



Evolve ETFs

Evolve U.S. Marijuana ETF

June 30, 2019

Interim Management Report of Fund Performance

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 or SEDAR at 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.

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Investment Objective and Strategies

The Evolve US Marijuana ETF (the "Fund") seeks to provide holders of units with long-term capital appreciation by actively investing in a diversified mix of equity securities of issuers that are involved in the U.S. marijuana industry where state and local laws regulate and permit such activities.

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 April 17, 2019, no performance data can be shown. The Fund's net assets were \$4.259MM as at June 30, 2019.

Portfolio Manager Commentary

The pressure to legalize marijuana at a Federal level in the U.S. - the world's largest market - continued to intensify during the first half, fueling optimism that the Feds will eventually give into public demand. Although 11 states have so far legalized marijuana for personal use, possessing and selling the drug remains a federal offence.

But lawmakers have already enacted protections for the 47 states where medical marijuana is legal in some form or another. In June, the Democratic-controlled House voted to block the Justice Department from interfering with states that have legalized marijuana for recreational use.(i)

As a result, analysts are bullish about the industry's growth. In a research note released in June, Canaccord Genuity analyst Bobby Burleson forecasted that legal-channel U.S. sales would hit roughly \$22 billion by 2022, more than double the \$10 billion last year.(ii)

The impetus for the stronger outlook appears to be Illinois becoming the 11th state to legalize adult-use marijuana. As well, Maine's governor signed a bill in June that spelled out how Maine residents can grow, buy, and sell legal marijuana, putting the state in line to legalize marijuana soon. Industry observers estimate Maine's cannabis market will reach US\$107 million in 2020.(iii)

In May, a bipartisan group of attorneys general from 33 states and five territories urged Congress to advance the Secure and Fair Enforcement Banking Act (SAFE Act) that would allow cannabis businesses access to the federal banking system. Currently, banks providing services to state-approved cannabis businesses could face criminal and civil liability under some banking statutes.(iv) Consequently, marijuana companies are largely financed through the issue of shares.

Anticipated growth in the marijuana sector has been marked by a surge in M&A transactions, with several Canadian companies also participating.

Curaleaf Holdings, Inc, a leading vertically integrated cannabis operator in the U.S., announced in May that it has acquired exclusive rights to operate the Emerald dispensary in Arizona, one of the state's largest and longest standing medical cannabis retailers, serving over 44,000 unique patients since 2014.(v) In June Curaleaf also announced that it is buying the regulated cannabis business of Cura Partners Inc., a maker of oil for vape pens, in a stock deal valued at about US\$950 million, in what is the largest acquisition so far between U.S. cannabis companies.(vi)

MedMen is in the midst of buying privately held PharmaCann for \$682 million in an all-stock acquisition; Cresco Labs is ponying up \$823 million in an all-stock deal to purchase cannabis distribution license holder Origin House; Harvest Health agreed to buy privately held Verano Holdings for approximately \$850 million in an all-stock deal; and iAnthus Capital completed a nearly \$600 million deal to buy MPX Bioceutical earlier this year.(vii)

In May, Canopy Growth reached an agreement to acquire New-York based Acreage Holdings Inc., a multistate operator in the U.S., giving it the right to acquire all of the company's shares, if and when cannabis is legalized at the Federal level. Canopy also signed a deal to buy the UK-based skin-care company This Works for \$73.8 million in cash, as part of its entry into the natural wellness industry and to boost its international presence. This Works currently offers a range of natural skincare and sleep products globally.(viii)

Canadian cannabis producer, OrganiGram commenced trading on the NASDAQ in May, joining other Canadian companies like Canopy Growth Corp., Aurora Cannabis, Tilray and Cronos Group. Aphria, HEXO, Village Farms, and CannTrust Holdings, which are also listed on major U.S. exchanges.

OrganiGram also announced a \$15 million investment in chocolate cannabis edibles and a high-speed, high-capacity, fully automated production line that will have the ability to produce an estimated four million kilograms of chocolate cannabis edibles annually.(ix)

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Performance Attribution

The Fund held a 40% allocation by weight to large cannabis and cannabis-related stocks, with the largest weights in this category to Curaleaf Holdings Inc. and Canopy Growth Corp.; and a 36% weight in emerging companies in the sector, with the largest exposure to Zynerba Pharmaceuticals Inc. The remaining portion of the portfolio was held in ancillary stocks. The best performing stock during the month was Zynerba Pharmaceuticals Inc., followed by Innovative Industrial Properties.

(i) <https://www.apnews.com/dbc5f186271949e3863539904aea1cd4>

(ii) <https://www.fool.com/investing/2019/07/07/us-marijuana-sales-should-more-than-double-to-22-b.aspx>

(iii) <https://www.bnnbloomberg.ca/cannabis-canada-why-pot-stocks-saw-steep-declines-in-q2-1.1280464>

(iv) <https://www.cnn.com/2019/05/09/politics/attorneys-general-marijuana-banking-bill/index.html>

(v) <https://finance.yahoo.com/news/curaleaf-announces-acquisition-sixth-dispensary-120000416.html>

(vi) <https://www.usatoday.com/story/news/nation/2019/06/25/legal-weed-illinois-approves-recreational-marijuana-criminal-reform/1552697001/>

(vii) <https://www.fool.com/investing/2019/07/07/us-marijuana-sales-should-more-than-double-to-22-b.aspx>

(viii) <https://www.bnnbloomberg.ca/pot-grower-canopy-to-buy-british-skin-care-company-1.1262513>

(ix) <https://potstocknews.com/organigram-edible-investing-nasdaq/>

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 six-month period ended June 30, 2019, the Fund incurred \$6,508 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 website, and providing all other services including marketing and promotion.

Administration Fees

The administration fees are calculated based on 0.15% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the six-month period ended June 30, 2019, the Fund incurred \$2,170 in administration fees. These administration fees were received by Evolve Funds Group Inc. for the following operating expenses of the Fund including but not limited to: mailing and printing expenses for periodic reports to unitholders; Registrar and Transfer Agent and Custodian; any reasonable out of pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Fund; IRC committee member fees and expenses in connection with the IRC; expenses related to compliance with NI 81-107; fees and expenses relating to voting of proxies by a third party; insurance coverage for the members of the IRC; fees payable to the auditors and legal advisors of the Fund; regulatory filing, stock exchange and licensing fees and CDS fees; costs and expenses of complying with all applicable laws, regulations and policies, including expenses and costs incurred in connection with the continuous public filing requirements such as permitted prospectus preparation and filing expenses; and legal, accounting and audit fees and fees and expenses of the Trustee, Custodian and Manager which are incurred in respect of matters not in the normal course of the Fund's activities. The administration fee paid to the Manager by the Fund, in any particular period, be less than or exceed the operating expenses that the Manager incurs for that class.

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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 Unit¹

	June 30, 2019 (\$)
For the periods ended:	
Unhedged Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	20.58
Increase (decrease) from operations:	
Total revenue	0.18
Total expenses	(0.08)
Realized gains (losses)	(0.15)
Unrealized gains (losses)	(3.97)
Total increase (decrease) from operations³	(4.02)
Net Assets per Unit, end of period	17.04

- 1 This information is derived from the Fund's unaudited interim financial statements as at June 30, 2019. The Fund began operations on April 17, 2019.
- 2 This amount represents the initial launch price.
- 3 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.

The Fund's Ratios/Supplemental Data

	June 30, 2019
For the periods ended:	
Unhedged Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁴	4,259,384
Number of units outstanding ⁴	250,000
Management expense ratio ⁵	1.19%
Trading expense ratio ⁶	0.77%
Portfolio turnover rate ⁷	3.41%
Net Asset Value per unit (\$)	17.04
Closing market price (\$)	17.01

- 4 This information is provided as at June 30, 2019.
- 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 April 17, 2019, providing performance data for the period is not permitted.

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Summary of Investment Portfolio

Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Canopy Growth Corporation	6.5
Curaleaf Holdings Inc.	5.5
Charlottes Web Holdings Inc.	5.2
Green Thumb Industries Inc.	5.1
Acreage Holdings Inc.	5.1
Cresco Labs Inc.	5.0
Zynerba Pharmaceuticals Inc.	3.9
MedMen Enterprises Inc.	3.9
Harvest Health & Recreation Inc.	2.9
Flower One Holdings Inc.	2.8
TerrAscend Corporation	2.7
The Scotts Miracle-Gro Company, Class 'A'	2.3
Trulieve Cannabis Corporation	2.2
Mercer Park Brand Acquisition Corporation	2.1
Cara Therapeutics Inc.	2.1
GrowGeneration Corporation	2.1
New Age Beverages Corporation	2.1
GW Pharmaceuticals PLC, ADR	2.0
Constellation Brands Inc.	2.0
22nd Century Group Inc.	2.0
Evolve Global Healthcare Enhanced Yield Fund	2.0
iAnthus Capital Holdings Inc.	2.0
Green Growth Brands Inc.	2.0
CVS Health Corporation	1.9
Planet 13 Holdings Inc.	1.9
Total	77.3

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Consumer Discretionary	24.1
Consumer Staples	9.7
Energy	1.2
ETFs - International Equity	2.0
Financials	5.7
Health Care	46.0
Industrials	0.9
Information Technology	0.5
Materials	5.2
Cash & Cash Equivalents	4.0
Other Assets, less Liabilities	0.7
	100.0

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.



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