

**MANAGEMENT REPORT OF FUND PERFORMANCE**

**THE BITCOIN FUND**  
Interim Management Report of Fund Performance

For the period from commencement of operations on April 9, 2020 to June 30, 2020

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

The interim Management Report of Fund Performance may contain forward-looking statements. 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 “What are the Risks of Investing in the Fund?” in the Fund’s Prospectus. Investors are also cautioned that FLS is based on a number of 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 interim management report of fund performance contains highlights but does not contain either the interim financial report or annual financial statements of the investment fund. You can get a copy of the interim financial report or annual financial statements at your request, at no cost, by calling 1-416-639-2130, by writing to us at 4800-1 King Street West, Box 160, Toronto, Ontario, M5H 1A1 or by visiting our website [www.3iq.ca](http://www.3iq.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

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

# THE BITCOIN FUND

## MANAGEMENT REPORT OF FUND PERFORMANCE

### Management Discussion of Fund Performance for the period from commencement of operations on April 9, 2020 to June 30, 2020

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This Management Report of Fund Performance represents the portfolio management team's view of the significant factors and developments affecting the investment fund's performance and outlook for the period from commencement of operations on April 9, 2020 to June 30, 2020, the investment fund's interim period. Every effort has been made to ensure the information contained in this Management Report of Fund Performance is accurate and complete, however, the investment 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 Bitcoin 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. All dollar figures are reported in United States dollars.

#### Investment Objective and Strategies

The investment objective of the Fund is to seek to provide unitholders of the Fund with exposure to the digital asset bitcoin ("bitcoin") and the daily price movements of the U.S. 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, secure alternative to a direct investment in bitcoin. The Fund will not speculate with regard to short-term changes in bitcoin 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 bitcoin 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 bitcoin included in the Fund's portfolio. The value of the bitcoin will be influenced by factors which are not within the control of the Fund or the Manager. The Fund was created to invest in bitcoin 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 bitcoin. 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 period ended June 30, 2020, 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 period ended June 30, 2020, Class A units of the Fund returned +4.5%.

The net asset value of the Fund was \$67.3 million as at June 30, 2020. This was composed primarily of net sales of units of \$72.4 million, issuance costs paid of \$4.0 million and net loss from operations of \$1.1 million for the period ended June 30, 2020.

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 Bloomberg with returns calculated net of fees and expenses by 3iQ Corp. The prices are reported in USD. All dollar amounts herein are in USD.

Over the period of April 9, 2020 to June 30, 2020 bitcoin moved from 7,306 to 9,147, a positive gain of 25.2%. The Fund's NAV performance over the same period was a positive gain of 4.5%. The Fund's market price return performance for the period was 1.6%.

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## MANAGEMENT REPORT OF FUND PERFORMANCE

**Management Discussion of Fund Performance for the period from commencement of operations on April 9, 2020 to June 30, 2020**

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The fund opened for trading on April 9th about mid-day and immediately moved higher from the subscription price of \$10.00 to close at \$11.99, at a premium to the NAV of the Fund of approximately 30%. The premium moved to 39% the next day. In early May the Manager announced a new offering of QBTC.U and the response from the market was profound and the offering was \$48.1 million. Upon the announcement the premium to NAV fell to a discount of -2.3% on May 7, 2020 and then began to rebuild. The Manager raised another \$9.1 million for the Fund on June 6, 2020 with minor impact on the premium to NAV.

From time to time, a discount to NAV has been observed for the Fund in the period of April 9 to June 30. The lowest discount was -5.2%. The largest premium observed was 39.2%. This is a function of investors buying and selling a limited number of shares on the Toronto Stock Exchange. It should be absolutely clear to current and prospective Fund investors that the closed-end fund (CEF) offering process creates a set amount of shares at each opening and is different from the daily creation/redemption process of exchange traded funds (ETFs). Due to the limited number of shares, the price of the Fund, QBTC.U on the Toronto Stock Exchange, may vary from the value of the Fund's assets of bitcoin and a small percentage of cash.

### Recent Developments

The Bitcoin network underwent a "halving" even on May 11, 2020 where the number of bitcoin produced on a daily basis was reduced by half. This algorithmic scarcity is a feature of bitcoin that results in a known supply schedule with the cap on total issuance of 21 million bitcoin. There has been significant upside movement after the past two halvings in 2012 and 2016, however bitcoin is much more established and past performance is no guarantee of future performance.

The Fund has been planning to offer private placements into QBTC.U that require a four month hold period. When appropriate, the Fund may bring another issue to the market and Management is actively seeking to enhance liquidity and garner Canadian bank-owned dealer participation.

### Related Party Transactions

As at June 30, 2020, the directors and officers of the Manager held 5,093 units of the Fund with a total market value of \$53,680.22.

### 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. However, Class F Units have been reclassified as Class A Units.

During the period ended June 30, 2020, \$220,227 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.

### Financial Highlights

The following tables show selected key financial information about the Class A units of the Fund and are intended to help you understand the Fund's financial performance for the period since the inception date.

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**The Fund's Net Asset Value (NAV)**

**June 30, 2020**

# THE BITCOIN FUND

## MANAGEMENT REPORT OF FUND PERFORMANCE

### Financial Highlights – June 30, 2020

per Class A Unit (1) (2)	
<b>Net asset value, beginning of period</b>	<b>\$10.00</b>
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.09)
Unrealized losses for the period	(0.17)
<b>Total decrease from operations (2)</b>	<b>\$(0.26)</b>
<b>Total annual distributions</b>	<b>\$-</b>
<b>Net asset value, end of period (3)</b>	<b>\$10.45</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (3)	\$ 67,333,232
Number of units outstanding (3)	6,444,157
Management expense ratio (4)	3.78%
Trading expense ratio (5)	- %
Portfolio turnover rate (6)	0.28%
<b>Net asset value per unit</b>	<b>\$ 10.45</b>
Closing market price (3)	\$ 10.54

#### Notes:

(1) This information is derived from the Fund's interim financial statements for June 30, 2020 and is not a reconciliation of beginning and ending net assets per unit.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The decrease from operations is based on the weighted average number of units outstanding over the financial period.

(3) This information is provided as at June 30, 2020. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

(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 daily average 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. Included in the trading expense ratio are the forward fees.

(6) The Fund's portfolio turnover rate indicates how actively the Fund's advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the units 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.

### Annual Compound Returns

Annual compound returns are not presented as the Fund has been in operation for less than 12 months at June 30, 2020.

# THE BITCOIN FUND

## MANAGEMENT REPORT OF FUND PERFORMANCE

### Summary of Investment Portfolio as at June 30, 2020

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The following table shows selected key financial information about the Fund and is intended to assist in the understanding of the Fund's financial performance for the period ended June 30, 2020.

<u>Portfolio Composition</u>		<u>All Holdings</u>	
<u>Sector Allocation</u>	<u>% of Net Asset Value</u>	<u>Issuer</u>	<u>% of Net Asset Value</u>
Digital assets	99.64	Bitcoin	99.64
		Cash	0.57
		Other assets and liabilities, net	(0.21)
<b>Total Portfolio Allocation</b>	<b>99.64%</b>	<b>Total Percentage of Net Asset Value Represented by Holdings</b>	<b>100.00%</b>
<b>Total Net Asset Value (in millions)</b>	<b>\$67.333</b>		

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