



Artemis

Investment Management



## ENERGY INCOME FUND

SEMI-ANNUAL REPORT

JUNE 30, 2017

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# MANAGEMENT REPORT OF FUND PERFORMANCE

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## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Energy Income Fund (the “Fund”) contains financial highlights but does not contain either the interim financial statements or annual financial statements of the Fund. You may obtain a copy of either the interim or annual financial statements, at no cost, by calling 416-934-7455, or by sending a request to Investor Relations, Artemis Investment Management Limited, 1325 Lawrence Avenue E., Suite 200, Toronto, ON, M3A 1C6, Canada or by visiting our website at [www.artemisfunds.ca](http://www.artemisfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Holders of units (“Unitholders”) may also contact us using one of these methods to request a copy of the Fund’s interim financial report, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

## THE FUND

The Fund is a closed-end investment trust. Artemis Investment Management Limited is the investment fund manager of the Fund (“Artemis” or the “Manager”). The Fund has one class of units (each, a “Unit”) outstanding. The Units trade on the Toronto Stock Exchange (“TSX”) under the symbol ENI.UN. The Fund’s portfolio is managed by Vestcap Investment Management Inc. (the “Portfolio Advisor”).

## INVESTMENT OBJECTIVES AND STRATEGIES

Energy Income Fund’s investment objective is to provide Unitholders with monthly cash distributions and achieve a total return on a portfolio (“Portfolio”) of securities (the “Portfolio Securities”) that is greater than the total return provided by the benchmark index, as selected by the Manager from time to time. For the year ended December 31, 2011 and subsequent periods, the benchmark index used was the iShares S&P/TSX Capped Energy Index.

The Fund invests its assets in a Portfolio comprised of Portfolio Securities, without reference to any specific issuer or security, among several asset classes including oil and gas securities, energy securities, other resource securities, and cash and short term investments.

## RISKS

There are a number of risks associated with an investment in Energy Income Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the Net Asset Value (“NAV”) of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund’s portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates, interest rates and general business operation risks, any of which may affect the issuers’ income and as a result reduce the value of its securities. Diversification and active management by the Fund’s Portfolio Advisor of the securities held in the Portfolio may reduce these risks.

There were no changes in the period ended June 30, 2017 that materially affected the risks associated with an investment in Units of the Fund. For a list of risks, see the Fund’s annual information form dated March 27, 2017 on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

The NAV of the Fund decreased from \$13.17 million to \$11.74 million from January 1, 2017 to June 30, 2017. Total revenue per Unit for the period ended June 30, 2017 was \$0.042, compared to \$0.006 for the same period in 2016. Operations for the period resulted in a decrease in NAV per Unit of \$0.252 compared to an increase of \$0.206 for 2016.

Total administrative expenses for the period ended June 30, 2017 were \$0.009 per Unit compared to \$0.008 for the same period in 2016. Management fees increased for the period to \$0.010 per Unit (2016 – \$0.009). Investment management fees also increased for the period to \$0.006 per Unit (2016 – \$0.005). On a per Unit basis, the increase in administrative expenses, management fees and investment management fees were due to an increase in the average weighted NAV of the Fund between both periods. Excluding the expenses discussed above, all other expenses of the Fund for the period ended June 30, 2017 were \$0.015 per Unit (2016 – \$0.025).

## MANAGEMENT REPORT OF FUND PERFORMANCE

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The Fund continued to hold an elevated net cash balance over the period ended June 30, 2017, with 17.61% of the Fund's NAV being comprised of cash (2016 – 20.82%). With a continued oversupply of oil, particularly due to the new shale oil discoveries, the commodity has struggled to regain the momentum it had lost in recent years. The Fund outperformed the Energy sector in the first half of 2017. This can be attributed to its exposure to utilities and pipelines, which have performed much better than the oil producing companies. OPEC members have collectively imposed production cuts that will run through until March 2018. However, a historical lack of compliance to OPEC production limits is responsible for maintaining a higher than average cash balance during the period.

The NAV per Unit, after distributions to Unitholders, decreased 10.88% for the period ended June 30, 2017. During the period, the Fund paid total cash distributions of \$0.06 per Unit.

There were no unusual trends in redemptions for the period ended June 30, 2017, with no redemptions occurring over the period.

### TRADING PREMIUM/DISCOUNT

For the period ended June 30, 2017, the Fund traded at an average discount to its NAV per Unit of 22.1%, compared to an average discount of 23.8% for the same period in 2016.

### RECENT DEVELOPMENTS

#### Monthly distribution for 2017

On January 12, 2017, the Fund announced distributions for 2017 of \$0.01 per Unit per month. Unitholders of record on the last day of each month of 2017 will be paid cash distributions of \$0.01 on the 15th day (or first business date thereafter) of the ensuing month.

#### Redemptions

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). The public float as determined on January 2, 2016 was 4,263,597 Units and 10% of the public float was 426,360 Units. From January 1, 2017 to June 30, 2017, the Fund did not repurchase any Units for cancellation.

#### General overhead cost to Artemis

The Fund pays a general overhead cost to Artemis. For the period ended June 30, 2017, Artemis received \$5,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead and office supplies.

### RELATED PARTY TRANSACTIONS

The Manager is entitled to receive a management fee of 0.70% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly. For the period ended June 30, 2017, management fees totaled \$47,794 (2016 – \$46,176), of which \$9,373 was payable as at June 30, 2017 (2016 – \$9,747). The Fund is responsible for all expenses incurred on its behalf. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Portfolio Advisor receives a fee of 0.40% per annum of the average NAV of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the period ended June 30, 2017, investment management fees totaled \$27,311 (2016 – \$26,386), of which \$5,356 was payable as at June 30, 2017 (2016 – \$5,570).

Administrative expenses for the period ended June 30, 2017 totaled \$42,216 (2016 – \$40,088). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis received \$5,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead and office supplies.

The Manager is entitled to receive a fee of 5% of the NAV per Unit redeemed or repurchased plus applicable taxes. For the period ended June 30, 2017, redemption fees totaled nil (2016 – nil) of which nil was payable as at June 30, 2017 (2016 – nil).

## MANAGEMENT REPORT OF FUND PERFORMANCE

### FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

#### The Fund's Net Assets per Unit <sup>(1)</sup>

For the Periods Ended	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
<b>Net Assets per Unit, Beginning of Year</b>	\$ 2.85	\$ 2.44	\$ 3.60	\$ 4.39	\$ 4.98
<b>Increase (decrease) From Operations:</b>					
Total Revenue	0.04	0.05	0.16	0.18	0.20
Total Expenses (excluding distributions)	(0.04)	(0.08)	(0.14)	(0.15)	(0.53)
Realized Gains (Losses)	0.04	(0.56)	(1.00)	0.13	0.13
Unrealized Gains (Losses)	(0.30)	1.11	(0.06)	(0.81)	0.06
<b>Total Increase (decrease) from Operations <sup>(2)</sup></b>	\$ (0.25)	\$ 0.52	\$ (1.03)	\$ (0.64)	\$ (0.15)
<b>Distributions:</b>					
From Net Investment Income (excluding dividends)	—	—	—	—	—
From Dividends	—	—	—	—	—
From Capital Gains	—	—	—	—	—
Return of Capital	0.06	0.12	0.12	0.12	0.36
<b>Total Annual Distributions per Unit <sup>(3)</sup></b>	0.06	0.12	0.12	0.12	0.36
<b>Net Assets per Unit, at End of Period</b>	\$ 2.54	\$ 2.85	\$ 2.44	\$ 3.60	\$ 4.38

(1) For financial years beginning before January 1, 2013, the financial statements of the Fund were prepared in accordance with Canadian GAAP, whereas for financial periods beginning January 1, 2013, the financial statements of the Fund have been prepared in accordance with IFRS. This information is derived from the Fund's audited annual financial statements. The net assets per Unit presented in the financial statements differ from the net asset value per Unit calculated for fund pricing purposes because of the provisions of CPA Handbook Section 3855. An explanation of the differences can be found in the notes to the financial statements.

(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 financial period.

(3) Distributions were paid in cash.

## MANAGEMENT REPORT OF FUND PERFORMANCE

### RATIOS AND SUPPLEMENTAL DATA

For the Periods Ended	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
<b>Total Net Asset Value (\$ 000's) <sup>(1)</sup></b>	<b>\$ 11,736</b>	\$ 13,173	\$ 12,305	\$ 20,170	\$ 27,213
Number of Units Outstanding (000's) <sup>(1)</sup>	<b>4,622</b>	4,619	5,041	5,596	6,211
Management Expense Ratio <sup>(2)</sup>	<b>2.97%</b>	2.89%	3.98%	3.06%	11.49%
Trading Expense Ratio <sup>(3)</sup>	<b>0.04%</b>	0.11%	0.35%	0.13%	0.43%
Portfolio Turnover Ratio <sup>(4)</sup>	<b>13.52%</b>	22.92%	31.52%	15.22%	70.69%
Net Asset Value Per Unit	<b>\$ 2.54</b>	\$ 2.85	\$ 2.44	\$ 3.60	\$ 4.38
Closing Market Price per Unit	<b>\$ 1.96</b>	\$ 2.23	\$ 1.82	\$ 2.70	\$ 3.34

(1) This information is provided as at the date shown.

(2) Management expense ratio is based on total expenses (excluding 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.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Advisor manages 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 year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in a year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

# MANAGEMENT REPORT OF FUND PERFORMANCE

## MANAGEMENT FEES

The Manager is entitled to receive a management fee of 0.70% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. The Portfolio Advisor receives a fee of 0.40% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services.

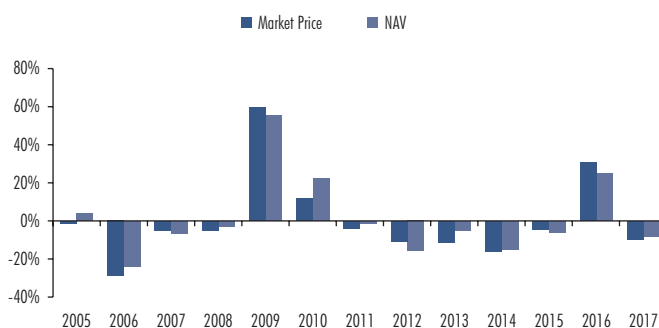
## PAST PERFORMANCE

The Fund's performance numbers represent the annual compound total returns over the period from inception in October 2005 to June 30, 2017 (except for returns of less than one year which are compounded total returns). Total returns are based upon both the Fund's change in market price or net assets per unit plus the reinvestment of all distributions in additional Units of the Fund on the reinvestment dates for the year.

Returns do not take into account sales, redemptions or income taxes payable. Past performance of the fund does not necessarily indicate how it will perform in the future.

The total return of the Fund for the period ended June 30, 2017 was negative 8.31% measured in terms of its NAV. The total return of the market price per Unit of the Fund for the period ended June 30, 2017 was negative 9.58%.

### Year By Year Returns



The Fund commenced operations as of October 2005. For 2016 and prior years, this represents the annual return, unadjusted for the exercise of warrants, for the twelve-month period ended December 31.

## MANAGEMENT REPORT OF FUND PERFORMANCE

### SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2017

Total Net Assets: \$ 11,736,302

The major portfolio categories and top holdings of the Fund at the end of the period are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates are available at [www.artemisfunds.ca](http://www.artemisfunds.ca).

<b>Portfolio by Sector</b>	<b>% of Total Net Assets</b>
Canadian Equities	
Oil & Gas Corporations	66.0%
Materials	6.6%
Utilities	5.7%
Total Canadian Equities	78.3%
International Equities (U.S., U.K., Bermuda)	5.3%
Other Assets, Net of Liabilities	16.4%
<b>Total Net Assets</b>	<b>100.0%</b>

### TOP 25 HOLDINGS (as a % of Total Net Assets)

As at June 30, 2017

Other assets, net of liabilities	16.4%	Northland Power Inc.	5.7%
Pembina Pipeline Corp.	12.1%	Enbridge Inc.	5.3%
Whitecap Resources Inc.	9.8%	Parkland Fuel Corp.	5.3%
Vermilion Energy Inc.	8.8%	Brookfield Renewable Energy Partners LP	5.3%
Teck Resources Ltd.	6.6%	TransCanada Corp.	3.7%
Canadian Natural Resources Ltd.	6.4%	Seven Generations Energy Ltd.	2.7%
PrairieSky Royalty Ltd.	6.1%	<b>% of Total Net Assets</b>	<b>100.0%</b>
AltaGas Ltd.	5.8%		



## MANAGEMENT REPORT OF FUND PERFORMANCE

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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent the Manager's or Portfolio Advisor's expectations regarding future events. By their nature, forward-looking statements must be based on assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this document are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Actual results may differ materially from the Manager's or Portfolio Advisor's expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, foreign exchange rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's prospectus, Annual Information Form and other investor documentation. The foregoing list of factors is not exhaustive and when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, neither the Fund nor the Manager undertakes, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Financial Statements of

# **ENERGY INCOME FUND**

For the six-month period ended June 30, 2017 (unaudited)



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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The interim financial statements of Energy Income Fund (the "Fund") have been prepared by Artemis Investment Management Limited ("Artemis"). Artemis is responsible for the information and representations contained in these financial statements and the other sections of the Semi-Annual Report.

Artemis maintains appropriate procedures to ensure that relevant and reliable financial information is produced. The significant accounting policies applicable to the Fund are described in Note 4 to the financial statements.

The auditors of the Fund have not reviewed these financial statements.

Artemis, the Manager and Trustee of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

(signed) **Michael J. Killeen**

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Michael J. Killeen  
Chief Executive Officer

(signed) **Trevor Maunder**

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Trevor Maunder  
Chief Financial Officer

## STATEMENTS OF FINANCIAL POSITION

As at June 30, 2017 (unaudited) and December 31, 2016 (audited)

	2017	2016
<b>Assets</b>		
Financial assets at fair value through profit or loss (note 4)	\$ 9,807,646	\$ 11,711,915
Cash	2,066,988	1,641,929
Dividends receivable	33,969	33,698
Other receivables	40,891	38,211
	<u>11,949,494</u>	<u>13,425,753</u>
<b>Liabilities</b>		
Distributions payable	46,222	46,193
Management fees and investment fees payable (note 8)	14,729	13,224
Accounts payable and accrued liabilities (note 8)	152,241	193,115
	<u>213,192</u>	<u>252,532</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>\$ 11,736,302</u>	<u>\$ 13,173,221</u>
<b>Number of redeemable units outstanding (note 7)</b>	<u>4,622,184</u>	<u>4,619,269</u>
<b>Net assets attributable to holders of redeemable units per unit</b>	<u>\$ 2.54</u>	<u>\$ 2.85</u>

See accompanying notes to the financial statements.

Approved on behalf of Energy Income Fund by  
the Board of Directors of Artemis  
Investment Management Limited:

Michael J. Killeen  
Director

Trevor Maunder  
Director

## STATEMENTS OF COMPREHENSIVE INCOME

Six-month periods ended June 30 (unaudited)

	2017	2016
<b>Income</b>		
Dividends	\$ 219,939	\$ 166,265
Interest income for distribution purposes	974	3,895
Foreign exchange loss	(24,760)	(137,887)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss		
Net realized gain (loss) on sale of investments	189,415	(2,272,719)
Change in unrealized appreciation (depreciation) on investments	(1,365,406)	3,520,465
<b>Total net income (loss)</b>	<b>(979,838)</b>	<b>1,280,019</b>
<b>Expenses</b>		
Management fees (note 8)	47,794	46,176
Investment management fees (note 8)	27,311	26,386
Administrative (note 8)	42,216	40,088
Legal fees	5,451	7,500
Regulatory and listing	—	10,000
Unitholder servicing	20,397	30,200
Custody, valuation and transfer fees	9,750	29,800
Audit and review fees	24,864	25,000
Independent review committee fees	5,585	15,000
Portfolio transaction costs (note 11)	2,617	9,368
	<u>185,985</u>	<u>239,518</u>
<b>Operating profit (loss) before tax</b>	<b>(1,165,823)</b>	<b>1,040,501</b>
<b>Withholding taxes/reclaims</b>	<b>—</b>	<b>—</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	<b>\$ (1,165,823)</b>	<b>\$ 1,040,501</b>
<b>Weighted average number of units outstanding</b>	<b>4,620,639</b>	<b>5,042,660</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit <sup>(1)</sup></b>	<b>\$ (0.25)</b>	<b>\$ 0.21</b>

(1) Based on the weighted average number of units outstanding during the period.

See accompanying notes to the financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

Six-month periods ended June 30 (unaudited)

	2017	2016
<b>Net assets attributable to holders of redeemable units, beginning of period</b>	\$ 13,173,221	\$ 12,305,270
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	(1,165,823)	1,040,501
<b>Redeemable unit transactions (note 7)</b>		
Reinvested distributions	6,160	5,095
	<u>6,160</u>	<u>5,095</u>
<b>Distributions to holders of redeemable units</b>		
Return to holders of redeemable units	(277,256)	(302,576)
	<u>(277,256)</u>	<u>(302,576)</u>
<b>Net increase (decrease) in net assets attributable to holders of redeemable units for the period</b>	<u>(1,436,919)</u>	<u>743,020</u>
<b>Net assets attributable to holders of redeemable units, end of period</b>	<u>\$ 11,736,302</u>	<u>\$ 13,048,290</u>
<b>Distributions per unit</b>	<u>\$ 0.06</u>	<u>\$ 0.06</u>

See accompanying notes to the financial statements.

## STATEMENTS OF CASH FLOWS

Six-month periods ended June 30 (unaudited)

	2017	2016
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units from operations	\$ (1,165,823)	\$ 1,040,501
Adjustments for:		
Net realized (gain) loss on sale of investments	(189,415)	2,272,719
Portfolio transaction costs	2,617	9,368
Foreign exchange loss on cash	24,760	137,887
Change in unrealized (appreciation) depreciation in value of investments	1,365,406	(3,520,465)
Purchases of investments	(813,605)	(2,023,574)
Proceeds from sale of investments	1,539,266	2,984,932
Decrease (increase) in dividends and interest receivable	(271)	8,492
Decrease (increase) in other receivables and prepaid expenses	(2,680)	45,885
Increase (decrease) in management fees payable	1,505	(176)
Decrease in accounts payables and accrued liabilities	(40,874)	(121,428)
	<u>720,886</u>	<u>834,141</u>
<b>Cash flows used in financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(271,067)	(297,453)
	<u>(271,067)</u>	<u>(297,453)</u>
<b>Foreign exchange loss on cash</b>		
	(24,760)	(137,887)
Net increase in cash	425,059	398,801
Cash, beginning of period	1,641,929	2,344,356
<b>Cash, end of period</b>	<u>\$ 2,066,988</u>	<u>\$ 2,743,157</u>
<b>Supplemental information</b>		
Dividends received, net of withholding taxes	\$ 219,668	\$ 174,757
Interest received, net of withholding taxes	974	—
Interest paid	—	—

See accompanying notes to the financial statements.

## SCHEDULE OF INVESTMENTS

June 30, 2017 (unaudited)

Number of shares / par value	Investments owned	Average cost	Fair value	% of net assets
<b>CANADIAN EQUITIES</b>				
<b>Oil and Gas Corporations</b>				
23,000	AltaGas Ltd.	\$ 770,022	\$ 682,640	5.8
20,000	Canadian Natural Resources Ltd.	633,425	748,400	6.4
12,000	Enbridge Inc.	618,120	619,920	5.3
21,000	Parkland Fuel Corp.	540,048	623,910	5.3
33,000	Pembina Pipeline Corp.	924,164	1,417,349	12.1
24,400	PrairieSky Royalty Ltd.	599,363	720,532	6.1
14,500	Seven Generations Energy Ltd.	367,880	322,045	2.7
7,090	TransCanada Corp.	308,071	438,304	3.7
25,000	Vermilion Energy Inc.	1,012,696	1,028,500	8.8
123,675	Whitecap Resources Inc.	1,072,290	1,145,231	9.8
		6,846,079	7,746,831	66.0
<b>Materials</b>				
34,385	Teck Resources Ltd.	701,946	772,975	6.6
<b>Utilities</b>				
28,900	Northland Power Inc.	652,828	667,590	5.7
	<b>TOTAL CANADIAN EQUITIES</b>	8,200,853	9,187,396	78.3
<b>INTERNATIONAL EQUITIES</b>				
15,000	Brookfield Renewable Energy Partners LP	394,391	620,250	5.3
	<b>TOTAL INTERNATIONAL EQUITIES</b>	394,391	620,250	5.3
	Transaction costs	(17,308)		
	<b>Total investments</b>	<u>\$ 8,577,936</u>	\$ 9,807,646	83.6
	<b>Other assets, net of liabilities</b>		1,928,656	16.4
	<b>Total net assets attributable to holders of redeemable units</b>		\$ 11,736,302	100.0

See accompanying notes to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

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## 1. THE FUND

### (a) Establishment of the Fund

Energy Income Fund (the "Fund") is the name of the combined fund resulting from the merger on October 4, 2010 of Sustainable Production Energy Trust, Energy Plus Income Trust and CGF Resource 2008 Flow Through LP. The address of the Fund's registered office is 1325 Lawrence Avenue East, Suite 200, Toronto, ON, M3A 1C6, Canada.

### (b) Description of the Fund

The Fund is a closed-end investment trust. Artemis Investment Management Limited is the investment fund manager of the Fund ("Artemis" or the Manager). The Fund has one class of units (each, a "Unit") outstanding. The Units trade on the Toronto Stock Exchange ("TSX") under the symbol ENI.UN. The Fund's portfolio is managed by Vestcap Investment Management Inc. (the "Portfolio Advisor"). The financial statements were authorized for issue by the Manager on August 16, 2017.

## 2. INVESTMENT OBJECTIVES OF THE FUND

The Fund's investment objectives are to provide the Unitholders with monthly cash distributions and to achieve a total return on the portfolio that is greater than the total return provided by the benchmark index, as selected by the Manager from time to time. The benchmark index is the iShares S&P/TSX Capped Energy Index.

## 3. INCOME TAXES

The Fund is a mutual fund trust within the meaning of the *Income Tax Act* (Canada) and is subject to applicable federal and provincial taxes on the amount of net income for tax purposes for the year; to the extent such net income for tax purposes has not been paid or made payable to Unitholders in the year.

The Fund may be liable to pay income or profits tax on income or gains derived from investments in the U.S. and other foreign countries. Such income and gains are recorded on a gross basis and the related withholding taxes are shown separately in the statements of comprehensive income (loss).

As of December 31, 2016, the Fund had non-capital losses of approximately \$988,606 (2015 – \$988,606) that start to expire in 2033, and capital losses of approximately \$21,167,378 (2015 – \$18,309,762). Capital losses can be carried forward indefinitely and offset against capital gains in future years.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") including International Accounting Standard 34 ("IAS 34"): Interim Financial Reporting, as published by the International Accounting Standard Board ("IASB").

### (a) Cash

Cash includes balances with banks at fair value.

### (b) Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss ("FVTPL"). The Fund's obligation for net assets attributable to holders of redeemable Units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, on the accrual basis based on the bond coupon rate. The Fund's accounting policies for

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

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measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (“NAV”) for transactions with Unitholders.

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

### (c) Valuation of investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day’s bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. See note 6 for a description of each fair value hierarchy level.

### (d) Investment transactions and income recognition

- i. Investment transactions are accounted for on the trade date.
- ii. Interest income for distribution purposes is recognized on an accrual basis based on the bond coupon rate.
- iii. Dividend income is recorded on the ex-dividend date.
- iv. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

### (e) Foreign currency translation

The functional and presentation currency of the Fund is the Canadian dollar.

The fair value of investments and other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rates prevailing on each valuation date.

Purchases and sales of investments, and income and expenses denominated in foreign currencies are converted into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions. Realized exchange gains (losses) on investments, and unrealized exchange gains (losses) on investments, if any, are included in net realized gain on sale of investments and change in unrealized appreciation (depreciation) in value of investments in the statements of comprehensive income.

### (f) Distributions

Distributions to Unitholders are recorded by the Fund when declared.

### (g) Securities lending

The Fund may lend portfolio securities in order to earn additional revenue. The minimum allowable collateral is 102% of the current value of the loaned securities as per the requirements of National Instrument 81-102. The market value of the loaned securities is determined on the close of any valuation date, and any additional required collateral is made by the Fund on the next business day. The securities on loan continue to be included on the Schedule of Investments and are included in the total value on the Statements of Financial Position in financial assets at FVTPL.

As at June 30, 2017 and December 31, 2016, the Fund had no securities on loan.

### (h) Increase (decrease) in net assets attributable to holders of redeemable Units per Unit

Increase (decrease) in net assets attributable to holders of redeemable Units per Unit represents the net increase (decrease) in net assets attributable to holders of redeemable Units from operations divided by the average Units outstanding during the periods.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

### (i) Future accounting changes

The IASB has issued the following new standard and amendments to existing standards that are not yet effective. The Fund has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

In November 2009, IFRS 9, Financial Instruments (“IFRS 9”), was issued and subsequently amended October 2010. This is the first phase of the project on classification and measurement of financial assets and liabilities. IFRS 9 will replace IAS 39, Financial Instruments – Recognition and Measurement (“IAS 39”) and will be completed in three phases, which include limited amendments to classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. Accounting for macro hedging was removed from IFRS 9 and is expected to be issued as a separate standard. IFRS 9 is effective for fiscal years beginning on or after January 1, 2018. The standard on general hedge accounting was issued and included as part of IFRS 9 in July 2014.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires Management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting estimates and judgments that the Fund has made in preparing the financial statements:

### Fair value measurement of derivatives and securities not quoted in an active market

Fair values of instruments not quoted in active markets are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 6 for further information about the fair value measurement of the Fund’s financial instruments.

## 6. FAIR VALUE DISCLOSURES

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

- Level 1        inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date;
- Level 2        inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3        inputs that are unobservable for the financial asset or liability and include situations where there is little, if any, market activity for the financial asset or liability. The inputs into the determination of fair value require significant management judgment or estimation.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2017 and December 31, 2016.

June 30, 2017	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Equities	\$ 9,807,646	\$ —	\$ —	\$ 9,807,646

There were no transfers between levels during the period ended June 30, 2017.

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Equities	\$ 11,711,915	\$ —	\$ —	\$ 11,711,915

There were no transfers between levels during the year ended December 31, 2016.

All fair value measurements above are recurring. The carrying values of cash, dividends receivable, other receivables, distributions payable, management fees and investment management fees payable and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case, it is classified as Level 3.

As of June 30, 2017 and December 31, 2016, the Fund had no securities that were classified as Level 3 financial instruments.

## 7. UNITS ISSUED AND OUTSTANDING

### (a) Authorized

The authorized capital of the Fund consists of an unlimited number of trust Units which are transferable redeemable Units of beneficial interest.

The Fund's redeemable Units entitle Unitholders the right to redeem their interest in the Fund for cash equal to their proportionate share of the NAV of the Fund, amongst other contractual rights. These redeemable Units involve multiple contractual obligations on the part of the Fund and therefore meet the criteria for classification as financial liabilities. The Fund's obligation for net assets attributable to Unitholders is measured at FVTPL, with fair value being the redemption amount as of the reporting date.

The following Unit transactions took place during the periods ended June 30, 2017 and 2016:

### (b) Units issued and outstanding

For the periods ended	June 30, 2017	June 30, 2016
Units, beginning of period	4,619,269	5,041,315
Issued under distribution reinvestment plan ("DRIP")	2,915	2,788
Units, end of period	4,622,184	5,044,103

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

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### (c) Redemptions and retractions

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period. The Fund did not repurchase any Units for cancellation during the periods ended June 30, 2017 and 2016.

Unitholders are entitled to retract their Units outstanding on the last business day of each month at an amount equal to (a) the lesser of: (i) 90% of the weighted average trading price of a Unit on the TSX during the preceding 15 trading days and (ii) the closing market price on the TSX on that day, less (b) any retraction costs.

Unitholders are also entitled to retract their Units outstanding on the second last business day of each November (the "Annual Redemption Date") at an amount equal to 100% of the NAV per Unit determined as of the Annual Redemption Date less any retraction costs. Any such Units must be surrendered for redemption at least 20 business days prior to a Redemption Date.

Pursuant to an annual redemption in November 2016, 426,360 Units were redeemed for a total cost of \$1,169,378.

Pursuant to an annual redemption in November 2015, 559,597 Units were redeemed for a total cost of \$1,477,560.

## 8. RELATED PARTY TRANSACTIONS

The Fund is responsible for all expenses incurred on its behalf. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Manager is entitled to receive a management fee of 0.70% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly. For the period ended June 30, 2017, management fees totaled \$47,794 (2016 – \$46,176), of which \$9,373 was payable as at June 30, 2017 (2016 – \$9,747).

The Portfolio Advisor receives a fee of 0.40% per annum of the average NAV of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the period ended June 30, 2017, investment management fees totaled \$27,311 (2016 – \$26,386), of which \$5,356 was payable at June 30, 2017 (2016 – \$5,570).

Administrative expenses for the period ended June 30, 2017 totaled \$42,216 (2016 – \$40,088). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis receives \$5,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies.

For redemptions or repurchases, the Manager is entitled to receive a fee per Unit of 5% of the NAV per Unit plus applicable taxes.

## 9. PORTFOLIO TRANSACTION COSTS

For the period ended June 30, 2017, the Fund incurred portfolio transaction costs of \$2,617 (2016 – \$9,368). These costs are recorded separately in the Statements of Comprehensive Income as an expense for the period. The Fund paid \$470 in soft dollar commissions for the period ended June 30, 2017 (2016 – \$nil).

## 10. FINANCIAL RISK MANAGEMENT

The Fund aims to provide Unitholders with monthly distributions primarily through investments in energy-related companies. As a result, the Fund is exposed to the risk of being invested, on a concentrated basis, in these asset classes. The Fund's Manager uses a disciplined, fundamental approach in its investment selection and portfolio management approach which consists of an intensive and ongoing research process of investment opportunities. The Manager

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

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purchases and holds securities for the Fund for the short to medium term and also determines the timing of when to rotate the Fund's portfolio in order to enhance the Fund's portfolio performance and/or limit risk.

### (a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in being invested in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a weekly basis and positions are maintained within established ranges.

The most significant exposure to market risk is from equity securities. As at June 30, 2017, had the prices on the benchmark index raised (lowered) by 5%, with all other variables held constant, net assets attributable to holders of redeemable Units would have increased (decreased) by approximately \$328,524 (2.8% of NAV) (December 31, 2016 — \$417,569, 3.2% of NAV). In practice, the actual results may differ and the difference could be material. The benchmark index is the iShares S&P/TSX Capped Energy Index.

### (b) Foreign currency risk

Foreign currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The schedule of investments identifies all investments denominated in foreign currencies. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value.

As at June 30, 2017, the Fund invested approximately 6.6% (December 31, 2016 — 6.0%) of the net assets in U.S. currency. At June 30, 2017, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets attributable to holders of redeemable Units would have decreased (increased) by \$38,475 (0.3% of NAV) (December 31, 2016 — \$39,660, 0.3% of NAV). In practice, the actual results may differ and the difference could be material.

### (c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments.

As at June 30, 2017, the Fund had approximately 100% of the investment portfolio in equity securities (December 31, 2016 — 100%). Cash and short-term investments earn minimal interest. As at June 30, 2017 and December 31, 2016, the majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to a significant amount of interest rate risk.

### (d) Credit risk

Credit risk is the risk that an issuer or a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. All transactions in listed securities are settled (paid for) upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The fair value of debt securities includes consideration of the creditworthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by their carrying amount.

The Fund's cash is mainly held with Royal Bank of Canada, which is rated AA (December 31, 2016 — AA) based on DBRS ratings. The Manager monitors the financial position on an ongoing basis. As at June 30, 2017 and December 31, 2016, the Fund had no significant exposure to credit risk.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2017 (unaudited)

### (e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial obligations. The Fund is exposed to a monthly redemption of Units at which time the Units of the Fund are redeemed at the current transactional net assets per Unit. Liquidity risk is managed by investing the Fund's assets in investments that can be readily disposed of.

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at June 30, 2017 and December 31, 2016, the Fund's liquidity risk is considered minimal.

### (f) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

Sector	Percentage of NAV	
	June 30, 2017	December 31, 2016
Canadian Equities		
Oil and gas corporations	66.0	73.2
Materials	6.6	6.1
Utilities	5.7	5.1
International equities	5.3	4.5
Other assets less liabilities	16.4	11.1
Total	100.0	100.0

## 11. CAPITAL MANAGEMENT

The Fund's capital is its net assets attributable to holders of redeemable Units. The Manager maintains the Fund's capital in accordance with its investment objectives, strategies and restrictions, as detailed in the Amended and Restated Declaration of Trust as of March 7, 2014.

## 12. FINANCIAL INSTRUMENTS BY CATEGORY

The Fund's financial instruments as at June 30, 2017 and December 31, 2016 are designated as FVTPL with the exception of dividends receivable, other receivables, distributions payable, management fees and investment management fees payable and accounts payable and accrued liabilities, which are classified as loans and receivables.

For the periods ended June 30, 2017 and December 31, 2016, the Fund's net gains (losses) on financial instruments with the exception of derivatives, were all on financial instruments designated as FVTPL.

## 13. RECENT DEVELOPMENTS

### Monthly distributions for 2017

On January 13, 2017, the Fund announced distributions for 2017 of \$0.01 per Unit per month. Unitholders of record on the last day of each month of 2017 would be paid distributions on the 15th day (or first business day thereafter) of the ensuing month.

## CORPORATE INFORMATION

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### MANAGER/TRUSTEE

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### PORTFOLIO ADVISOR

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### AUDITOR

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### STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Energy Income Fund Units: **ENI.UN**

### INDEPENDENT REVIEW COMMITTEE

Peter Chodos

John Mills

Michael Newman

### DIRECTORS OF THE MANAGER/TRUSTEE

Michael J. Killeen — Director

Trevor Maunder — Director

Gavin Swartzman — Director

### OFFICERS OF THE MANAGER/TRUSTEE

Michael J. Killeen — Chief Executive Officer

Trevor Maunder — Chief Financial Officer and Secretary

Sean Lawless — Chief Compliance Officer

### CUSTODIAN

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