



THE ETHER FUND

Annual Management Report of Fund Performance

For the year ended December 31, 2021

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 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 1020 -181 Bay Street, Box 760, Toronto, Ontario, M5J 2T3 or by visiting our website www.3iq.ca or SEDAR at 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.

THE ETHER FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

Management Discussion of Fund Performance for the year ended December 31, 2021

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, 2021 and 2020. 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, 2021, 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, 2021, Class A units of the Fund returned 377.2% (2020 – 31.5%).

The net asset value of the Fund was \$684.5 million as at December 31, 2021 (2020 – \$95.9 million). Changes since January 1, 2021 were composed primarily of net sales of units of \$95.2 million, issuance costs paid of \$0.79 million and net income from operations of \$494.3 million for the year ended December 31, 2021.

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

Market and Fund Performance Review

This data is sourced from the MVIS CryptoCompare Institutional Ethereum Index with returns calculated net of fees and expenses by 3iQ Corp.

Over the year ended December 31, 2021, ETH moved from \$744.77 to \$3,645.62, a positive gain of 389.5%. The Fund's NAV performance over the same year was a gain of 377.2% (2020 – 31.5%). The Fund's market price return performance for the year was 275.9% (2020 – 47.7%).

THE ETHER FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

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Management Discussion of Fund Performance for the year ended December 31, 2021

For the year ended December 31, 2021, the Fund has completed the following:

- On February 24, 2021, the 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 ("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. 206,400 Units (aggregate purchase price being \$10,317,082) were purchased for cancellation under the NCIB.
- On March 1, 2021, the Fund established an at-the-market equity program ("ATM Program") to allow the Fund to issue Units having an aggregate sale price of up to \$150,000,000 to the public, at the discretion of the Manager. The ATM Program will be effective until March 10, 2023 unless terminated prior to such date by the Fund. As of June 30, 2021, the Fund had issued 740,648 Units at an average price of \$38.62 per Unit for net proceeds of \$28,149,733 (being gross proceeds of \$28,595,244 less \$445,511 in agents' fees payable in respect of such sales).
- The Fund issued an aggregate of 3,056,575 Units at a price between \$18.07 and \$34.87 per Unit for a net proceeds of \$76,553,640 (being gross proceeds of \$76,796,493 less \$242,852 in issuance costs) pursuant to private placements.

From time to time, both a discount and premium to NAV have been observed for the Fund in the year ended December 31, 2021. The lowest discount was -15.95%. The largest premium observed was 23.84%. This is a function of investors buying and selling a limited number of Units on the Toronto Stock Exchange.

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, 2021, \$11,092,674 (2020 - \$104,808) in management fees were 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.

THE ETHER FUND

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 years ended December 31, 2021 and 2020.

	December 31, 2021	December 31, 2020
The Fund's Net Asset Value (NAV) per Class A Unit (1)(2)		
Net assets per Unit, beginning of year	\$ 13.25	\$ 10.08
Increase (decrease) from operations		
Total revenues	-	-
Total expenses	(1.24)	(0.03)
Realized gains	1.24	-
Unrealized gains	47.20	3.20
Total increase from operations (2)	47.20	3.17
Total annual distributions	-	-
Net asset value, end of year (3)	\$ 63.20	\$ 13.25
Ratios and Supplemental Data		
Total net asset value (3)	\$ 684,548,651	\$ 95,896,870
Number of units outstanding (3)	10,830,629	7,240,000
Management expense ratio (4)	2.52%	4.10%
Trading expense ratio (5)	0.00%	0.00%
Portfolio turnover rate (6)	3.65%	0.00%
Net asset value per unit	\$ 63.20	\$ 13.25
Closing market price (3)	\$ 59.95	\$ 15.95

Notes:

- (1) This information is derived from the Fund's audited annual financial statements for December 31, 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 increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
- (3) This information is provided as at December 31, 2021 and 2020.
- (4) Management expense ratio is based on total expenses (excluding distributions, commissions, and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of average daily NAV during the period.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the period.
- (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 period. The higher a fund's portfolio turnover rate in the 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.

THE ETHER FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

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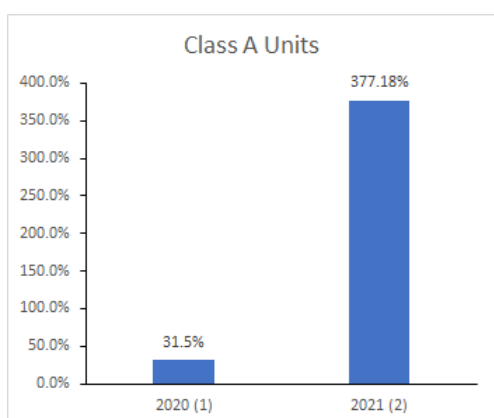
Financial Highlights

Past performance of the Fund

There were no distributions made by the Fund in the periods shown. 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 from commencement of operations to December 31, 2021. For the first year, the percentage shown will be the actual return of the Class A Units from its inception date. The bar chart shows, in percentage terms, how much an investment made on the first day of each period would have increased or decreased by the last day of each such period and year.



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

(2) Total return for the year ended December 31, 2021.

Annual Compound Returns

The following table shows annual compound returns for each class of Units with the index shown below, for the periods ending December 31, 2021. For a discussion of the Fund's recent performance relative to the index, see Results of Operations.

	1 yr	2 yrs
Class A Units ⁽¹⁾	1.59%	164.10%
MVIS CryptoCompare Institutional Ethereum Index ⁽²⁾	1.60%	168.07%

(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 Institutional Ethereum Index maintained by MV Index Solutions GmbH 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.

THE ETHER FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

(Expressed in United States dollars)

Summary of Investment Portfolio as at December 31, 2021

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

Portfolio Composition		All Holdings	
Sector Allocation	% of NAV	Issuer	% of NAV
Digital assets	100.23	Ether	100.23
		Cash	0.01
		Other assets and liabilities, net	(0.24)
Total Portfolio Allocations	100.23		
Total Net Assets Value (in millions)	\$ 684.55	Total Percentage of Net Assets Value Represented by Holdings	100%

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.