

# **THE BITCOIN FUND**

## **Interim Financial Statements**

**June 30, 2023 (Unaudited)**

# THE BITCOIN FUND

## Interim Financial Statements

June 30, 2023 (Unaudited)

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## 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.

# The Bitcoin Fund

## Interim Statements of Financial Position Unaudited

(Expressed in United States dollars)

	June 30, 2023	December 31, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 73,783	\$ 47,885
Digital assets at fair value (Note 5)	207,040,504	139,649,787
	<u>207,114,287</u>	<u>139,697,672</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	64,098	76,245
Management fees payable (Note 6)	335,886	267,725
	<u>399,984</u>	<u>343,970</u>
<b>UNITHOLDERS' EQUITY</b>		
Units	131,156,483	163,853,784
Retained earnings (deficit)	75,557,820	(24,500,082)
	<u>206,714,303</u>	<u>139,353,702</u>
	<u>\$ 207,114,287</u>	<u>\$ 139,697,672</u>
<b>Number of redeemable units outstanding</b>	6,441,085	7,883,051
<b>Net assets attributable to holders of redeemable units per unit</b>	\$ 32.09	\$ 17.68

The accompanying notes are an integral part of these interim financial statements.

# The Bitcoin Fund

## Interim Statements of Comprehensive Income (Loss) For the six month periods ended June 30 (Unaudited)

(Expressed in United States dollars)

	2023	2022
<b>Income</b>		
Net realized gains on sale of digital assets	\$ 12,161,685	\$ 53,140,068
Net change in unrealized appreciation (depreciation) in fair value of digital assets	99,039,382	(343,573,235)
Foreign exchange (loss) on cash	(1,052)	(1,804)
Other income	—	15,938
	<u>111,200,015</u>	<u>(290,419,033)</u>
<b>Expenses</b>		
Management fees (Note 6)	2,198,399	4,933,449
Custodian fees	153,491	582,943
Operating costs	146,239	184,118
Audit fees	33,803	372
Legal fees	30,609	18,475
Administration fees	25,769	26,885
Unitholder reporting costs	5,519	7,746
Independent review committee fees and expenses	4,052	6,087
	<u>2,597,881</u>	<u>5,760,075</u>
<b>Net income (loss) and comprehensive income (loss)</b>	<u>\$ 108,602,134</u>	<u>\$ (296,179,108)</u>
<b>Weighted average of the number of redeemable units outstanding during the period</b>	7,647,064	10,961,497
<b>Basic and diluted income (loss) per unit*</b>	\$ 14.20	\$ (27.02)

\*Based on the weighted average number of units outstanding during the period.

# The Bitcoin Fund

## Interim Statements of Changes in Equity For the six month periods ended June 30 (Unaudited)

(Expressed in United States dollars)

2023	Class "A" Units		Retained earnings	Total unitholders' equity
	Number	\$	\$	\$
Balance as at January 1, 2023	7,883,051	163,853,784	(24,500,082)	139,353,702
Net income and comprehensive income	–	–	108,602,134	108,602,134
Redemption of units	(1,441,966)	(32,697,301)	(8,544,232)	(41,241,533)
Balance as at June 30, 2023	<u>6,441,085</u>	<u>131,156,483</u>	<u>75,557,820</u>	<u>206,714,303</u>

  

2022	Class "A" Units		Deficit	Total unitholders' equity
	Number	\$	\$	\$
Balance as at January 1, 2022	11,630,577	248,857,511	337,733,717	586,591,228
Net (loss) and comprehensive (loss)	–	–	(296,179,108)	(296,179,108)
Redemption of units	(3,720,026)	(84,372,735)	(43,750,289)	(128,123,024)
Balance as at June 30, 2022	<u>7,910,551</u>	<u>164,484,776</u>	<u>(2,195,680)</u>	<u>162,289,096</u>

# The Bitcoin Fund

## Interim Statements of Cash Flows

### For the six month periods ended June 30 (Unaudited)

(Expressed in United States dollars)

	2023	2022
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net income (loss) and comprehensive income (loss)	\$ 108,602,134	\$ (296,179,108)
Adjustments for non-cash items		
Net realized gains on sale of digital assets	(12,161,685)	(53,140,068)
Net change in unrealized (appreciation) depreciation in fair value of digital assets	(99,039,382)	343,573,235
Foreign exchange loss on cash	1,052	1,804
Change in non-cash balances		
Decrease in accounts payable and accrued liabilities	(12,147)	(170,413)
Increase (decrease) in management fees payable	68,161	(791,061)
Proceeds from sale of investments	3,517,440	134,803,429
Cash provided by operating activities	<u>975,573</u>	<u>128,097,818</u>
<b>Financing Activities</b>		
Redemption of redeemable units	(948,623)	(128,103,739)
Issuance cost paid	—	(19,285)
Cash used in financing activities	<u>(948,623)</u>	<u>(128,123,024)</u>
Increase (decrease) in cash during the period	26,950	(25,206)
Foreign exchange (loss) on cash	(1,052)	(1,804)
Cash, beginning of period	47,885	145,055
<b>Cash, end of period</b>	<u>\$ 73,783</u>	<u>\$ 118,045</u>

# The Bitcoin Fund

## Interim Schedule of Investment Portfolio As at June 30, 2023 (Unaudited)

(Expressed in United States dollars)

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Quantity	Digital Assets owned	Average cost	Fair value	% of net asset value
6,812	Bitcoin	\$ 131,978,742	\$ 207,040,504	100.16
	<b>Net investments owned</b>	<b>\$ 131,978,742</b>	207,040,504	100.16
	<b>Other liabilities, net</b>		(326,201)	(0.16)
	<b>Net Assets Attributable to Holders of Redeemable Units</b>		<b>\$ 206,714,303</b>	<b>100.00</b>

# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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

The Bitcoin Fund (the “Fund”) is a closed-ended 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, 2020 as may be amended from time to time (the “Declaration of Trust”). The address of the Fund’s registered office is Suite 2700 – 161 Bay St, Toronto, Ontario, M5J 2S1. The Fund commenced active operations on April 9, 2020. The Class A units of the Fund are listed on several stock exchanges, including the Toronto Stock Exchange (“TSX”) (equity symbols: QBTC and QBTC.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 Tetra Trust Company as the custodian and Coinbase Custody Trust Company, LLC as the 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. SGGG Fund Services Inc. 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 bitcoin (“bitcoin”), the daily price movements of the United States dollar price of bitcoin and the opportunity for long-term capital appreciation. To achieve its investment objectives, the Fund will invest in long-term holdings of bitcoin, purchased from reputable bitcoin trading platforms and OTC counterparties, in order to provide investors with a convenient, safer alternative to a direct investment in bitcoin. The Fund will not speculate with regard to short-term changes in bitcoin prices.

The success of the Fund will be influenced by a number of risk factors associated with investments in bitcoin, 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 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 1, 2023.

#### Functional and presentation currency

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

### 3. Significant Accounting Policies:

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



# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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

#### (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 bitcoin. 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. 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 – Digital assets inventory 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 a commodity.

#### (b) Financial instruments

##### Recognition

Financial assets and financial liabilities are recognized on the Interim 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).

##### Classification

The Fund classifies its financial assets, cash, at cost. The Fund classifies its financial liabilities, accounts payable and accrued liabilities and management fees payable at cost. The Fund reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

##### 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 cost.

# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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

#### Derecognition

A financial asset is derecognized when 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.

#### (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 of a particular class of units by the total number of units of that particular class outstanding at the end of the period.

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

The basic and diluted income (loss) per unit is based on the net income (loss) attributed to each class of units, divided by the weighted average number of units outstanding of that class during the periods. Only Class A units were outstanding during the periods.

#### (f) Foreign currency translation

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 Statements of Comprehensive Income (Loss). Unrealized foreign exchange gains and losses on digital assets are included in Net change in unrealized appreciation (depreciation) in fair value of digital assets in the Interim Statements of Comprehensive Income (Loss).

#### (g) Unitholders' 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.

# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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

When the Fund repurchases its own units for cancellation, the consideration paid in excess of costs is attributed to retained earnings and costs are allocated to the equity of the Fund's unitholders.

#### (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 year 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 Statements 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.

#### 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 their 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.

# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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### 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 does not define the term "commodity", the Manager has considered the guidance in IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") 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 buying and selling 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 in accordance with IAS 2 – Inventories. 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 periods.

#### 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 bitcoin (see Note 5 for fair value measurement) and are included in current assets.

### 5. Fair Value Measurement:

The digital assets that are held by the Fund are carried at fair value using Level 2 fair value measurements.

The value of bitcoin in the Fund's portfolio is based on the MarketVector Bitcoin Benchmark Rate index ("BBR") maintained by MV Index Solutions GmbH ("MVIS"). The BBR measures the performance of a digital assets portfolio which invests in bitcoin, 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.

# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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### 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 1.95% 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.

Management fees charged by the Manager occurred in the normal course of operations and are measured at exchange value, which is the amount established and agreed to by the related parties.

Management fees payable to the Manager are disclosed under the caption Management fees payable in the Interim Statements of Financial Position.

### 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 Class A units of the Fund are available to all investors. The Class F units are designed for fee-based and/or institutional accounts and are not listed on a stock exchange. Class F units in an offering have been reclassified as Class A units upon the closing of offerings.

#### Redemption of units

Annual redemptions:

Units may be redeemed at the option of unitholders on the first business day following the 15<sup>th</sup> day of June in each year (each, an "Annual Redemption Date"), subject to the Fund's right to suspend redemptions in certain circumstances. Units so redeemed will be redeemed at a redemption price equal to the net asset value per unit on the Annual Redemption Date, less any costs and expenses associated with the redemption, including commissions incurred by the Fund to fund such redemptions. Units must be surrendered for redemption on or before the last business day of the month of May preceding the applicable Annual Redemption Date (the "Annual Cut-Off Date").

Redemption proceeds will be paid in United States dollars on or before the 15<sup>th</sup> business day following the Annual Redemption Date.

Monthly redemptions:

Class A units may be surrendered at the option of unitholders at any time for redemption on the first business day following the 15<sup>th</sup> day of each month (the "Monthly Redemption Date"), subject to certain conditions and, in order to effect such a redemption, the units must be surrendered for redemption no later than 5:00 p.m. (Toronto time) on the last business day of the month prior to the month of the applicable Monthly Redemption

# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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### 7. Redeemable Units (Continued):

Date (the “Monthly Cut-Off Date”). Payment of the proceeds of redemption will be made in United States dollars on or before the 15<sup>th</sup> business day following the Monthly Redemption Date (“Redemption Payment Date”).

Unitholders surrendering a Class A unit for redemption shall receive a redemption price (the “Class A Redemption Price”) equal to the lesser of: (i) 95% of the Closing Market Price of a Class A unit on the applicable Monthly Redemption Date; and (ii) the net asset value per Class A unit on the applicable Monthly Redemption Date less, in each case, any costs and expenses associated with the redemption, including commissions incurred by the Fund. Redemption proceeds will be paid in United States dollars.

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’s 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.

### 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 BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

### 8. Capital Disclosure (Continued):

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 bitcoin while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

The following tables summarize the capital disclosures of the Fund for the six month period ended June 30, 2023, and the years since its inception:

Class A	2020		2021		2022		2023*	
	Units	\$	Units	\$	Units	\$	Units	\$
Initial public offering	303,675	2,824,178	–	–	–	–	–	–
New issues	9,221,433	155,252,354	–	–	–	–	–	–
Reclassification of Class B units	1,031,294	9,591,034	–	–	–	–	–	–
Reclassification of Class F units	2,010,055	21,870,661	–	–	–	–	–	–
Private placements	3,691,738	71,363,078	1,204,020	48,052,432	–	–	–	–
ATM	–	–	3,578,700	153,360,758	–	–	–	–
NCIB	–	–	(150,700)	(8,309,324)	(120,800)	(4,214,660)	–	–
Monthly redemptions	–	–	(700)	(41,910)	(1,829)	(41,771)	–	–
Annual redemptions	–	–	(2,160,375)	(93,153,857)	(33,683)	(766,392)	(34,078)	(948,623)
Annual conversion	–	–	(7,098,564)	(292,800,858)	(3,591,213)	(123,642,590)	(1,407,888)	(40,292,910)
	16,258,195	260,901,305	(4,627,619)	(192,892,759)	(3,747,525)	(128,665,413)	(1,441,966)	(41,241,533)

Class B	2020	
	Units	\$
Initial public offering	973,727	9,737,265
Reclassification to Class A units	(973,727)	(9,737,265)
	–	–

Class F	2020	
	Units	\$
Initial public offering	153,530	1,535,300
New issues	1,853,224	21,410,308
Reclassification to Class A units	(2,006,754)	(22,945,608)
	–	–

\*for the six month period ended June 30, 2023

### New issues

The Fund and the Manager entered into agency agreements with certain selling agents pursuant to which the agents agreed to offer the Class A units and Class F units of the Fund for sale to the public, on a best efforts basis, if, as and when issued by the Fund. In consideration for their services in connection with the offering of units, the agents were paid a fee of up to a maximum of 5.5% per Class A unit and up to a



# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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### 8. Capital Disclosure (Continued):

maximum of 3.5% per Class F unit out of the proceeds of the offering. In addition, the expenses of the offerings were paid out of the gross proceeds by the Fund.

In addition, the Fund has paid the expenses incurred in connection with the offerings. The Manager is also entitled to reimbursement of monies expended in the creation and marketing of the Fund, up to a maximum of 1.5% of the total proceeds raised through the Fund opening.

The Fund completed its initial IPO on April 9, 2020, resulting in the listing of Class A units on the TSX. In connection with the IPO, the Fund issued Class A units, Class F units and Class B units. The Class B units were issued to 3iQ Bitcoin Trust in consideration for the assets of 3iQ Bitcoin Trust, which consisted of bitcoin and cash, in connection with the merger of 3iQ Bitcoin Trust and the Fund which was effective as of 5:00 p.m. on April 8, 2020 (the "Merger"). Immediately upon closing of the IPO, the Class B units and Class F units were reclassified as Class A units based on the net asset value per Class B unit or Class F unit, as applicable, divided by the net asset value per Class A unit, in each case calculated after payment of the agents' fees.

#### ATM

On December 30, 2020, the Fund established an at-the-market ("ATM") equity 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. Any units issued under an ATM program were sold at the prevailing market price at the time of sale through the TSX or any other marketplace in Canada on which the units are listed, quoted or otherwise traded. The ATM program was terminated on January 26, 2021.

On January 26, 2021, the Fund established an additional ATM program (the "Second ATM program") to allow the Fund to issue units having an aggregate sale price of up to \$200,000,000 to the public, at the discretion of the Manager. The Second ATM program was terminated on June 18, 2021.

On July 13, 2021, the Fund established an additional ATM program (the "Third ATM program") to allow the Fund to issue units having an aggregate sale price of up to \$200,000,000 to the public, at the discretion of the Manager. The Third ATM program was effective until December 5, 2022.

#### NCIB

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 2,098,287 units (representing approximately 10% of the public float as of February 17, 2021) in the open market in accordance with the rules and policies of the TSX. Units purchased by the Fund under the NCIB were cancelled. The program commenced on March 1, 2021 and terminated on February 28, 2022.

On February 24, 2022, the TSX accepted the Fund's notice of intention to make a NCIB to permit the Fund to repurchase up to 1,154,519 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 were cancelled. The program commenced on March 1, 2022 and terminated on February 28, 2023.

On February 27, 2023, the TSX accepted the Fund's notice of intention to make a NCIB to permit the Fund to repurchase up to 680,633 units (representing approximately 10% of the public float as of February 17, 2023) in the open market in accordance with the rules and policies of the TSX. Units purchased by the Fund under



# THE BITCOIN FUND

## Notes to the Interim Financial Statements

For the six month periods ended June 30, 2023 and 2022 (Unaudited)

(Expressed in United States dollars)

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### 8. Capital Disclosure (Continued):

the NCIB, will be canceled. The program commenced on March 1, 2023 and will terminate on February 29, 2024, or on such earlier date as the Fund purchases the maximum number of units permitted under the NCIB.

### Conversions

On May 14, 2021, April 18, 2022 and April 14, 2023, the Fund announced that unitholders had the voluntary option to convert all or part of their units into units of 3iQ Bitcoin ETF as an additional option in connection with the annual redemption.

### 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 bitcoin. Investing in bitcoin is highly speculative and volatile. The investment objective of the Fund is to track the market price of bitcoin, less the Fund's liabilities and expenses, by investing the assets of the Fund in bitcoin. As bitcoin prices rise or fall, the Fund should achieve those gains or suffer those losses. However, there can be no assurance that the Fund matches the gains in bitcoin. The Fund does not employ leverage as part of its investment strategy.

To the extent that private keys for bitcoin addresses are lost, destroyed or otherwise compromised and no backup of the private keys is accessible, the Fund may be unable to access the bitcoin held in the associated address and the bitcoin network will not be capable of restoring the private keys. 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 bitcoin transactions are settled are dependent on the bitcoin peer-to-peer network, and 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 bitcoin.

#### 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, bitcoin, which is the mandate of the Fund.

#### The Custodian and Sub-Custodian

The bitcoins owned by the Fund are held by a highly reputable company in the industry that specializes in providing secure bitcoin storage platforms. The Custodian, and the Sub-Custodian, oversee the retention, security and transfer of bitcoins 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 bitcoins in accordance with the Manager's instructions.

# THE BITCOIN FUND

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

#### Security risk

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the digital wallet in which the bitcoins are held. While the bitcoin 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 bitcoins.

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

#### Bitcoin network risk

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

### 10. Expenses:

In addition to the management fees, and any debt servicing costs, 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 bitcoin; 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's Administrator and other service providers; licensing fee payable to MVIS to license the BBR; expenses relating to the monitoring of the relationships with the Custodian and Sub-Custodian 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; 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 thereunder 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

# THE BITCOIN FUND

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### 11. Indemnification of the Manager (Continued):

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.

### 12. Comparative Figures:

Certain comparative figures in these interim financial statements have been revised to comply with the current period's presentation.