

Evolve Dividend Stability Preferred Share Index ETF

December 31, 2021

Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-844-370-4884, by writing to us at Evolve Funds, 40 King Street West, Suite 3404, Toronto, ON, M5H 3Y2 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 Dividend Stability Index ETF (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive Dividend Stability Canada Preferred Share Index (the "Benchmark"), or any successor thereto. The Fund invests primarily in preferred equity securities of companies listed in Canada.

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

For the year ended December 31, 2021, the Unhedged ETF Units returned 5.8% versus the Solactive Dividend Stability Canada Preferred Share Index PR return of 1.5%. The difference in performance of the unhedged units relative to its benchmark can be attributed primarily to management and administration fees plus applicable sales taxes, to portfolio trading strategies and to the assumption that all distributions made by the investment fund were reinvested in additional securities whereas the index performance is of price return only. The Fund's net assets were \$38.6MM as at December 31, 2021.

Portfolio Manager Commentary

North American markets made solid gains in 2021. In Canada, the S&P/TSX Composite Index returned 21.7%, while the S&P/TSX Composite Index was up 24.4%.

In the U.S., the S&P 500 gained 26.9% (US\$), while the Dow Jones Industrial Average rose 18.7% (US\$) and the Nasdaq Composite 21.4% (US\$).

Comparatively, the broad markets outperformed preferred shares which gained 13.6% on the S&P/TSX Preferred Shares Index.

The lack of new preferred share supply and several redemptions, coupled with the expectations of future redemptions because of the issue of Limited Recourse Capital Notes (LRCN), contributed to the positive returns for the market. In addition, rising yields and the expectation of higher inflation has made the preferred share market a sought-after asset class.

Following the issuance of LRCNs, preferred shares rose because investors recognized that a large portion of the Canadian preferred share market would be redeemed in the coming quarters. In 2020, \$3.4 billion worth of preferred shares were redeemed; and by mid-October 2021, over \$7 billion were redeemed so far for the year, with another \$1.5 billion-plus expected to be redeemed by the end of the year.(i)

Incidentally, LRCN allow financial institutions to count the security as preferred equity on their balance sheets, except that they pay interest and get an interest deduction on them. This means that LRCNs are much cheaper for banks to issue, than paying after-tax preferred dividends.(ii)

In June, The Royal Bank of Canada, the pioneer in the LRCN space in Canada, announced the offering of \$1 billion of non-viability contingent capital (NVCC) Additional Tier 1 (AT1) Limited Recourse Capital Notes, Series 3 (LRCNs). The LRCNs will bear interest at a rate of 3.65% annually, payable semi-annually, for the initial period ending November 24, 2026. Thereafter, the interest rate on the LRCNs will reset every five years at a rate equal to the prevailing 5-year Government of Canada Yield plus 2.665%. The LRCNs will mature on November 24, 2081.(iii)

In December, BCE Inc. announced that 501,717 of its 22,735,621 fixed-rate Cumulative Redeemable First Preferred Shares, Series AK have been tendered for conversion on December 31, 2021, on a one-for-one basis, into floating-rate Cumulative Redeemable First Preferred Shares, Series AL. In addition, 956,408 of its 2,254,079 Series AL Preferred Shares have been tendered for conversion on December 31, 2021, on a one-for-one basis, into Series AK Preferred Shares.(iv)

Power Corporation also announced in December that it intends to redeem all 86,100 of its outstanding Cumulative Redeemable First Preferred Shares, 1986 Series on January 15, 2022.(v)

On the other hand, Canadian Utilities Limited announced in November that it has entered into an agreement with a syndicate of underwriters who have agreed to buy 7,000,000 4.75% Cumulative Redeemable Second Preferred Shares Series HH at a price of \$25.00 per share for aggregate gross proceeds of \$175,000,000. The proceeds will be used for capital expenditures, to repay indebtedness and for other general corporate purposes.(vi)

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Performance Attribution

For the 12-month period ending December 31, 2021, TC Energy Corp., followed by Enbridge Inc. and Brookfield Asset Management Inc. made the biggest contribution to the Fund. By weight, the Fund's largest exposure at the end of the year was to TC Energy Corp, followed by Enbridge Inc. and Pembina Pipeline Corp.

(i) <https://www.morningstar.ca/ca/news/215641/preferred-shares-still-have-room-to-run.aspx>

(ii) <https://www.morningstar.ca/ca/news/215641/preferred-shares-still-have-room-to-run.aspx>

(iii) <https://ca.finance.yahoo.com/news/royal-bank-canada-announces-nvcc-205100615.html>

(iv) <https://www.prnewswire.com/news-releases/bce-reports-results-of-series-ak-and-al-preferred-share-conversions-301447209.html>

(v) <https://www.newswire.ca/news-releases/power-corporation-announces-redemption-of-preferred-shares-819486641.html> Power Corporation

(vi) <https://www.canadianutilities.com/en-ca/about-us/news/2021/122645-canadian-utilities-limited-announces-preferred-share-issue.html>

Recent Developments

In the year 2021, the COVID-19 pandemic persisted and continued to result in unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty and volatility in the financial markets and have had an enormous impact on businesses and consumers in all sectors. The duration and impact of these developments is unknown at this time and as such, the financial impact to investments cannot be estimated.

Related Party Transactions

Evolve Funds Group Inc. (the "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 generally paid monthly. For the year ended December 31, 2021, the Fund incurred \$145,654 in management fees. These management fees were received by the Manager 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 year ended December 31, 2021, the Fund incurred \$64,217 in administration fees. These administration fees were received by the Manager 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 may, in any particular period, be less than or exceed the operating expenses that the Manager incurs for the Fund.

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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

| For the periods ended: | December 31, 2021 (\$) | December 31, 2020 (\$) | December 31, 2019 (\$) |
|--|------------------------------|------------------------------|------------------------------|
| Unhedged ETF Units - Net Assets per Unit | | | |
| Net Assets per Unit, beginning of period | 24.97 | 25.38 | 25.00 |
| Increase (decrease) from operations: | | | |
| Total revenue | 1.19 | 1.25 | 0.34 |
| Total expenses | (0.16) | (0.18) | (0.07) |
| Realized gains (losses) | 0.97 | (0.06) | 0.01 |
| Unrealized gains (losses) | (0.59) | 0.65 | 0.39 |
| Total increase (decrease) from operations² | 1.41 | 1.66 | 0.67 |
| Distributions: | | | |
| From dividends | (0.98) | (0.99) | (0.12) |
| From capital gains | (0.06) | - | - |
| Return of capital | (0.10) | (0.15) | (0.17) |
| Total annual distributions³ | (1.14) | (1.14) | (0.29) |
| Net Assets per Unit, end of period | 25.25 | 24.97 | 25.38 |

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2021, 2020, and 2019. The Fund effectively began operations on September 24, 2019.
- 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.

The Fund's Ratios/Supplemental Data

| For the periods ended: | December 31, 2021 | December 31, 2020 | December 31, 2019 |
|--|----------------------|----------------------|----------------------|
| Unhedged ETF Units - Ratios/Supplemental Data | | | |
| Total Net Asset Value (\$) ⁴ | 38,589,691 | 34,658,310 | 29,944,328 |
| Number of units outstanding ⁴ | 1,528,044 | 1,388,044 | 1,180,000 |
| Management expense ratio ⁵ | 0.55% | 0.64% | 0.67% |
| Trading expense ratio ⁶ | 0.08% | 0.09% | 0.31% |
| Portfolio turnover rate ⁷ | 94.82% | 80.14% | 11.28% |
| Net Asset Value per unit (\$) | 25.25 | 24.97% | 25.38 |
| Closing market price (\$) | 25.23 | 24.97 | 25.38 |

- 4 This information is provided as at December 31, 2021, 2020, and 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.

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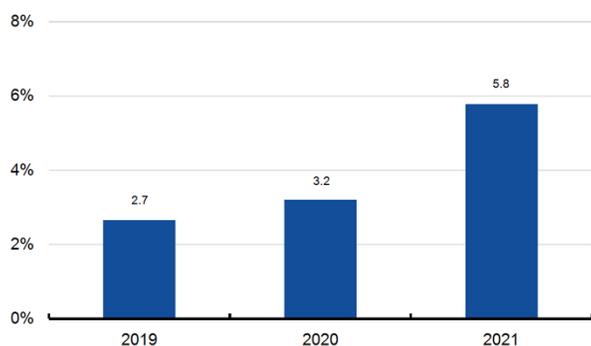
Past Performance

The performance information does not take into account sales, redemption, distribution, income taxes payable by any unitholder 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 shows the Unhedged ETF Units' performance for each of the financial years shown. The chart shows, in percentage terms, how much an investment made in the Fund on the first day of each financial year would have grown or decreased by the last day of each financial year.

PREF Unhedged ETF Units¹



¹ The Unhedged ETF Units of the Fund effectively began operations on September 24, 2019.

Annual Compound Return

The table below shows the historical annual compound total return of the Unhedged ETF Units. The returns are for period ended December 31, 2021. For a discussion of the relative performance of the Fund as compared to the index, please refer to the "Results of Operations" section in the "Management Discussion of Fund Performance".

| | Since Inception ¹ (%) | 1 Year (%) |
|--|-------------------------------------|---------------|
| Unhedged ETF Units | 5.1 | 5.8 |
| Solactive Dividend Stability Canada Preferred Share Index PR | 0.9 | 1.5 |

¹ From inception date of September 24, 2019.

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Summary of Investment Portfolio

Top 25 Positions

| Security | Percentage of Net Asset Value (%) |
|--|---|
| TC Energy Corporation, Preferred, Series '15' | 8.4 |
| Enbridge Inc., Preferred, Series '17', Perpetual | 6.2 |
| Enbridge Inc., Preferred, Series '19' | 4.2 |
| Pembina Pipeline Corporation, Preferred, Series '21' | 3.4 |
| Manulife Financial Corporation, Preferred, Series '2' | 2.8 |
| Pembina Pipeline Corporation, Preferred, Series '23' | 2.5 |
| Great-West Lifeco Inc., Preferred, Series 'G' | 2.5 |
| Brookfield Infrastructure Partners Limited Partnership, Preferred, Series '7' | 2.5 |
| AltaGas Limited, Preferred, Series 'K' | 2.5 |
| Sun Life Financial Inc., Preferred, 4.450%, Series '4' | 2.4 |
| Manulife Financial Corporation, Preferred, Series '3' | 2.4 |
| Great-West Lifeco Inc., Preferred, Series 'H' | 2.4 |
| Brookfield Asset Management Inc., Preferred, Series '46' | 2.4 |
| Great-West Lifeco Inc., Preferred, 4.500%, Series 'I' | 2.4 |
| Power Financial Corporation, Preferred, Series 'S' | 2.3 |
| Brookfield Office Properties Inc., Preferred, 5.100%, Series 'EE' | 2.2 |
| Pembina Pipeline Corporation, Preferred, Series '25' | 2.1 |
| Power Corporation of Canada, Preferred, Series 'D' | 2.1 |
| Great-West Lifeco Inc., Preferred, Series 'P', Perpetual | 2.1 |
| Brookfield Renewable Partners Limited Partnership, Preferred, Series '13', Perpetual | 2.0 |
| Brookfield Renewable Partners Limited Partnership, Preferred, Series '11' | 2.0 |
| Sun Life Financial Inc., Preferred, Series '5' | 2.0 |
| Sun Life Financial Inc., Preferred, 4.450%, Series '3', Perpetual | 2.0 |
| Power Financial Corporation, Preferred, Series 'K' | 2.0 |
| Canadian Utilities Limited, Preferred, Series 'DD' | 1.8 |
| Total | 69.6 |

Industry Allocation

| Portfolio by Category | Percentage of Net Asset Value (%) |
|--------------------------------|---|
| Equities | |
| Consumer Discretionary | 0.9 |
| Consumer Staples | 3.3 |
| Energy | 27.8 |
| Financials | 51.1 |
| Utilities | 14.8 |
| Cash and Cash Equivalents | 2.5 |
| Other Assets, less Liabilities | (0.4) |
| Total | 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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