

Evolve E-Gaming Index ETF

December 31, 2022

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 E-Gaming Index ETF (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive eGaming Index (the "Benchmark"), or any successor thereto. The Fund primarily invests in equity securities of companies listed domestically and globally, and other issuers, with business activities in the gaming industry.

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, 2022, the Hedged ETF Units returned -29.6% versus the Solactive eGaming Index PR CAD Hedged return of -28.7%. The difference in performance of the hedged units relative to its benchmark can be attributed primarily to management and administration fees plus applicable sales taxes, to portfolio trading and hedging 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 \$26.0MM as at December 31, 2022.

Portfolio Manager Commentary

The COVID-19 lockdowns in 2021 and early 2022 caused e-Gaming popularity to surge as consumers sought out safe in-home entertainment options during quarantine. e-Gaming is now one of the largest entertainment platforms, with 79% of the world's population engaging in e-games and video games in one way or another.¹ Even as lockdowns eased, share prices in the e-Gaming industry remained relatively stable due to the large portion of subscription-based revenue that e-Gaming companies often enjoy. In fact, the global subscription-based e-Gaming market was estimated to be valued at \$7.82 billion in 2021, and it is expected to grow to \$14.71 billion by 2027, registering a CAGR of 10.68% over the forecast period of 2022 to 2027.²

Regardless of its popularity, the e-Gaming industry faced some headwinds during the year such as online gaming limitations put in place by the Chinese government and a decrease in the number of new game releases. The Chinese government tightened limitations on young online gamers, barring them from using video games on school days, and limiting use to one hour a day on weekend and holiday evenings.³ 2022 was also a slow year for new game releases as the development of many popular titles was delayed due to COVID-19 restrictions. Although, the pace of new game releases is expected to change going into 2023 and 2024, with many cult classics and highly anticipated sequels scheduled to be released.⁴ The year was also marked by many noteworthy M&A deals in the e-Gaming industry. Most notably, Microsoft's acquisition of Activision Blizzard Inc., a holding in this Fund, for nearly \$70 billion as announced on January 18, 2022.⁵ If completed, the deal would be Microsoft's largest acquisition ever as well as the largest acquisition in the history of the e-gaming industry. However, in December, the Federal Trade Commission (FTC) announced that they will seek to block the acquisition on anti-competitive concerns, citing, "(the) Agency alleges that maker of Xbox would gain control of top video game franchises, enabling it to harm competition in high-performance gaming consoles and subscription services by denying or degrading rivals' access to its popular content."⁷ Also in January of 2022, Take-Two Interactive, a holding in this Fund, announced the acquisition of Zynga for \$12.7 billion (Zynga was also a holding in this Fund, until the acquisition was completed in May 2022).⁶ Even Nintendo Co Ltd, another holding in this Fund, which has been traditionally quiet in the M&A space, acquired a few studios such as Dynamo Pictures and SRD Co Ltd.⁸

Activision Blizzard Inc. announced strong earnings results for its third fiscal quarter on November 7th, beating earnings per share (EPS) estimates and revenue expectations. Analysts had anticipated EPS of \$0.42 per share, but Q3 2022 EPS was reported as \$0.55 per share.⁹ Activision Blizzard's net revenues were \$1.78 billion, as compared with \$2.07 billion for the third quarter of 2021.¹⁰ Electronic Arts (EA), a holding in this Fund, announced financial results for its second fiscal quarter ended September 30th in November, announcing diluted earnings per share of \$1.07 vs. \$1.02 at the end of the same quarter in 2021. Total net income was also up slightly at \$299 million vs. \$294 million as compared to the same period. In fact, the quarter marked several milestones for the e-Gaming company, including growing their EA player network to more than 600 million active accounts at quarter end, and their most successful launch in franchise history with the launch of FIFA 23 with more than 10.3 million players joining the game within the first week. EA also repurchased 2.6 million shares for \$325 million during the quarter, bringing the total for the trailing twelve months to 10.0 million shares for \$1.295 billion.¹¹ Take-Two Interactive reported mixed results when it announced its second fiscal quarter 2023 earnings in November of 2022. During the quarter, net revenue increased 62% to \$1.4 billion, as compared to \$858.2 million in the previous year's fiscal second quarter. Recurrent consumer spending increased 95% and accounted for 79% of total GAAP net revenue. Although, net loss was \$257.0 million, or \$1.54 per share, as compared to net income of \$10.2 million, or \$0.09 per diluted share, for the comparable period in 2021.¹² The e-Gaming company also revised its earnings outlook for early 2023, saying that it would be significantly lower than previously expected.¹³

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Performance Attribution

For the twelve month period ending December 31, 2022, Activision Blizzard Inc. made the biggest contribution to the Fund, followed by Nexon Co. Ltd. and Capcom Co. Ltd. By weight, the Fund's largest holdings were Activision Blizzard Inc., NetEase Inc., and Electronic Arts Inc.

(1) <https://newzoo.com/insights/trend-reports/how-consumers-are-engaging-with-games-in-2022>

(2) <https://www.businesswire.com/news/home/20220427005916/en/Subscription-based-Gaming-Global-Market-Report-2022---Mobile-Gaming-to-Drive-Growth---ResearchAndMarkets.com>

(3) <https://www.nytimes.com/2021/08/30/business/media/china-online-games.html>

(4) <https://www.gameinformer.com/2022>

(5) <https://news.microsoft.com/2022/01/18/microsoft-to-acquire-activision-blizzard-to-bring-the-joy-and-community-of-gaming-to-everyone-across-every-device/>

(6) https://techcrunch.com/2022/05/23/take-two-completes-acquisition-of-mobile-games-giant-zynga/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xLmNvbS8&guce_referrer_sig=AQAAAC1_uShlk1pa61yNCRtQSi5tZtViuXEFV4-XCHp_MUvpj2A2BcbSARyOwT0uTeCp1xDftahD9AxLVHhGf6ZsFjp-ONa8Y7517cmi19GfNinF4-DsePLiVIQRiWbuvzTEj25pEyOYPvYgbvg2e_94JHcHsAhQ7bwTb115yMGQitAd

(7) <https://www.ftc.gov/news-events/news/press-releases/2022/12/ftc-seeks-block-microsoft-corps-acquisition-activision-blizzard-inc>

(8) <https://www.theringer.com/video-games/2022/8/19/23308468/video-games-acquisitions-mergers-microsoft-sony-tencent-embracer>

(9) <https://www.shacknews.com/article/133006/activision-blizzard-q3-2022-earnings-beat-eps-revenue>

(10) <https://investor.activision.com/static-files/67c7ad10-e540-4152-a3e4-5323b329920a>

(11) <https://ir.ea.com/press-releases/press-release-details/2022/Electronic-Arts-Reports-Q2-FY23-Financial-Results/default.aspx>

(12) <https://ir.take2games.com/static-files/27859172-09f8-464a-b800-c7c0f15556ab>

(13) <https://www.cnbc.com/2022/11/07/take-two-interactive-ttwo-q2-2023-earnings.html>

Recent Developments

In the year ended December 31, 2022, 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 are 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 0.70% 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, 2022, the Fund incurred \$326,884 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.

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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, 2022, the Fund incurred \$70,047 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.

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

	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
For the periods ended:	(\$)	(\$)	(\$)	(\$)
Hedged ETF Units - Net Assets per Unit				
Net Assets per Unit, beginning of period	34.66	37.14	22.31	20.00
Increase (decrease) from operations:				
Total revenue	0.36	0.35	0.26	0.16
Total expenses	(0.36)	(0.48)	(0.47)	(0.24)
Realized gains (losses)	(6.27)	1.82	2.20	0.11
Unrealized gains (losses)	(4.31)	(5.33)	14.89	2.50
Total increase (decrease) from operations²	(10.58)	(3.64)	16.88	2.53
Distributions:				
From capital gains	-	(0.16)	(0.06)	-
Return of capital	(0.20)	(0.04)	-	(0.03)
Total annual distributions³	(0.20)	(0.20)	(0.06)	(0.03)
Net Assets per Unit, end of period	24.21	34.66	37.14	22.31

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2022, 2021, 2020, and 2019. The Fund effectively began operations on June 13, 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.

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The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
Hedged ETF Units - Ratios/Supplemental Data				
Total Net Asset Value (\$) ⁴	26,023,689	58,049,592	41,783,501	2,231,075
Number of units outstanding ⁴	1,075,000	1,675,000	1,125,000	100,000
Management expense ratio ⁵	0.94%	0.97%	0.96%	0.99%
Trading expense ratio ⁶	0.13%	0.17%	0.42%	0.98%
Portfolio turnover rate ⁷	48.23%	90.93%	31.35%	28.57%
Net Asset Value per unit (\$)	24.21	34.66	37.14	22.31
Closing market price (\$)	24.03	34.54	37.26	22.32

4 This information is provided as at December 31, 2022, 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.

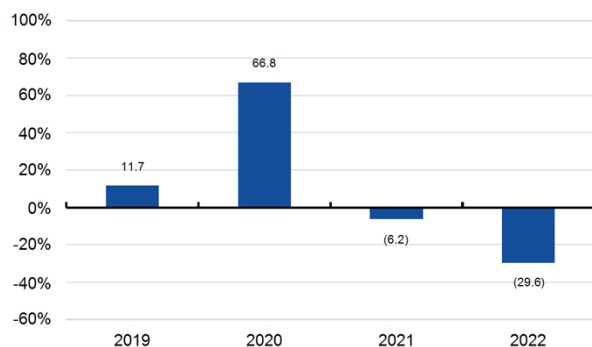
Past Performance

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 Hedged 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.

HERO Hedged ETF Units¹



1 The Hedged ETF Units of the Fund effectively began operations on June 13, 2019.

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Annual Compound Return

The table below shows the historical annual compound total return of the Hedged ETF Units. The returns are for period ended December 31, 2022. 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 (%)	3 Year (%)
Hedged ETF Units	6.0	(29.6)	3.3
Solactive eGaming Index PR CAD Hedged	7.6	(28.7)	4.8

1 From inception date of June 13, 2019.

Summary of Investment Portfolio

Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Activision Blizzard Inc.	10.2
NetEase Inc., ADR	9.8
Electronic Arts Inc.	9.8
Nintendo Company Limited, ADR	9.6
NEXON Company Limited	7.2
Take-Two Interactive Software Inc.	6.6
Roblox Corporation	5.9
Bandai Namco Holdings Inc.	5.1
Capcom Company Limited	3.2
NCSOFT Corporation	2.9
Krafton Inc.	2.5
Konami Holdings Corporation	2.4
Koei Tecmo Holdings Company Limited	2.2
Square Enix Holdings Company Limited	2.1
Embracer Group AB	2.1
Netmarble Corporation	1.5
Sega Sammy Holdings Inc.	1.3
Playtika Holding Corporation	1.3
Ubisoft Entertainment SA, ADR	1.3
AppLovin Corporation	1.2
CD Projekt SA	1.1
Kakao Games Corporation	1.1
International Games System Company Limited	0.9
Pearl Abyss Corporation	0.8
DeNA Company Limited	0.6
Total	92.7

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Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Communication Services	71.4
Consumer Discretionary	6.7
Information Technology	21.5
Derivative Assets	0.6
Derivative Liabilities	(1.7)
Cash and Cash Equivalents	2.3
Other Assets, less Liabilities	(0.8)
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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