

Evolve Cryptocurrencies 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 Cryptocurrencies ETF's (the "Fund") investment objective is to provide unitholders with exposure to the daily price movements of certain digital assets selected by the Manager from time to time, on a market capitalization basis, while experiencing minimal tracking error by investing in other publicly offered investment funds managed by the Manager.

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 September 24, 2021, no performance data can be shown. The Fund's net assets were \$33.6MM as at December 31, 2021.

Portfolio Manager Commentary

2021 was the most eventful for the crypto industry to date, marked by a boom in meme coins and NFTs, the adoption of crypto at a nation state level, and rising corporate interest in the Metaverse.(i)

Capital poured into blockchain and crypto companies, amounting to \$23 billion during the year, according to data from Blockdata. This is more than the total amount raised from 2017 to 2020.(ii)

Bitcoin and Ethereum, the two largest cryptocurrencies, posted gains well in excess of traditional macro assets. While ether, the native asset of the Ethereum blockchain, still has a way to go before traditional investors begin to form their investment thesis, Bitcoin has cemented itself in the minds of all professional investors, as it eclipsed \$1 trillion in market capitalization in 2021.(iii)

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%. The crypto reached a record high of \$4,870 in November.(iv)

Bitcoin experienced a 58% increase in price during 2021, in a year that was marked by substantial price volatility. It opened the year at \$29,374 and closed at \$46,306. It climbed to \$64,863 on April 14 and posted an all-time high of \$67,549 on November 27, before falling to its year-end level.(v)

With Ethereum's superior asset price performance compared to Bitcoin, the dominance of Bitcoin, measured by market capitalization compared with the market capitalization of all digital assets fell during 2021 from 70.2% to 40.1%. However, this was also due to a spate of crypto projects which have sprung up with many different use cases that are not competing directly with Bitcoin.(vi)

During the year, both Bitcoin and Ethereum had important upgrades to their networks. Bitcoin upgraded its Taproot protocol through a bundle of three upgrades that improves network security, privacy, and scalability. Taproot is the most significant upgrade to the Bitcoin network since the activation of the block capacity enhancement of Segregated Witness in 2017.(vii)

In August, Ethereum upgraded to a new gas fee mechanism that created a fundamental shift in its monetary policy. EIP-1559 introduced a gas fee burn that reduced the supply of ETH rather than paying additional fees to miners.

Before EIP-1559, Ethereum users would have to place a bid for gas fees in an auction format to compete to get their transactions added to blocks. This led to frequent fee spikes that affected users' ability to make transactions. EIP-1559 has made the fee system more predictable and stable against demand shocks.(viii)

In September, China which was estimated to account for between 50% and 70% of the world's crypto mining(ix) announced that "all cryptocurrency-related business activities are illegal and vowed to clamp down on illicit activities involving digital currencies." The country also said that overseas crypto exchanges would be blocked from providing services to Chinese residents through the internet.(x) In a separate statement, China's National Development and Reform Commission said China will gradually start shutting down crypto mining operations, and no new mining projects will be permitted.(xi)

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One of the biggest news items for Bitcoin in 2021 was El Salvador becoming the first country to adopt Bitcoin as legal tender, allowing the cryptocurrency to be used in any transaction, from buying a cup of coffee to paying taxes.(xii) The government has promised to install 200 Chivo automatic tellers and 50 Bitcoin attention centers.(xiii)

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.(xiv)

(i) <https://cryptobriefing.com/2021-in-review-top-10-crypto-moments-year/>

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

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

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

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

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

(vii) <https://cryptobriefing.com/2021-in-review-top-10-crypto-moments-year/>

(viii) <https://cryptobriefing.com/2021-in-review-top-10-crypto-moments-year/>

(ix) <https://www.reuters.com/business/cryptocurrency-trading-volumes-slump-40-june-data-shows-2021-07-12/>

(x) <https://www.cnn.com/2021/09/24/investing/china-cryptocurrency-ban/index.html>

(xi) <https://www.cnn.com/2021/09/24/investing/china-cryptocurrency-ban/index.html>

(xii) <https://www.nytimes.com/2021/09/07/world/americas/el-salvador-bitcoin.html>

(xiii) <https://www.ctvnews.ca/business/early-stumble-as-el-salvador-starts-bitcoin-as-currency-1.5575423>

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

For the year ended December 31, 2021, the Fund invested in the Bitcoin ETF and Ether ETF (the “Underlying Funds”), each of which is an investment fund managed by Evolve Funds Group Inc. (the “Manager”). 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 directly payable to the Manager by the Fund are nil. However, the Underlying Funds held by the Fund pays management fees.

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Underlying Fund Management Fees

The Underlying Funds currently pay management fees calculated based on 0.75% per annum of the average daily net asset value of the Underlying Funds. The fees are accrued daily and generally paid monthly. These management fees were received by the Manager for the day-to-day operations of the Underlying Funds, including managing the portfolio, maintaining portfolio systems used to manage the Underlying Funds, maintaining the www.evolveetfs.com website, and providing all other services including marketing and promotion.

Operating Expenses

The Manager pays for all operating expenses incurred by the Fund, other than the following fund costs: taxes payable by the 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, any of the Sub-Advisors 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.

Underlying Fund Operating Expenses

The Fund indirectly bears the operating expenses that are borne by each of the underlying funds incurred in connection with their operation, administration and related portfolio transactions, 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; 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 auditor and legal advisors; 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, consultants (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.

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 period ended:	
Unhedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	10.00
Increase (decrease) from operations:	
Realized gains (losses)	0.23
Unrealized gains (losses)	(3.11)
Total increase (decrease) from operations³	(2.88)
Net Assets per Unit, end of period	11.12

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

	December 31, 2021 (\$)
For the period ended:	
US Dollar Unhedged ETF Units - Net Assets per Unit⁴	
Net Assets per Unit, beginning of period ²	12.66
Increase (decrease) from operations:	
Realized gains (losses)	0.42
Unrealized gains (losses)	(1.62)
Total increase (decrease) from operations³	(1.20)
Net Assets per Unit, end of period	14.03

- 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 September 24, 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 CAD equivalent.

The Fund's Ratios/Supplemental Data

	December 31, 2021
For the period ended:	
Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	30,500,213
Number of units outstanding ⁶	2,743,800
Management expense ratio ⁷	0.00%
Trading expense ratio ⁸	0.03%
Portfolio turnover rate ⁹	66.14%
Net Asset Value per unit (\$)	11.12
Closing market price (\$)	11.11
US Dollar Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	3,128,387
Number of units outstanding ⁶	223,000
Management expense ratio ⁷	0.00%
Trading expense ratio ⁸	0.03%
Portfolio turnover rate ⁹	66.14%
Net Asset Value per unit (\$)	14.03
Closing market price (\$)	14.05

- 6 This information is provided as at December 31, 2021.
- 7 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.
- 8 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.
- 9 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 September 24, 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	
Bitcoin ETF	64.3
Ether ETF	35.7
Total	100.0

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
ETFs - US Equity	100.0
Cash and Cash Equivalents	0.0
Other Assets, less Liabilities	(0.0)
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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