



DIGITAL ASSET MANAGEMENT

# THE ETHER FUND

Annual Management Report of Fund Performance

For the year ended December 31, 2022

## **Forward-Looking Statements (“FLS”)**

The annual Management Report of Fund Performance may contain forward-looking statements (“FLS”). FLS means disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action and includes any future-oriented financial information (“FOFI”) with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection. FOFI is FLS about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action.

FLS can be identified by the use of forward-looking terminology such as “may”, “will”, “should”, “expect”, “anticipate”, “target”, “project”, “estimate”, “intend”, “continue” or “believe”, or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking information and statements. Material risk factors that could affect actual results are identified under the heading “Risk Factors” in the Fund’s Prospectus. Investors are also cautioned that FLS is based on several factors and assumptions, including a Fund’s current plans, estimates, opinions and analysis made in light of its experience, current conditions and expectations of future developments, as well as other relevant factors. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

## **Disclosure**

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the annual financial statements at your request, at no cost, by calling 1-416-639-2130, by writing to us at Suite 2700 – 161 Bay St, Toronto, Ontario, M5J 2S1 or by visiting our website [www.3iq.ca](http://www.3iq.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Management Discussion of Fund Performance for the year ended December 31, 2022

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This Management Report of Fund Performance represents the portfolio management team's view of the significant factors and developments affecting the Fund's performance and outlook for the year ended December 31, 2022. Every effort has been made to ensure the information contained in this Management Report of Fund Performance is accurate and complete, however, the Fund cannot guarantee the accuracy or the completeness of this material. For more information, please refer to the Fund's prospectus ("Prospectus"). In this report, "Manager", refers to 3iQ Corp., the manager of the Fund. The "Fund" refers to The Ether Fund. In addition, "net asset value" or "NAV" refers to the value of the Fund as calculated for transaction purposes, on which the discussion of Fund performance is based.

#### Investment Objective and Strategies

The investment objectives of the Fund are to seek to provide unitholders of the Fund with exposure to the digital asset ether ("ETH") and the daily price movements of the U.S. dollar price of ETH, and the opportunity for long-term capital appreciation. To achieve its investment objectives, the Fund invests in long-term holdings of ETH, purchased from reputable ETH trading platforms and OTC counterparties, in order to provide investors with a convenient, safer alternative to a direct investment in ETH. The Fund does not speculate with regard to short-term changes in ETH prices.

#### Risk

The risks associated with investing in the Fund remain as discussed in the Prospectus. The Fund is suitable for investors looking for long-term capital appreciation of ETH and those who have the capacity to absorb a loss on their investment. The NAV of the units will vary according to the value of ETH included in the Fund's portfolio. The value of the ETH will be influenced by factors which are not within the control of the Fund or the Manager. The Fund was created to invest in ETH and is not expected to have exposure to any other investments or assets. Other than cash or cash equivalents, the Fund will invest substantially all of its assets in ETH. The NAV per unit may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. This may have a negative impact on the NAV of the units.

For the year ended December 31, 2022, there were no changes affecting the overall level of risk associated with an investment in the Fund. Therefore, the overall level of Fund risk and investor risk tolerance remains as stated in the Prospectus.

#### Results of Operations

During the year ended December 31, 2022, Class A units of the Fund returned (68.1)% (2021 – 377.2%).

The net asset value of the Fund was \$114.0 million as at December 31, 2022 (2021 – \$684.5 million). Changes since January 1, 2022 were composed primarily of net redemption of units of \$151.5 million and net loss from operations of \$419 million for the year ended December 31, 2022.

The investment performance of the Fund includes income and expenses which vary year over year.

#### Market and Fund Performance Review

MVIS CryptoCompare Ethereum Benchmark Rate Index maintained by MV Index Solutions GmbH ("MVIS") and Bloomberg are used to source the data with returns calculated net of fees by the Manager.

During the year ended December 31, 2022, ETH moved from \$3,649 to \$1,195, a return of (67.3)%. The Fund's NAV performance over the same period was (68.1)%. The Fund's market price return performance was (71.0)%.

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### Management Discussion of Fund Performance for the year ended December 31, 2022

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2022 saw continued decline in risky assets amid a tightening monetary policy cycle, however ETH proved to be a resilient asset and generated a positive return in the last half of 2022. The anticipation around the ETH Merge pushed prices to a high of \$1,931 on August 14, 2022. However, raging inflation and aggressive interest rate hikes applied tremendous downward pressure on most risky assets, and the black swan event which is the bankruptcy of FTX also caused capitulation for the crypto market.

Inflation, which has been creeping up steadily since Q3 of 2021, has seen a slight drop from its peak in June 2022 but still remains at a very high level. To combat inflation, the Federal Reserve increased its interest rate from 0% to 4.5% within a year, marking one of the most aggressive rate hikes in history. The market's focus is now on whether high interest rates will be effective in bringing inflation back down to the 2% long term target, or if the inflation target itself will be adjusted. Another factor that will impact to future price performance of ETH is how long and severe the potential recession will be and whether monetary policies will pivot as a result of economic recession.

For the year ended December 31, 2022, the Fund has completed the following:

- On February 24, 2021, the Toronto Stock Exchange ("TSX") accepted the Fund's notice of intention to make a Normal Course Issuer Bid ("NCIB"), to permit the Fund to repurchase, at its discretion, up to 1,018,610 Class A units (representing approximately 10% of the public float as of February 28, 2021) in the open market in accordance with the rules and policies of the TSX. Units purchased by the Fund under the NCIB will be cancelled. The program commenced on March 1, 2021 and terminated on February 28, 2022. For the year ending December 31, 2022, 102,100 units (aggregate purchase price being \$4,622,731) were purchased for cancellation under the NCIB.
- On February 24, 2022, the Toronto Stock Exchange ("TSX") accepted the Fund's notice of intention to make a Normal Course Issuer Bid ("NCIB"), to permit the Fund to repurchase, at its discretion, up to 1,072,590 Class A units (representing approximately 10% of the public float as of February 23, 2022) in the open market in accordance with the rules and policies of the TSX. Units purchased by the Fund under the NCIB will be cancelled. The program commenced on March 1, 2022 and will terminate on February 28, 2023, or on such earlier date as the Fund purchases the maximum number of units permitted under the NCIB. For the year ending December 31, 2022, no units were purchased for cancellation under the NCIB.
- On May 31, 2022, being the Annual Cut-off Date for the Annual Redemption Date of the Fund, 1,388,853 units were surrendered for in-kind redemption valued at \$26,212,656 and 104,321 units were surrendered for cash redemption valued at \$1,968,913.
- On May 31, 2022, 3,577,550 units of the Fund (the "Conversion Units") were surrendered for conversion to units of the 3IQ CoinShares Ether ETF ("ETF Units"). The Conversion Units were converted to 15,143,262 ETF Units on June 1, 2022, valued at \$118,709,549.
- For the year ended December 31, 2022, the Fund did not issue any units.
- For the year ended December 31, 2022, no units of the Fund were surrendered in connection with the monthly redemptions.
- For the year ended December 31, 2022, the Fund distributed \$319,057, which was immediately reinvested.

From time to time, both a discount and premium to NAV have been observed for the Fund in the year ended December 31, 2022. The lowest discount was (17.1)%. The largest premium observed was 0.3%. This is a function of investors buying and selling a limited number of units on the TSX.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Management Discussion of Fund Performance for the year ended December 31, 2022

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#### Recent Developments

After the successful ETH Merge in September 2022 which marked the transition from Proof of Work to Proof of Stake, the Ethereum network is scheduled to undergo another important upgrade. According to Bloomberg, Ethereum's next upgrade is expected in March 2023. The upgrade would enable staked ETH withdrawals. (<https://www.bloomberg.com/news/articles/2023-01-05/ethereum-developers-push-ahead-with-update-enabling-withdrawals>). According to Ethereum foundation's website, after the upgrade, stakers will then be able to withdraw their rewards and/or principal deposit from their validator balance if they choose.

#### Related Party Transactions

##### Management fees:

The Manager is responsible for managing and directing the undertaking, operations and affairs of the Fund, including managing and directing the investments. The Fund pays an annual management fee to the Manager amounting to 1.95% of the Fund's net asset value calculated daily and payable monthly, plus applicable taxes, in respect of each of the Class A units and the Class F units of the Fund. However, there are no Class F units outstanding since they have been reclassified as Class A units.

During the year ended December 31, 2022, \$6,510,500 (2021 – \$11,092,674) in management fees was paid to the Manager. These transactions occurred in the normal course of operations and the fees are measured at exchange value, which is the amount established and agreed to by the related parties.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Financial Highlights

The following table shows selected key financial information about the Class A units of the Fund and is intended to help you understand the Fund's financial performance for the year ended December 31, 2022, and prior reporting years.

	December 31, 2022	December 31, 2021	December 31, 2020*
<b>The Fund's Net Asset Value (NAV) per Class A Unit <sup>(1)(2)</sup></b>			
<b>Net assets per Unit, beginning of year</b>	\$ 63.20	\$ 13.25	\$ 10.08
<b>Decrease (increase) from operations</b>			
Total revenues	–	–	–
Total expenses	(1.00)	(1.24)	(0.03)
Realized gains	9.91	1.24	3.20
Unrealized (loss) gain	(62.43)	47.20	–
<b>Total (decrease) increase from operations <sup>(2)</sup></b>	<b>(53.52)</b>	<b>47.20</b>	<b>3.17</b>
<b>Total annual distributions</b>	<b>0.06</b>	<b>–</b>	<b>–</b>
<b>Net asset value, end of year <sup>(3)</sup></b>	<b>\$ 20.15</b>	<b>\$ 63.20</b>	<b>\$ 13.25</b>
<b>Ratios and Supplemental Data</b>			
Total net asset value <sup>(3)</sup>	\$ 114,010,133	\$ 684,548,651	\$ 95,896,870
Number of shares outstanding <sup>(3)</sup>	5,657,805	10,830,629	7,240,000
Management expense ratio <sup>(4)</sup>	2.63%	2.52%	4.10%
Trading expense ratio <sup>(5)</sup>	0.00%	0.00%	0.00%
Portfolio turnover rate <sup>(6)</sup>	0.00%	3.65%	0.00%
<b>Net asset value per unit</b>	<b>\$ 20.15</b>	<b>\$ 63.20</b>	<b>\$ 13.25</b>
Closing market price <sup>(3)</sup>	\$ 17.41	\$ 59.95	\$ 15.95

#### Notes:

- (1) This information is derived from the Fund's audited annual financial statements for December 31, 2022, 2021 and 2020 and is not a reconciliation of beginning and ending net assets per unit.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The (decrease) increase from operations is based on the weighted average number of units outstanding over the financial year.
- (3) This information is provided as at December 31, 2022, 2021 and 2020.
- (4) Management expense ratio is based on total expenses (excluding distributions, commissions, and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of average daily NAV during the year.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily NAV during the year.
- (6) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager 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 a fund's portfolio turnover rate in the 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 the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The Fund's portfolio turnover rate was affected by the annual redemption.

\* For the period December 10, 2020 to December 31, 2020.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

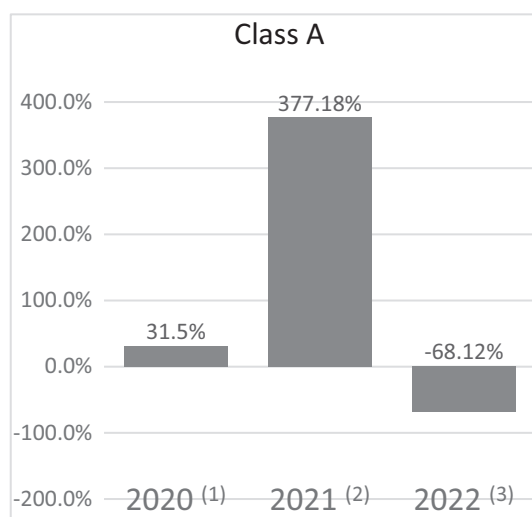
### Financial Highlights

#### Past performance of the Fund

The performance information shown assumes that all distributions made by the Fund in the years shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

#### Year-by-Year Returns

The following bar chart represents the performance of Class A units of the Fund. The bar chart shows, in percentage terms, how much an investment made on the first day of each year would have increased or decreased by the last day of each such year.



(1) Total return for the period from commencement of operations December 10, 2020 to December 31, 2020.

(2) Total return for the year January 1, 2021 to December 31, 2021.

(3) Total return for the year January 1, 2022 to December 31, 2022.

#### Annual Compound Returns

The following table shows annual compound returns for each class of units with the index shown below, for the year ended December 31, 2022. For a discussion of the Fund's recent performance relative to the index, see Results of Operations.

	Past Year	Since Inception
Class A Units <sup>(1)</sup>	(68.12)%	40.02%
MVIS CryptoCompare Ethereum Benchmark Rate <sup>(2)</sup>	(67.21)%	43.90%

(1) Annual compound returns are for the period from commencement of operations through December 31st of each year and are net of the Fund's unit issue expenses.

(2) MVIS CryptoCompare Ethereum Benchmark Rate maintained by MV Index Solutions GmbH ("MVIS") measures the performance of a digital assets portfolio which invests in ETH, prices from selected exchanges. The index closing value is calculated at 4:00 pm eastern standard time. Prior to May 2, 2022, the Fund's ETH was valued based on MVIS CryptoCompare Institutional Ethereum Index also maintained by MVIS and closed on June 15, 2022. This change makes the index used by the Fund consistent with that used by 3iQ CoinShares Ether ETF.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

### Summary of Investment Portfolio as at December 31, 2022

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The following table shows selected key financial information about the Fund.

<b>Portfolio Composition</b>		<b>All Holdings</b>	
<b>Sector Allocation</b>	<b>% of Net Assets Value</b>	<b>Issuer</b>	<b>% of Net Assets Value</b>
Digital assets	100.21	Bitcoin	100.21
		Cash	0.04
		Other assets and liabilities, net	(0.25)
<b>Total Portfolio Allocations</b>	100.21		
<b>Total Net Assets Value (in millions) \$</b>	<b>114.01</b>		<b>100.00</b>

The Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates of the Investment Portfolio are available within 60 days of each quarter end.