

Ether 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 Ether ETF's (the "Fund") investment objective is to provide unitholders with exposure to the daily price movements of the U.S. dollar price of ether while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange traded fund structure.

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 effectively began operations on April 19, 2021, no performance data can be shown. The Fund's net assets were \$91MM as at December 31, 2021.

Portfolio Manager Commentary

Ethereum was the best performing cryptocurrency in 2021. It opened the year at US\$730 and closed at \$3,682, for a gain of over 404%.⁽ⁱ⁾ The cryptocurrency climbed to \$4,169 on May 11, at the same time as bitcoin slumped following Tesla's Elon Musk's announcement that the car manufacturer would no longer accept bitcoin as payment for its vehicles. Ethereum reached a record high of \$4,870 in November, in the same month that bitcoin also achieved its record high.

During the year, Ethereum was adopted by several major companies. For example, the ING Group, a Dutch multinational bank, which uses Ethereum to settle payments, bilateral lines of credit, and trading documents. TD Ameritrade, part of discount broker Charles Schwab Corp., uses Ethereum to facilitate smart contract future trades, while the French video game titan Ubisoft Entertainment SA is using Ethereum as the basis for in-game purchases. JPMorgan Chase & Co. is in the meantime looking to integrate its own digital coin (the JPM coin) with smart contracts via Ethereum.⁽ⁱⁱ⁾

Regardless of these positive headlines, adoption of Ethereum has been something of a mixed bag during the year according to a report titled "Ethereum in 2021 – A Year In Review" by Fully Crypto. The report states that that on the positive side, the DeFi (decentralized finance space) continued to grow and Ethereum continued to be the blockchain that underpins most of it, while the explosion of non-fungible tokens (NFT) undoubtedly helped Ethereum to achieve record breaking gains this year. However, it's pretty clear that the next generation of crypto, the metaverse and Web 3.0, will not be built on Ethereum, which is troubling for its continued growth.⁽ⁱⁱⁱ⁾

Therefore, "Ethereum 2.0, with its deflationary mechanism and transactional overhaul, needs to come quickly in 2022 and be successful almost instantly. Otherwise, projects currently using Ethereum are likely to seek moves to other platforms due to the transaction fees being imposed on users."^(iv)

When Ethereum completes its transition to Proof-of-Stake (PoS) and away from PoW, or Proof-of-Work, as part of Ethereum 2.0, one of the many improvements will be to the energy efficacy of the Ethereum blockchain. While the current PoW standard consumes as much energy as a medium-sized country to keep the PoW chain safe, with the switch to PoS, energy consumption will drop by a staggering 95.5%. Instead of a medium-sized country, PoS Ethereum will use approximately the same amount of energy as a small American town of just 2100 homes.^(v)

During 2021, capital poured into blockchain and crypto companies. According to data from Blockdata, \$23 billion of funding reached these companies in 2021, which is more than the total amount raised from 2017 to 2020.^(vi)

On the regulatory front, China banned bitcoin mining and crypto trading outright, while the Bank of England said that the growth of crypto assets poses a potential threat in a Financial Stability Report as it becomes increasingly linked to wider financial networks.^(vii)

In the U.S., during testimony before the House Financial Services Committee, Securities and Exchange Commission (SEC) Chairman Gary Gensler suggested that Congress could grant federal regulatory oversight authority over cryptocurrency. He said that regulation of crypto exchanges would help protect cryptocurrency investors given that, as of now, the SEC has limited jurisdiction in the crypto space.

Gensler made no specific suggestions for what kind of regulatory regime he might propose for greater oversight by either the SEC or its sister agency, the Commodity Futures Trading Commission (CFTC). However, what is clear is that Gensler is particularly concerned with preventing possible fraud or manipulation around the cryptocurrency markets.^(viii)

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At a corporate level, Coinbase Global, the largest crypto exchange in the U.S. went public on the Nasdaq in April at a valuation of nearly \$100 billion. Coinbase shares began trading at \$381 a share, a more than 50% jump from the reference price for its stock of \$250 a share. The company listed its shares directly on the Nasdaq, as opposed to selling new stock through an initial public offering.(ix)

During the year, online payments company PayPal made several cryptocurrency announcements. The company, which last year added the ability for users to buy, hold and sell cryptocurrency, announced they will allow customers who hold digital currencies to convert their holdings into fiat currencies at checkouts to make purchases. The crypto payments will work the same as a credit card or a debit card currently works inside a PayPal wallet. By pushing cryptocurrency as a payment method to its 29 million+ online merchants, PayPal makes itself one of the largest mainstream financial companies to open its network to cryptocurrencies.(x) PayPal can transact in Bitcoin, Ethereum, Bitcoin Cash, and Litecoin.(xi)

PayPal will also allow users to withdraw cryptocurrency held in PayPal accounts off-platform and into third-party wallets.(xii)

Performance Attribution

ETHR provides investors with exposure to the daily price movements of the U.S. dollar price of ether while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange-traded fund structure.

(i) <https://finance.yahoo.com/quote/ETH-USD/history?period1=1609459200&period2=1640908800&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true>

(ii) <https://www.fool.com/investing/2021/08/18/why-ethereum-is-the-top-cryptocurrency-investment/>

(iii) <https://fullycrypto.com/ethereum-in-2021-a-year-in-review>

(iv) <https://fullycrypto.com/ethereum-in-2021-a-year-in-review>

(v) <https://blog.ethereum.org/2021/05/18/country-power-no-more/>

(vi) <https://www.coindesk.com/reports/coindesk-2021-annual-crypto-review/>

(vii) <https://www.spglobal.com/marketintelligence/en/news-insights/podcasts/451-research-episode-48>

(viii) <https://www.coindesk.com/sec-chair-gary-gensler-recommends-congress-regulate-crypto-exchanges>

(ix) <https://www.cnn.com/2021/04/14/investing/coinbase-stock-direct-listing/index.html>

(x) <https://www.reuters.com/article/us-crypto-currency-paypal-exclusive/exclusive-paypal-launches-crypto-checkout-service-idUSKBN2BM10N>

(xi) <https://www.spglobal.com/marketintelligence/en/news-insights/podcasts/451-research-episode-48>

(xii) <https://www.reuters.com/technology/paypal-allow-users-withdraw-cryptocurrency-third-party-wallets-2021-05-26/>

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.

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Management Fees

The management fees are calculated based on 0.75% 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 \$330,300 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.

Operating Expenses

Unless waived or reimbursed by the Manager, the Fund pays for all operating expenses of the Fund incurred in connection with the operation and administration of the Evolve Fund, including but not limited to: mailing and printing expenses for periodic reports to Unitholders; fees payable to the 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 (if applicable) and CDS fees; banking costs and interest with respect to any borrowing (if applicable); website maintenance costs; 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, Ether consultant (if any), CF Benchmarks (in respect of index licensing and/or consulting fees, if any) Custodian and Manager which are incurred in respect of matters not in the normal course of the Fund's activities. Additional costs which are also payable by the Fund include any taxes payable by Fund to which the Fund may be subject, including income taxes, sales taxes (including GST/HST) and/or withholding taxes; expenditures incurred upon termination of the Fund; extraordinary expenses that the Fund may incur and all amounts paid on account of any indebtedness (if applicable); any expenses of insurance and costs of all suits or legal proceedings in connection with the Fund or the assets of the Fund or to protect the unitholders, the Trustee, the Manager, and the directors, officers, employees or agents of any of them; any expenses of indemnification of the Trustee, the Unitholders, the Manager, and the directors, officers, employees or agents of any of them to the extent permitted under the Declaration of Trust; and expenses relating to the preparation, printing and mailing of information to unitholders in connection with meetings of unitholders. The Fund is also responsible for all commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time, including brokerage and trading commissions and other fees and expenses associated with the execution of transactions in respect of the Fund's investment in ether.

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, 2021 (\$)
For the periods ended:	
Canadian Dollar Unhedged ETF Units - Net Assets per Unit⁴	
Net Assets per Unit, beginning of period ²	8.00
Increase (decrease) from operations:	
Total expenses	(0.15)
Realized gains (losses)	0.48
Unrealized gains (losses)	2.00
Total increase (decrease) from operations³	2.33
Net Assets per Unit, end of period	13.60

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The Fund's Net Assets Per Unit¹ (cont'd)

	December 31, 2021 (\$)
For the periods ended:	
Unhedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	10.00
Increase (decrease) from operations:	
Total expenses	(0.19)
Realized gains (losses)	0.56
Unrealized gains (losses)	6.44
Total increase (decrease) from operations³	6.81
Net Assets per Unit, end of period	17.00

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2021. The Unhedged ETF Units and US Dollar Unhedged ETF Units effectively began operations on April 19, 2021.

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.

4 Per unit figures are stated in USD equivalent.

The Fund's Ratios/Supplemental Data

	December 31, 2021
For the periods ended:	
Canadian Dollar Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁵	74,699,759
Number of units outstanding ⁵	5,492,600
Management expense ratio ⁶	1.23%
Trading expense ratio ⁷	0.02%
Portfolio turnover rate ⁸	21.63%
Net Asset Value per unit (\$)	13.60
Closing market price (\$)	13.12
Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁵	16,335,259
Number of units outstanding ⁵	960,900
Management expense ratio ⁶	1.21%
Trading expense ratio ⁷	0.02%
Portfolio turnover rate ⁸	21.63%
Net Asset Value per unit (\$)	17.00
Closing market price (\$)	16.40

5 This information is provided as at December 31, 2021.

6 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. The effective HST tax rate is calculated using the attribution percentage of each province based on unitholder residency and can be different from 13%.

7 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.

8 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 19, 2021, providing performance data for the period is not permitted.

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Summary of Investment Portfolio

All Positions

	Percentage of Net Asset Value (%)
Security	
Ether	100.0
Total	100.0

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Digital Assets	
Ether	100.0
Cash and Cash Equivalents	0.2
Other Assets, less Liabilities	(0.2)
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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