global Real Estate Investment Trust	24,529	26,509
1,677	First Capital Realty Inc.	34,545	34,647
533	Granite Real Estate Investment Trust	22,965	28,579
3,297	H&R Real Estate Investment Trust, REIT	71,507	66,336
304	Morguard Real Estate Investment Trust	4,326	4,025
3,682	RioCan Real Estate Investment Trust	95,715	88,920
1,341	SmartCentres Real Estate Investment Trust	42,347	40,941
		<b>332,829</b>	<b>334,234</b>
<b>Telecommunication Services (4.4%)</b>			
3,452	BCE Inc.	200,944	183,784
4,030	Rogers Communications Inc., Class 'B'	221,999	251,633
2,278	TELUS Corporation	102,110	106,384
		<b>525,053</b>	<b>541,801</b>
<b>Utilities (4.4%)</b>			
4,785	Algonquin Power & Utilities Corporation	58,038	60,770
850	ATCO Limited, Class 'I'	40,675	34,493
1,371	Canadian Utilities Limited, Class 'A'	49,500	45,517
1,172	Capital Power Corporation	25,344	29,570
659	Emera Inc.	30,204	28,205
4,833	Fortis Inc.	203,338	203,083
3,432	Hydro One Limited	79,046	68,777

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

As at June 30, 2018

<b>No. of Shares</b>		<b>Average Cost (\$)</b>	<b>Fair Value (\$)</b>
1,109	Just Energy Group Inc.	7,472	5,257
1,231	Northland Power Inc.	28,265	30,196
1,593	Superior Plus Corporation	18,103	20,247
968	TransAlta Renewables Inc.	13,688	12,043
		<b>553,673</b>	<b>538,158</b>
	<b>Transaction Costs</b>	-2,330	-
	<b>Total Investments (99.5%)</b>	<b>11,540,954</b>	<b>12,268,001</b>
	<b>Other assets and liabilities (0.5%)</b>		57,056
	<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>		<b>12,325,057</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
Sphere FTSE Canada Sustainable Yield Index ETF	1,226,800

#### 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 Fund had no significant investments in fixed-income investments. Refer to the Schedule of Investment Portfolio for the foreign currency contracts' counterparty credit ratings.

#### 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 Discretionary	1.3
Consumer Staples	0.1
Energy	25.2
Financials	55.2

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

As at June 30, 2018

Industrials	1.8
Materials	4.4
Real estate	2.7
Telecommunication Services	4.4
Utilities	4.4
Cash and Cash Equivalents	0.2
Other Assets, less Liabilities	0.3
	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:

<b>FINANCIAL ASSETS (LIABILITIES) (\$)</b>				
	Level 1	Level 2	Level 3	Total
Equities	12,268,001	–	–	12,268,001
<b>Total</b>	<b>12,268,001</b>	<b>–</b>	<b>–</b>	<b>12,268,001</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)**

The unitholder transactions for the period ended June 30, 2018 are as follows:

<b>UNHEDGED UNITS</b>	
<b>Number of redeemable units outstanding - Beginning of period</b>	1,100,000
Issued	267,519
Reinvested	-
Redeemed	(350,000)
<b>Number of redeemable units outstanding - End of period</b>	<b>1,017,519</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.

Fund Name	Administration Fee (annual rate)
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.

<b>Fund Name</b>	<b>Management Fee (annual rate)</b>
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.