

# **3IQ COINSHARES ETHER ETF**

## **Interim Financial Statements**

**For the period from commencement of operations on  
April 22, 2021 to June 30, 2021 (Unaudited)**

# 3IQ COINSHARES ETHER ETF

## Interim Financial Statements

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### Interim Financial Statements

|  |        |
|--|--------|
| Interim Statement of Financial Position .....          | 2      |
| Interim Statement of Comprehensive Income (Loss) ..... | 3      |
| Interim Statement of Changes in Equity .....           | 4      |
| Interim Statement of Cash Flows .....                  | 5      |
| Interim Schedule of Investment Portfolio .....         | 6      |
| Notes to Interim Financial Statements .....            | 7 – 18 |

### NOTICE TO UNITHOLDERS

**The Auditors of the Fund have not reviewed these interim financial statements.**

3iQ Corp, the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# 3iQ COINSHARES ETHER ETF

## Interim Statement of Financial Position (Unaudited)

(In United States dollars, unless otherwise noted)

|  | <b>June 30, 2021</b>  |
|--|-----------------------|
| <b>ASSETS</b>  |                       |
| <b>Current assets</b>  |                       |
| Cash   | \$ 172,504            |
| Digital assets at fair value (Note 5)                                  | <u>182,251,092</u>    |
|  | <u>182,423,596</u>    |
| <b>LIABILITIES</b>   |                       |
| <b>Current liabilities</b>   |                       |
| Management fees payable (Note 6)                                       | 156,756               |
| Accounts payable and accrued liabilities                               | <u>27,646</u>         |
|  | <u>184,402</u>        |
| <b>UNITHOLDERS' EQUITY</b>   |                       |
| Units  | 323,943,159           |
| Retained earnings  | <u>(141,703,965)</u>  |
|  | <u>182,239,194</u>    |
|  | <u>\$ 182,423,596</u> |
| <b>Number of redeemable units outstanding</b>                          | 20,025,000            |
| <b>Net assets attributable to holders of redeemable units per unit</b> | \$ 9.10               |

# 3iQ CONSHARES ETHER ETF

## Interim Statement of Comprehensive Loss

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

|   | <b>2021</b>             |
|---|-------------------------|
| <b>Income</b>   |                         |
| Net realized losses on sale of digital assets   | \$ (129,297)            |
| Net change in unrealized depreciation in fair value of digital assets                   | (141,222,981)           |
|   | <u>(141,352,278)</u>    |
| <b>Expenses</b>   |                         |
| Management fees (Note 6)  | 317,925                 |
| Custodian fees  | 27,812                  |
| Operating costs   | 26,339                  |
| Independent review committee fees and expenses  | 1,790                   |
| Expenses before amounts absorbed by Manager   | <u>373,866</u>          |
| Expenses absorbed by Manager (Note 6)   | <u>22,179</u>           |
| Net Expenses  | <u>351,687</u>          |
| <b>Net loss and comprehensive loss</b>  | <u>\$ (141,703,965)</u> |
| <b>Weighted average of the number of redeemable units outstanding during the period</b> | 14,094,286              |
| <b>Basic and diluted loss per Unit</b>  | \$ (10.05)              |

# 3iQ COINSHARES ETHER ETF

## Interim Statement of Changes in Equity

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

|                                 | Units      |               | Net assets attributable to holders of redeemable units |
|---------------------------------|------------|---------------|--|
|                                 | Number     | \$            | \$   |
| Balance as at April 22, 2021    | –          | –             | –  |
| Net loss and comprehensive loss | –          | (141,703,965) | (141,703,965)  |
| Issuance of units               | 20,175,000 | 325,802,753   | 325,802,753  |
| Redemption of units             | (150,000)  | (1,859,594)   | (1,859,594)  |
| Balance as at June 30, 2021     | 20,025,000 | 182,239,194   | 182,239,194  |

# 3iQ COINSHARES ETHER ETF

## Interim Statements of Cash Flows

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

|   | <b>2021</b>          |
|---|----------------------|
| <b>Cash provided by (used in):</b>                                    |                      |
| <b>Operating Activities</b>   |                      |
| Net loss and comprehensive loss                                       | \$ (141,703,965)     |
| Adjustments for non-cash items  |                      |
| Net realized gains on sale of digital assets                          | 129,297              |
| Net change in unrealized depreciation in fair value of digital assets | 141,222,981          |
| Change in non-cash balances   |                      |
| Increase in accounts payable and accrued liabilities                  | 27,646               |
| Increase in management fees payable                                   | 156,756              |
| Proceeds from sale of investments                                     | 294,520              |
| Purchase of investments   | (323,897,890)        |
| Cash used in operating activities                                     | <u>(323,770,655)</u> |
| <b>Financing Activities</b>   |                      |
| Proceeds from redeemable units issued                                 | 325,802,753          |
| Redemption of redeemable units  | (1,859,594)          |
| Cash provided by financing activities                                 | <u>323,943,159</u>   |
| Increase in cash during the period                                    | 172,504              |
| Cash, beginning of period   | —                    |
| <b>Cash, end of period</b>  | <u>\$ 172,504</u>    |

## 3iQ COINSHARES ETHER ETF

### Interim Schedule of Investment Portfolio As at June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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| Quantity | Digital Assets owned  |           | Average<br>cost           | Fair<br>value                | % of net<br>asset value |
|----------|---|-----------|---------------------------|------------------------------|-------------------------|
| 20,364   | Ether   | \$        | <u>323,474,073</u>        | \$ <u>182,251,092</u>        | <u>100.00</u>           |
|          | <b>Net investments owned</b>                                      | <b>\$</b> | <b><u>323,474,073</u></b> | 182,251,092                  | 100.00                  |
|          | <b>Other liabilities, net</b>                                     |           |                           | <u>(11,898)</u>              | <u>(0.00)</u>           |
|          | <b>Net Assets Attributable to Holders of<br/>Redeemable Units</b> |           |                           | <b>\$ <u>182,239,194</u></b> | <b><u>1 0.00</u></b>    |

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 1. Fund Organization and Nature of Operations:

3iQ CoinShares Ether ETF (the “Fund”) is an exchange traded investment fund established as a trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust dated March 31, 2021 and amended and restated on April 19, 2021 and as may be amended from time to time (the “Declaration of Trust”). The address of the Fund’s registered office is 4800 - 1 King Street West, Box 160, Toronto, Ontario, M5H 1A1. The Fund commenced active operations on April 22, 2021. The units of the Fund are listed on the Toronto Stock Exchange (“TSX”) (equity symbol: BTCQ.U).

3iQ Corp. is the trustee, manager, portfolio manager and promotor of the Fund (the “Trustee” and “Manager”). The Manager is responsible for the management and administration of the Fund, including managing and directing the investments of the Fund. The Fund uses a custodian and sub-custodian to oversee the retention, security and transfer of digital assets for the Fund (the “Custodian” and “Sub-Custodian”). The Custodian and Sub-Custodian are independent of the Manager. The Manager’s authorized staff are responsible for coordinating and executing transfers of digital assets between the source of the digital assets, primarily OTC brokers and trading platforms, and the custodial platform in use for the Fund. CIBC Mellon Global Securities Services Company is the administrator (“Administrator”) of the Fund.

The investment objective of the Fund is to seek to provide unitholders of the Fund with exposure to the digital asset Ether (“ETH”) and the daily price movements of the United States dollar price of ETH and the opportunity for long-term capital appreciation. To achieve its investment objectives, the Fund will invest in long-term holdings of ETH, purchased from reputable digital asset trading platforms and OTC counterparties, in order to provide investors with a convenient, safer alternative to a direct investment in ETH. The Fund will not speculate with regard to short term changes in ETH prices.

The success of the Fund depends on the continued services of the Manager and will be influenced by a number of risk factors associated with investments in ETH, including market liquidity and foreign currency exposure.

### 2. Basis of Presentation:

#### Basis of accounting

These interim financial statements have been prepared in compliance with International Financial Reporting Standards and International Accounting Standard 34, Interim Financial Reporting (together “IFRS”) as well as the standards governed by the regulation National Instrument 81-106 Investment Fund Continuous Disclosure.

The interim financial statements were approved and authorized for issuance by the board of directors of the Manager on August 6, 2021.

#### Functional and presentation currency

These interim financial statements are presented in United States dollars, which is the Fund’s functional currency.



# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 3. Significant Accounting Policies:

The accounting policies set out below have been applied consistently to the period presented in these interim financial statements.

#### (a) Digital assets

Digital assets are an open-source software-based online payment system where payments are recorded in a public ledger using its own unit of account. The Fund holds digital assets generating profit based on the long term appreciation in the price of ETH. The cost basis of the investments in the digital assets recorded by the Fund is the fair value of the digital assets at the time of purchase. The Fund measures digital assets inventory at its fair value less costs to sell, with any change in fair value less costs to sell being recognized in profit or loss in the period of the change on an average cost basis under the caption Net change in unrealized appreciation (depreciation) in fair value of digital assets. Costs to sell digital assets inventory are immaterial and no allowance is made for such costs.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Digital assets inventory is derecognized when the Fund disposes of the inventory through its trading activities. Net realized gains or losses on sale are determined on an average cost basis and are recognized in profit or loss. Inventory shrinkage arising from denial of access to the economic benefits associated with ownership of digital assets inventory is recognized as an expense in profit or loss on identification.

Refer to Note 4 for further discussion of the Fund's accounting policy in respect of digital assets inventory valuation and the judgment made in determining that such inventory is carried as commodity broker-trader inventory.

#### (b) Financial instruments

##### Recognition

Financial assets and financial liabilities are recognized on the Statements of Financial Position when the Fund becomes a party to the contractual provisions of the instrument. The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs (where applicable).

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 3. Significant Accounting Policies (Continued):

#### Classification

The Fund classifies its financial assets and liabilities in the following measurement categories: amortized cost and fair value through profit or loss ("FVTPL"). The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are measured at amortized cost where the business model is to hold the financial asset to collect its contractual cash flows. Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Financial liabilities are classified to be measured at amortized cost. For assets and liabilities measured at fair value, gains and losses are recorded in profit or loss. The Fund reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. The Fund classifies and measures financial assets on initial recognition as described below:

- Cash is classified as, and measured at, amortized cost.

Accounts payable and accrued liabilities and management fees payable are classified and are measured at amortized cost using the effective interest method.

#### Impairment of financial assets

Financial assets measured at amortized cost must be depreciated by the amount of expected credit losses. Given the very short maturity of these financial assets and the financial strength of the counterparties involved, the Manager believes that the risk of loss is very low. For this reason, no impairment was recorded for financial assets measured at amortized cost.

#### Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either the Fund has transferred substantially all the risks and rewards of the asset, or the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 3. Significant Accounting Policies (Continued):

#### (c) Fair value

The Fund primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included in Level 1 that are observable or can be corroborated by observable market data

Level 3 – unobservable inputs that are supported by no market activity

#### (d) Net assets attributable to holders of redeemable units, per unit

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units by the total number of units outstanding at the end of the period.

#### (e) Basic and diluted loss per unit

The basic and diluted loss per unit is based on the net loss divided by the weighted average number of units outstanding during the period.

#### (f) Foreign currency transaction

The Fund's digital assets may be traded in foreign markets. The proceeds of the sale of those digital assets will be realized in the respective currency. Foreign currency positions are subject to gains and losses due to fluctuations in the respective exchange rates. Foreign currency and purchases of digital assets as well as sales of digital assets are translated into the reporting currency at the rate of exchange prevailing at the date of the transaction. Foreign exchange gains and losses on sales of digital assets are included in the Interim Statement of Comprehensive Income (Loss). Unrealized foreign exchange gains and losses on digital assets are included in Net change in unrealized (depreciation) appreciation in fair value of digital assets in the Interim Statement of Comprehensive Income (Loss).

#### (g) Unitholder's equity

Units are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction from the proceeds, net of tax, if applicable.

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 3. Significant Accounting Policies (Continued):

#### (h) Income tax

Under the Income Tax Act (Canada), the Fund is defined as a mutual fund trust. All of the Fund's net taxable income for tax purposes (including a sufficient portion of the net realized capital gains) in any period must be distributed to holders of redeemable units to ensure no income tax is payable by the Fund.

The Fund does not record income taxes. Hence, the tax benefit of capital and non-capital losses has not been reflected in the Interim Statement of Financial Position as a deferred income tax asset.

### 4. Critical Accounting Estimates and Significant Judgments:

The preparation of interim financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The following are significant management judgments on applying policies of the Fund that have the most significant effects on the interim financial statements.

#### Functional currency

The Manager considers the United States dollar to be the functional currency in which the Fund operates, because it is the currency in which, in its opinion, most faithfully represents the economic effects of the underlying transactions, events and conditions of the Fund. Moreover, the United States dollar is the currency in which the Fund assesses its performance. The Fund issues and redeems its units in United States dollars.

#### Units classification

IAS 32 Financial Instruments: Presentation ("IAS 32") requires that redeemable units or shares of an entity that are equally subordinated but are not identical be classified as a financial liability. The Fund's redeemable units meet the criteria in IAS 32 for classification as equity, as a result of having only one class of units outstanding at the end of the period.

#### Investment entity

The Manager of the Fund evaluated the facts and circumstances to determine whether the Fund meets the definition of an investment entity under IFRS 10 Consolidated Financial Statements.

The Manager concluded that the Fund has more than one investor, the other investors are not related and evaluates its digital assets holdings at their fair value each reporting period. The Manager determined that the Fund does meet the definition of an investment entity, but notes that the Fund does not hold investments that would result in consolidation.

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

#### 4. Critical Accounting Estimates and Significant Judgments (Continued):

##### Digital assets inventory

The Manager considers that the Fund's digital assets are a commodity. As IFRS do not define the term "commodity", the Manager has considered the guidance in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors that allows an entity to consider the most recent pronouncements of other standards-setting literature bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practice to the extent that these do not conflict with the requirements of IFRS and the International Accounting Standards Board Conceptual Framework. Under United States generally accepted accounting principles (US GAAP) as set out in the Master Glossary of Accounting Standards Codification, a "commodity" has been defined as "products whose units are interchangeable, are traded in an active market where customers are not readily identifiable and are immediately marketable at quoted prices". Based on this definition and the guidance in IAS 8, the Manager has therefore determined that digital assets are a commodity notwithstanding that digital assets lack physical substance.

The Fund's activities include trading digital assets and, therefore, subsequent to initial recognition, digital assets inventory is held at fair value less costs to sell, reflecting the Fund's purpose of holding such digital assets inventory as a commodity broker-trader in accordance with IAS 2 Inventories. As a result of the digital assets protocol, costs to sell digital assets inventory are immaterial and no allowance is made for such costs. Changes in the amount of digital assets inventory based on fair value are included in profit or loss for the period.

##### Estimation uncertainties

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Fair value of digital assets

Digital assets consist of ETH (see Note 5 for fair value measurement) and are included in current assets.

#### 5. Fair Value Measurement:

The following table summarize the levels within the fair value hierarchy in which the fair value measurements of the Fund's investments fall as of June 30, 2021:

|               | Level 1 | Level 2        | Level 3 | Total          |
|---------------|---------|----------------|---------|----------------|
| <b>Assets</b> |         |                |         |                |
| Ether         | \$ –    | \$ 182,251,092 | \$ –    | \$ 182,251,092 |
|               | \$ –    | \$ 182,251,092 | \$ –    | \$ 182,251,092 |

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 5. Fair Value Measurement (Continued):

#### Fair value

The digital assets that are held by the Fund are carried at fair value using Level 2 fair value measurements. The fair value of the digital assets as at June 30, 2021 is \$182,251,092. Due to fluctuations in the trading value of the digital assets, an unrealized loss of (\$141,222,981) was recognized for the period ended June 30, 2021.

The value of ETH in the Fund's portfolio is based on the MVIS CryptoCompare Ethereum Benchmark Rate Index ("EBR") maintained by MV Index Solutions GmbH ("MVIS"). The EBR measures the performance of a digital assets portfolio which invests in ETH, utilizing prices from selected exchanges. The closing value is calculated at 4:00 pm eastern standard time.

The estimated fair values of cash, accounts payable and accrued liabilities and management fees payable approximate their respective carrying values due to the short period to maturity.

### 6. Related Party Transactions:

#### Management fees

The Manager of the Fund 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% of the Fund's net asset value calculated daily and payable monthly, plus applicable taxes, in respect of each of the units of the Fund.

During the period ended June 30, 2021, \$281,350 in management fees were charged by 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.

As at June 30, 2021 \$156,756 was payable to the Manager and disclosed under the caption Management fees payable in the Interim Statement of Financial Position.

#### Expenses absorbed by the Manager

In its discretion, the Manager may pay certain of the expense of the Fund out of its own monies but any such payments shall not oblige the Manager to make similar payments in the future, and the Manager's payment of such expenses may be discontinued at any time, without notice to unitholders.

During the period ended June 30, 2021 the Manager absorbed \$22,179 of the Fund's expenses.

#### CoinShares Agreement

On April 19, 2021 the Fund entered into an investment agreement with CoinShares Capital Markets (Jersey) Limited ("CoinShares"). The Manager agreed to rebate CoinShares' proportionate share of management fees and expenses incurred by the Fund in exchange for CoinShares' investment in the Fund.

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 6. Related Party Transactions (Continued):

Once the net asset value of the Fund exceeds \$600 million (the "Threshold Amount"), the Manager shall pay to CoinShares an amount equal to 25% of the annual management fee due on any assets under management in excess of the Threshold Amount.

For the period ended June 30, 2021, the Manager paid CoinShares \$320,034.

### 7. Redeemable Units:

The Fund is authorized to issue an unlimited number of redeemable units of an unlimited number of classes, each of which represents an equal and undivided beneficial interest in the net assets and net income of the Fund attributable to such class. Each unit of each class entitles the holder to vote, with one vote for each unit, and to participate equally with respect to any and all distributions made by the Fund. Units of a class may be consolidated and/or reclassified by the Manager.

The units of the Fund are available to all investors.

#### Redemption of units

Unitholders may redeem units of the Fund for cash at a redemption price per unit equal to the lesser of 95% of: (i) the closing market price for the units on the TSX on the effective day of the redemption and (ii) the Net Asset Value per unit.

A trading day for the Fund is each day on which: (i) a regular session of the TSX is held; and (ii) the primary market or exchange for the majority of the assets of the Fund is open for trading ("Trading Day").

In order for a cash redemption to be effective on a Trading Day, a cash redemption request in the form prescribed by the Manager from time to time must be delivered to the Fund at its registered office by 9:00 a.m. (eastern standard time) on the Trading Day (or such later time on such Trading Day as the Manager may permit).

If a cash redemption request is not received by the delivery deadlines noted immediately above on a Trading Day, the cash redemption request will be effective only on the next Trading Day. Payment of the redemption price will be made by no later than the second Trading Day after the effective day of the redemption. The cash redemption request forms may be obtained from any registered broker or dealer.

#### Exchange of units

On any Trading Day, unitholders may exchange units for cash, or if agreed to by the Manager, for cash and/or portfolio assets held by the Fund.

# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 7. Redeemable Units (Continued):

#### Exchange of units (continued):

To effect an exchange of units, a unitholder must submit an exchange request in the form prescribed by the Manager from time to time to the Fund at its registered office by 9:00 a.m. (eastern standard time) on a Trading Day (or such later time on such Trading Day as the Manager may permit). The exchange price will be equal to the Net Asset Value of the units on the effective day of the exchange request, payable by delivery of cash or, if applicable, assets. The units will be redeemed in the exchange.

If an exchange request is not received by the submission deadline noted immediately above on a Trading Day, the exchange order will be effective only on the next Trading Day. Settlement of exchanges will be made by no later than the second Trading Day after the effective day of the exchange request.

The exchange and redemption rights described above must be exercised through the CDS Participant through which the owner holds Units. Beneficial owners of Units should ensure that they provide exchange and/or redemption instructions to the CDS Participants through which they hold Units sufficiently in advance of the cut-off times described above to allow such CDS Participants to notify CDS and for CDS to notify the Manager prior to the relevant cut-off time.

The Manager may suspend the redemption of units or payment of redemption proceeds of the Fund with the prior permission of the securities regulatory authorities, for any period during which the Manager determines that conditions exist that render impractical the sale of assets of the Fund or that impair the ability of the fund administrator to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first Valuation Date following the termination of the suspension.

#### Distributions

The Fund does not intend to pay distributions to unitholders, other than the distribution of net income at year end, as described below.

On an annual basis, the Fund will ensure that its income and net realized capital gains, if any, have been distributed to unitholders to such an extent that the Fund will not be liable for ordinary income tax thereon. To the extent that the Fund has not distributed the full amount of its net income or capital gains in any year, the difference between such amount and the amount actually distributed by the Fund will be paid as a "reinvested distribution". Reinvested distributions by the Fund, net of any required withholding taxes, will be reinvested automatically in additional units at a price equal to the Net Asset Value per unit and the units will be immediately consolidated such that the number of outstanding units following the distribution will equal the number of units outstanding prior to the distribution.

In addition to the distributions described above, the Fund may from time to time pay additional distributions on its units, including without restriction in connection with a special distribution or in connection with returns of capital.



# 3iQ COINSHARES ETHER ETF

## Notes to the Interim Financial Statements

For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)

(In United States dollars, unless otherwise noted)

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### 8. Capital Disclosure:

The capital of the Fund is represented by issued and redeemable units. The redeemable units are entitled to distributions, if any, and to the payment of a proportionate share based on the Fund's net asset value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown in the Interim Statement of Changes in Equity. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 9, the Fund endeavors to invest the subscriptions received in ETH while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

### 9. Digital Asset Risk:

#### Management of digital asset risks

The Fund is subject to various risks including market risk, liquidity risk, and other risks related to its concentration in a single asset, namely ETH. Investing in ETH is highly speculative and volatile. The investment objective of the Fund is to track the market price of ETH, less the Fund's liabilities and expenses, by investing the assets of the Fund in ETH. As ETH prices rise, the Fund should achieve those gains. However, there can be no assurance that the Fund matches the gains in ETH. The Fund does not employ leverage as part of its investment strategy.

To the extent that private keys for ETH addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Fund may be unable to access the ETH held in the associated address and the ETH network will not be capable of restoring the private key. The risk of losing private keys is mitigated by the services provided by the Sub-Custodian to maintain the safety of the private keys.

The processes by which ETH transactions are settled are dependent on the ETH peer-to-peer network and, as such, the Fund is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the value of ETH.

#### Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. Currently, the Fund has its investment highly concentrated in a single asset, ETH, which is the mandate of the Fund. The Fund tracks the market price of ETH, less the Fund's liabilities and expenses, by investing the assets of the Fund in ETH.

# **3iQ COINSHARES ETHER ETF**

## **Notes to the Interim Financial Statements**

**For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)**

(In United States dollars, unless otherwise noted)

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### **9. Digital Asset Risk (Continued):**

#### **The Custodian**

The ETH owned by the Fund are held by a highly reputable company in the industry that specializes in providing secure ETH storage platforms. The Custodian, and the Sub-Custodian, oversee the retention, security and transfer of ETH for the Fund. The Custodian and Sub-Custodian are independent of the Manager. The Custodian and Sub-Custodian are responsible for (i) establishing and maintaining one or more digital wallets and one or more cold storage vault accounts, which are specialized digital wallets for which private keys are maintained on computers or other devices that are not connected to the Internet or any other computer network, (ii) keeping the private keys that provide access to the digital wallets and vault accounts secure, and (iii) facilitating the transfer of ETH in accordance with the Manager's instructions.

#### **Security risk**

ETH is controllable only by the possessor of both the unique public key and private key relating to the digital wallet in which the ETH are held. While the ETH network requires a public key relating to a digital wallet to be published when used in a spending transaction, if keys are lost or destroyed, this could prevent trading of the ETH.

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in the ETH exchange market since the launch of the Ethereum Network. Any security breach caused by hacking could cause loss of ETH investments.

#### **Ethereum network risk**

The open-source structure of the Ethereum Network protocol means that the core developers of the Ethereum Network and other contributors are generally not directly compensated for their contributions in maintaining and developing the Ethereum Network protocol. A failure to properly monitor and upgrade the Ethereum Network protocol could damage the Ethereum Network.

# **3iQ COINSHARES ETHER ETF**

## **Notes to the Interim Financial Statements**

**For the period from commencement of operations on April 22, 2021 to June 30, 2021 (Unaudited)**

(In United States dollars, unless otherwise noted)

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### **10. Expenses:**

In addition to the management fees, the Fund will pay all of its own expenses and all administration expenses incurred by the Manager for its duties as the manager to the Fund. Such fees and expenses to be borne by the Fund may include, without limitation: fees and expenses payable to the independent review committee of the Fund; brokerage and trading commissions and other fees and expenses associated with the execution of transactions in respect of the Fund's investment in ETH; fees payable to the registrar and transfer agent; fees payable to any custodians and/or sub-custodians for the assets of the Fund as well as the fees of the fund administrator and other service providers; licensing fee payable to MVIS to license the EBR; expenses relating to the monitoring of the relationships with the ETH consultant and other organizations serving the Fund; legal, audit, and valuation fees and expenses; fees payable for listings, the maintenance of listings and filings or other requirements of stock exchanges on which any of the Units of the Fund may become listed or quoted; securities regulatory authorities' participation fees; the preparation and supervision costs relating to the calculation and publication of the Net Asset Value; costs and expenses of preparing, printing, and mailing financial and other reports to Unitholders, material for unitholders' meetings and securities regulatory filings; costs and expenses of communication with Unitholders; costs and expenses arising as a result of complying with all applicable securities legislation and other applicable laws, regulations and policies; all taxes (including income, capital, federal GST or HST, and provincial/territorial sales taxes); and costs associated with the provision of such other managerial and administrative services as may be reasonably required for the ongoing business and administration of the Fund. The Manager may, from time to time, in its sole discretion, pay a portion of any ongoing expenses of the Fund which would otherwise be payable by the Fund.

### **11. Indemnification of the Manager:**

Under the terms of the Declaration of Trust, the Manager shall exercise its powers and discharge its duties hereunder honestly and in good faith and in the best interest of the unitholders of the Fund and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent investment fund manager would exercise in comparable circumstances. The Manager shall not be liable to the Fund or to any unitholder for any loss or damage relating to any matter regarding the Fund, including any loss or diminution in the value of the Fund property, except to the extent that the Manager has failed to meet the standard of care set forth above or otherwise failed to comply with its obligations under the Declaration of Trust.

The Manager, its director, officers, employees and agents shall be indemnified and saved harmless by the Fund from all claims in relation to the execution of the duties of the Manager other than any such claims and costs resulting from willful misconduct, bad faith, negligence on the part of the Manager or the failure to meet its standard of care.