

ANNUAL  
FINANCIAL  
STATEMENTS  
2021

CI GALAXY ETHEREUM ETF

DECEMBER 31, 2021

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# Independent auditor's report

To the Unitholders of  
**CI Galaxy Ethereum ETF**

## Opinion

We have audited the financial statements of **CI Galaxy Ethereum ETF** [the "Fund"], which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2021, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ["IFRSs"].

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Queenie Chung.

Toronto, Canada  
March 21, 2022

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants  
Licensed Public Accountants

# CI Galaxy Ethereum ETF

Financial Statements (Expressed in US\$)

## Statement of Financial Position

as at December 31

(in \$000's except for per unit amounts and units outstanding)

	2021
<b>Assets</b>	
<b>Current assets</b>	
Digital assets at fair value	1,000,261
Cash	-
Fees rebate receivable	3
Interest receivable	-
Receivable for digital assets sold	-
Receivable for unit subscriptions	-
	1,000,264
<b>Liabilities</b>	
<b>Current liabilities</b>	
Bank overdraft	18
Payable for digital assets purchased	-
Payable for unit redemptions	6,870
Distributions payable to holders of units	-
Management fees payable	399
Accounts payable and accrued liabilities	1,486
	8,773
<b>Net assets attributable to holders of redeemable units</b>	991,491

## Statement of Financial Position (cont'd)

as at December 31

(in \$000's except for per unit amounts and units outstanding)

	Net assets attributable to holders of redeemable units per Series (Note 4):	Net assets attributable to holders of redeemable units per unit:	Number of redeemable units outstanding:
	2021	2021	2021
ETF US\$ Series	420,805	16.77	25,100,000
ETF C\$			
Unhedged Series	570,686	16.96*	42,575,000

\*Net assets attributable to holders of redeemable units per unit for ETF C\$ Unhedged Series are presented in Canadian dollars.  
The accompanying notes are an integral part of these financial statements.

# CI Galaxy Ethereum ETF

Financial Statements (Expressed in US\$)

## Statement of Comprehensive Income

for the period ended December 31

(in \$000's except for per unit amounts and number of units)

	2021
<b>Income</b>	
Net gain (loss) on digital assets	
Interest for distribution purposes	-
Net realized gain (loss) on sale of digital assets	16,338
Change in unrealized appreciation (depreciation) in value of digital assets	75,998
<b>Total net gain (loss) on digital assets</b>	<b>92,336</b>
Other income	
Foreign exchange gain (loss) on cash	-
Fees rebate	11
<b>Total other income</b>	<b>11</b>
<b>Total income</b>	<b>92,347</b>
<b>Expenses</b>	
Management fees (Note 5)	1,726
Independent review committee fees	1
Custody fees	1,076
Unitholders reporting costs	100
Audit fees	50
Legal fees	14
Harmonized sales tax	270
Listing fees	4
Licensing fees	85
<b>Total expenses</b>	<b>3,326</b>
Expenses absorbed by the Manager (Note 5)	(159)
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>89,180</b>

## Statement of Comprehensive Income (cont'd)

for the period ended December 31

(in \$000's except for per unit amounts and number of units)

	Increase (decrease) in net assets attributable to holders of redeemable units per Series: 2021	Increase (decrease) in net assets attributable to holders of redeemable units per unit: 2021	Weighted average number of units: 2021
ETF US\$ Series	6,709	0.50	13,487,109
ETF C\$			
Unhedged Series	82,471	2.67	30,897,070

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

# CI Galaxy Ethereum ETF

Financial Statements (Expressed in US\$)

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

for the period ended December 31 (in \$000's)

	ETF US\$ Series 2021	ETF C\$ Unhedged Series 2021	Total Fund 2021
<b>Net assets attributable to holders of redeemable units at the beginning of period</b>	-	-	-
Increase (decrease) in net assets attributable to holders of redeemable units	6,709	82,471	89,180
<b>Distributions to holders of redeemable units</b>			
From net investment income	-	-	-
From net realized gains	-	-	-
Return of capital	(12)	-	(12)
<b>Total distributions to holders of redeemable units</b>	(12)	-	(12)
<b>Redeemable unit transactions</b>			
Proceeds from redeemable units issued	523,984	626,202	1,150,186
Reinvestment of distributions to holders of redeemable units	-	-	-
Redemption of redeemable units	(109,876)	(137,987)	(247,863)
<b>Net increase (decrease) from redeemable unit transactions</b>	414,108	488,215	902,323
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	420,805	570,686	991,491
<b>Net assets attributable to holders of redeemable units at the end of period</b>	420,805	570,686	991,491

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

# CI Galaxy Ethereum ETF

Financial Statements (Expressed in US\$)

## Statement of Cash Flows

for the period ended December 31 (in \$000's)

	<b>2021</b>
<b>Cash flows from (used in) operating activities</b>	
Increase (decrease) in net assets attributable to holders of redeemable units	89,180
Adjustments for:	
Net realized (gain) loss on sale of digital assets	(16,338)
Unrealized foreign exchange (gain) loss on cash	-
Change in unrealized (appreciation) depreciation in value of digital assets	(75,998)
Proceeds from sale of digital assets	136,757
Purchase of digital assets	(1,044,682)
(Increase) decrease in interest receivable	-
Increase (decrease) in management fees payable	399
Change in other accounts receivable and payable	1,483
<b>Net cash from (used in) operating activities</b>	<b>(909,199)</b>
<b>Cash flows from (used in) financing activities</b>	
Distributions paid to holders of redeemable units, net of reinvested distributions	(12)
Proceeds from issuance of redeemable units	1,150,185
Amounts paid on redemption of redeemable units	(240,992)
<b>Net cash from (used in) financing activities</b>	<b>909,181</b>
Unrealized foreign exchange gain (loss) on cash	-
Net increase (decrease) in cash	(18)
Cash (bank overdraft), beginning of period	-
<b>Cash (bank overdraft), end of period</b>	<b>(18)</b>
<b>Supplementary Information:</b>	
Interest received, net of withholding tax*	-
Interest paid*	-
Tax recoverable (paid)	-

\*Dividends and interest received as well as dividends and interest paid relate to operating activities of the Fund.  
The accompanying notes are an integral part of these financial statements.



# CI Galaxy Ethereum ETF

Schedule of Investment Portfolio as at December 31, 2021 (Expressed in US\$)

	<b>Number of Ethereum</b>	<b>Description</b>	<b>Average Cost (\$)</b>	<b>Fair Value (\$)</b>	<b>% of Net Assets</b>
<b>DIGITAL ASSET(S)</b>					
	274,276	Ethereum	924,262,382	1,000,260,458	100.88
<b>Total Digital Asset(s)</b>			924,262,382	1,000,260,458	100.88
Adjustment for transaction costs			-		
<b>Total Investments</b>			<b>924,262,382</b>	1,000,260,458	100.88
Other Net Assets (Liabilities)				(8,769,664)	(0.88)
<b>Net Assets Attributable to Holders of Redeemable Units</b>				<b>991,490,794</b>	<b>100.00</b>

Percentages shown relate investments at fair value to net assets attributable to holders of redeemable units of the Fund.

# CI Galaxy Ethereum ETF

Fund Specific Notes to Financial Statements (Expressed in US\$)

## Commissions (Note 2)

for the period ended December 31 (in \$000's)

	2021
Brokerage commissions	-
Soft dollar commissions <sup>†</sup>	-

## Redeemable Unit Transactions (Note 4)

for the period ended December 31

	ETF US\$ Series 2021	ETF C\$ Unhedged Series 2021
<b>Number of redeemable units at the beginning of period</b>	-	-
Redeemable units issued for cash	32,100,000	52,550,000
Redeemable units issued for reinvested distributions	-	-
Redeemable units redeemed	(7,000,000)	(9,975,000)
<b>Number of redeemable units at the end of period</b>	25,100,000	42,575,000

<sup>†</sup>A portion of brokerage commissions paid was used to cover research and market data services, termed soft dollar commissions. This amount has been estimated by the Manager of the Fund. The accompanying notes are an integral part of these financial statements.

# CI Galaxy Ethereum ETF

Fund Specific Notes to Financial Statements (Expressed in US\$)

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## Management Fee Rate (Note 5)

as at December 31, 2021 (%)

	Annual management fee rate:
ETF US\$ Series	0.400
ETF C\$ Unhedged Series	0.400

## Loss Carry Forwards (Note 6)

as at December 31 (in \$000's)

	2021
Capital loss carried forward:	7,347
Non-capital losses expiring:	
2031	-
2032	-
2033	-
2034	-
2035	-
2036	-
2037	-
2038	-
2039	-
2040	-
2041	-
<b>Total</b>	-

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

# CI Galaxy Ethereum ETF

## Notes to the Financial Statements

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### 1. THE FUND

The CI Galaxy Ethereum ETF (the Fund) is an alternative mutual fund within the meaning of National Instrument 81-102 (NI 81-102) established as a trust under the laws of the Province of Ontario pursuant to the Declaration of the Trust.

The Fund's registered office address is 15 York Street, Second Floor, Toronto, Ontario, M5J 0A3. Effective August 1, 2021, the Fund's registered office address changed from 2 Queen Street East, Twentieth Floor, Toronto, Ontario, M5C 3G7, to 15 York Street, Second Floor, Toronto, Ontario, M5J 0A3.

CI Investments Inc. is the manager and the trustee (the Manager and the Trustee) to the Fund. The Manager retained Galaxy Digital Capital Management LP to act as the sub-advisor (the Sub-advisor) for the Fund, Cidel Trust Company to act as the custodian (the Custodian) of the Fund, and Gemini Trust Company, LLC to act as the sub-custodian (the Sub-Custodian) to the Fund. CIBC Mellon Trust Company is the valuation agent (the Valuation Agent) of the Fund.

The Custodian is a federally regulated trust company based in Calgary, Alberta that provides services to the Fund from its office in Toronto, Ontario. The Custodian is a wholly owned subsidiary of Cidel Bank Canada, a Schedule II Bank regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Sub-Custodian is a trust company licensed and regulated by the New York State Department of Financial Services (NYDFS) and is qualified to act as a sub-custodian of the Fund for the assets held outside of Canada in accordance with NI 81-102.

These financial statements were authorized for issue by the Manager on March 11, 2022.

CI Investments Inc. is a subsidiary of CI Financial Corp.

The Fund's investment objective is to provide unitholders with exposure to ethereum (ETH) through an institutional-quality fund platform. To achieve this investment objective, the Fund invests directly in ETH and utilizes high-quality service providers in the digital assets sector (e.g., digital asset custodians, trading platforms and trading counterparties) in order to manage the assets of the Fund.

The Fund is offering U.S. dollar-denominated unhedged units (the ETF US\$ Series units) and Canadian dollar-denominated unhedged units (the ETF C\$ Unhedged Series units). They are for sale on a continuous basis.

The Statement of Financial Position is as at December 31, 2021. The Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows are for the period from April 16, 2021 to December 31, 2021.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with *International Financial Reporting Standards* (IFRS) as published by the International Accounting Standards Board.

The following is a summary of the significant accounting policies of the Fund.

#### a. Digital assets

Digital assets are cryptocurrencies such as ETH, which are an open-source software-based online system where transactions are recorded in a public ledger (blockchain) using its own unit of account. Refer to Note 3 for discussion of the Fund's accounting policy in respect of digital assets inventory and the judgment made in determining that such inventory is carried as commodity broker-trader inventory.

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. Costs to sell digital assets inventory are immaterial and no allowance is made for such costs.

Digital assets inventory is derecognized when the Fund disposes of the inventory through its trading activities. All unrealized gains (losses) arising from digital assets holdings are recorded as part of "Change in unrealized appreciation (depreciation) in value of digital assets" in the Statement of Comprehensive Income until the digital asset holdings are sold, at which time the gains (losses) are realized and reflected in the Statement of Comprehensive Income in "Net realized gain (loss) on sale of digital assets".

The Fund's digital asset are priced based on, and the Fund's net asset value (NAV) is calculated using, the Bloomberg Galaxy Ethereum Index (the ETH Index) or such other index as the Manager may select from time to time, in its discretion. The ETH Index is designed to measure the performance of a single ETH traded in U.S. dollars and is owned and administered by Bloomberg Index Services Limited (Bloomberg) and is co-branded with the Sub-advisor; however, the Sub-advisor has no input into the pricing of the ETH Index. The ETH Index is calculated using Bloomberg Crypto Fixing (CFIX) as its primary input. CFIX is a pricing algorithm that uses bid and ask quotes between 16:00:00 and 16:15:00 EST and are derived from multiple pricing sources approved by Bloomberg. In the event that the Manager determines that it is in the best interest of the Fund to select another pricing source for the ETH held by the Fund from time to time, the Manager will, in selecting such alternative pricing source, have regard for the appropriateness and reliability of the data to be relied upon with particular regard for the adequacy of Anti-Money Laundering and Know Your Client protections and the protocols designed to address potential price manipulation. As it is the Fund's intention to invest in ETH on a passive basis, the Fund's holdings will not be actively managed and accordingly, will not be hedged or repositioned to attempt to take defensive positions if the price of ETH declines or is expected to decline. ETH is purchased for the Fund from ETH trading platforms and over-the-counter (OTC) market through counterparties approved by the Sub-advisor.

#### b. Financial instruments

All financial assets and liabilities are measured at amortized cost, which approximates their fair value. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the effective rate of interest.

#### c. Cash

Cash is comprised of cash on deposit.

#### d. Cost of digital asset

Cost of digital asset represents fair value of the digital assets at the time of purchase.

#### e. Functional and presentation currency

The Fund's functional and presentation currency is the U.S. dollar.

#### f. Foreign exchange

Foreign currency amounts are translated into the functional currency as follows: assets and liabilities at the closing rate of exchange on each business day and income and expenses at the rate of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) relating to cash are presented as "Foreign exchange gain (loss) on cash" in the Statement of Comprehensive Income and those relating to digital assets are presented within "Net realized gain (loss) on sale of digital assets" and "Change in unrealized appreciation (depreciation) in value of digital assets" in the Statement of Comprehensive Income.

# CI Galaxy Ethereum ETF

## Notes to the Financial Statements (cont'd)

### g. Unit valuation

NAV per unit of each series is calculated at the end of each business day on which the Toronto Stock Exchange (TSX) is open for business by dividing the total NAV of each series by the number of units of that series outstanding.

The NAV of each series is computed by calculating the value of that series' proportionate share of the Fund's assets less that series' proportionate share of the Fund's common liabilities and less series-specific liabilities. Expenses directly attributable to a series are charged to that series. Other income and expenses, and gains and losses, are allocated to each series proportionately based upon the relative total NAV of each series.

As at December 31, 2021, there were no differences between the NAV used for transactions with unitholders and the net assets used for reporting purposes under IFRS.

### h. Classification of units

The units of the Fund are classified as financial liabilities in accordance with IAS 32 - *Financial Instruments: Presentation* (IAS 32), as they do not meet the definition of puttable instruments to be classified as equity in accordance with IAS 32 for financial reporting purposes.

### i. Increase (decrease) in net assets per unit

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" in the Statement of Comprehensive Income is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units of each series of the Fund by the weighted average number of units outstanding during the period of that series.

### j. Harmonized sales tax

Certain provinces including Ontario, Prince Edward Island, Nova Scotia, New Brunswick and Newfoundland and Labrador (each a Participating Tax Jurisdiction) have harmonized their provincial sales tax (PST) with the federal goods and services tax (GST). The Harmonized Sales Tax (HST) combines the federal GST rate of 5% with the PST rate of the participating province. The province of Quebec also applies the Quebec sales tax (QST) of 9.975%. The Provincial HST liability or refund is calculated using the residency of unitholders and the value of their interest in the Fund as at specific times, rather than the physical location of the Fund. The effective sales tax rate charged to the Fund is based on the unitholders' proportionate investments by province, using each province's HST rate, GST rate in the case of non-participating provinces and/or QST rate. All amounts are presented as "Harmonized sales tax" in the Statement of Comprehensive Income.

## 3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting period. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing its financial statements:

### Digital assets inventory

The topic of digital assets and the accounting for digital assets continues to be considered by the International Accounting Standards Board (IASB) and the Manager continues to monitor new comments and interpretations released by IASB and other standard setters from around the world.

The Manager considers that the Fund's digital assets are a commodity and the Fund as a commodity broker-trader. Therefore, subsequent to initial recognition, digital assets inventory is held at fair value less costs to sell, in accordance with IAS 2 Inventories. Changes in the amount of digital assets inventory based on fair value are included in profit or loss for the period.

## IFRS 10, Consolidated Financial Statements (IFRS 10)

In accordance with IFRS 10, the Manager has determined that the Fund meets the definition of an Investment Entity which requires that the Fund obtains funds from one or more investors for the purpose of providing investment management services, commit to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and measure and evaluate the performance of its investments on a fair value basis. Consequently, the Fund does not consolidate its investment in subsidiaries, if any, but instead measure these at FVTPL, as required by the accounting standard.

## 4. UNITS

Units issued and outstanding represent the capital of the Fund.

The Fund is authorized to issue an unlimited number of redeemable, transferrable units of an unlimited number of series of units, each of which represents an undivided interest in the net assets of the Fund. The relevant changes pertaining to subscription and redemption of the Fund's units are disclosed in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Unit. In accordance with the objectives and risk management policies outlined in Notes 1 and 9, the Fund endeavours to invest subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions through utilizing a short-term borrowing facility or disposal of investments when necessary.

### Redemptions

On any trading day, unitholders of the Fund may redeem units of the Fund for cash at a redemption price per unit equal to 95% of the closing price for the units on the TSX on the effective day of the redemption, subject to a maximum redemption price per unit equal to the NAV per unit on the effective date of the redemption, less any applicable redemption fee determined by the Manager, in its sole discretion, from time to time.

Units transactions information appears in the Fund Specific Notes to Financial Statements.

## 5. FEES AND OTHER EXPENSES

### Management fees

The Manager of the Fund in consideration for management fees, provides management services required in the day-to-day operations of the Fund, including management of the investment portfolios of the Fund and provision of key management personnel.

An annual management fee of 0.40% of the NAV of the Fund, calculated daily and payable monthly in arrears, plus applicable taxes, will be paid to the Manager. The Sub-advisor of the Fund is remunerated by the Manager out of the management fee.

### Issue costs

All expenses related to the issuance of units are borne by the Fund unless otherwise waived or reimbursed by the Manager.

### Operating expenses

The Fund pays for all ordinary expenses incurred in connection with its operation and administration. The Fund's expenses include, as applicable, without limitation: all costs and expenses associated with the execution of transactions in respect of the Fund's investment in ETH; audit fees; fees payable to third-party service providers; custodial expenses including fees payable to the Custodian and the Sub-Custodian; valuation, accounting and record keeping costs; legal expenses; prospectus preparation and filing expenses; costs associated with delivering documents to unitholders; listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements; costs and expenses of preparing financial and other

# CI Galaxy Ethereum ETF

## Notes to the Financial Statements (cont'd)

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reports; costs and expenses arising as a result of complying with all applicable laws, regulations and policies; Depository fees; bank-related fees and interest charges; extraordinary expenses; reports to unitholders and servicing costs; registrar and transfer agent fees; fees and expenses of the members of the independent review committee of the Fund; expenses related to compliance with NI 81-107; premiums for directors' and officers' insurance coverage for the members of the Independent Review Committee (IRC); income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Sub-advisor, the Custodian, the Sub-Custodian, the IRC and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund.

### 6. INCOME TAXES

In the opinion of the counsel, the Fund qualifies as a mutual fund trust under the provisions of the *Income Tax Act* (Canada). The Fund's net income for tax purposes and net capital gains realized in any year are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statement of Financial Position as a deferred income tax asset. Income tax on net realized capital gains not paid or payable will generally be recoverable by virtue of refunding provisions contained in the *Income Tax Act* (Canada) and provincial income tax legislation, as redemptions occur. Occasionally, the Fund may distribute more than it earns. This excess distribution is a return of capital and is not taxable to unitholders.

Refer to the Fund Specific Notes to Financial Statements for further information relating to loss carry forwards.

### 7. REINVESTMENT OF DISTRIBUTIONS

It is not anticipated that the Fund will make cash distributions.

The Fund may pay special distributions. Such special distributions may be paid in the form of units and/or cash. Any special distributions payable in units will increase the aggregate adjusted cost base of a unitholders units. Immediately following payment of such a special distribution in units, the number of units outstanding will be automatically consolidated such that the number of units outstanding after such distribution will be equal to the number of units outstanding immediately prior to such distribution, except in the case of a non-resident unitholder to the extent tax was required to be withheld in respect of the distribution.

### 8. RELATED PARTY TRANSACTIONS

The Manager manages and administers the business operations and affairs of the Fund, except for investment advisory and portfolio management services required by the Fund. These services are in the normal course of operations and are recorded at the amount of the consideration agreed to by the parties.

### 9. DIGITAL ASSETS RISK

#### Coronavirus 19 (COVID-19) impact

Since the outbreak of COVID-19, emergency measures taken in response to the spread of COVID-19 have resulted in significant disruption to business operations globally, resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. These developments are constantly evolving and the duration and impact of the COVID-19 pandemic is highly uncertain and cannot be predicted at this time but could have a material impact on the future performance of the Fund. In the face of the current environment

of heightened uncertainty and market volatility, the Manager continues to closely monitor its impact on the Fund's risk exposures from the portfolio holdings.

#### Risk management

The Fund is exposed to a variety of risks including concentration risk, liquidity risk, risk associated with custody of the ETH and market risks. The Fund's investment objective is to provide unitholders with exposure to ETH through an institutional-quality fund platform. ETH prices can fluctuate daily as a result of changes in prevailing economic and market conditions, political changes and global. Investing in ETH is highly speculative and volatile.

#### Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is a geographical allocation, asset type, industry sector or counterparty.

The Fund's investment objective is to provide unitholders exposure to ETH and the Fund is not expected to have exposure to any other investments or assets. Other than cash or cash equivalents, the Fund will invest substantially all of its assets in ETH. The NAV of the Fund may be more volatile than the value of a more broadly diversified portfolio or investment fund and may fluctuate substantially over short period of time. This may have negative impact on the NAV of the Fund.

#### Liquidity risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations, on time or at a reasonable price. To maintain liquidity the Fund will dispose of its assets if necessary. All financial liabilities are due within three months.

#### Specific risks associated with ETH

##### Speculative nature of ETH

Investing in ETH is speculative, prices are volatile, and market movements are difficult to predict. Supply and demand for ETH can change rapidly and is affected by a variety of factors, including regulation and general economic trends.

##### Unforeseeable risks

ETH has gained commercial acceptance only within recent years and, as a result, there is little data on its long-term investment potential. Additionally, due to the rapidly evolving nature of the ETH market, including advancements in the underlying technology, changes to ETH may expose investors in the ETF to additional risks which are impossible to predict as of the date of this prospectus. This uncertainty makes an investment in the units very risky.

The further development and acceptance of ETH is subject to a variety of factors that are difficult to evaluate. The slowing or stopping of the development or acceptance of ETH may adversely affect the Net Asset Value of the ETF and an investment in the units.

##### Risks related to the pricing source

The Fund's ETH will be valued, including for purposes of determining the NAV of the Fund based upon the ETH Index. The ETH Index is calculated using CFIX as its primary input. CFIX is a pricing algorithm that uses bid and ask quotes derived from multiple pricing sources approved by Bloomberg.

As the ETH Index is calculated as an average of those pricing sources selected by Bloomberg Index Services Limited, it will not necessarily be reflective of the price of ETH available on any given digital asset trading platform or other venue where the Fund's trades are executed. In addition, the ETH Index is available once per day, whereas ETH trades 24 hours a day. As such, the ETH Index may not be reflective of market events and other developments that occur after its pricing window and thus

# CI Galaxy Ethereum ETF

## Notes to the Financial Statements (cont'd)

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the ETH Index may not be reflective of the then-available market price of ETH in periods between its calculations. The Manager does not intend, and disclaims any obligation, to determine whether the ETH Index reflects the realizable market value of ETH or the price at which market transactions in ETH could be readily affected at any given time.

Because the NAV of the Fund will be based almost entirely on the value of the Fund's ETH portfolio as determined by reference to the ETH Index, and redemptions and subscriptions will be valued based on the NAV per unit, if the ETH Index does not reflect the realizable market value of ETH, at a given time, redemption or subscriptions will be effected at prices that may adversely affect the unitholder and the Fund.

As at December 31, 2021, the Fund was predominantly invested in ETH and therefore the Fund was sensitive to changes in ETH prices.

As at December 31, 2021, had the fair value of the ETH increased or decreased by 10%, with all other variables held constant, net assets of the Fund would have increased or decreased, respectively, by approximately \$100,026,000. In practice, actual results may differ from this analysis and the difference may be material.

### **Risk associated with the custody of ETH**

There is a risk that some or all of the Fund's holdings of ETH could be lost, stolen, destroyed or inaccessible, potentially by the loss or theft of the private keys held by Custodian and Sub-Custodian associated with the public addresses that hold the Fund's ETH and/or destruction of storage hardware. Multiple thefts of ETH and other digital assets from other holders have occurred in the past. Because of the decentralized process for transferring ETH, thefts can be difficult to trace, which may make ETH a particularly attractive target for theft. The Fund has implemented security procedures and controls intended to protect the Fund's assets, but there can be no assurance that those procedures and controls will be successful in preventing such loss, theft or restriction on access.

Access to the Fund's ETH could be restricted by natural events (such as an earthquake or flood) or human actions (such as a terrorist attack). The Fund's ETH held in custody accounts will likely be an appealing target for hackers or malware distributors seeking to destroy, damage or steal the Fund's ETH or private keys.

Security breaches, cyber-attacks, computer malware and computer hacking attacks have been a prevalent concern for the digital asset trading platforms on which ETH trades. Any cyber security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses, could harm the Fund's business operations or reputation, resulting in loss of the Fund's assets. Digital asset trading platforms may in particular be at risk of cyber security breaches. Any problems relating to the performance and effectiveness of security procedures used by the Fund and its custodians to protect the Fund's ETH, such as algorithms, codes, passwords, multiple signature systems, encryption and telephone call-backs will have an adverse impact on the NAV of the Fund and an investment in the Units. Furthermore, if and as the Fund's ETH holdings grow, the Fund and its Custodian and Sub-Custodian may become a more appealing target for cyber security threats such as hackers and malware.

No storage system is impenetrable, and storage systems employed by the Fund and its custodian and Sub-Custodian may not be free from defect or immune to force majeure events. Any loss due to a security breach, software defect or force majeure event generally will be borne by the Fund, which will adversely affect the value of the units.

### **Fair value hierarchy**

The Fund is required to classify assets and liabilities measured at fair value using a fair value hierarchy.

Investments whose values are based on quoted market prices in active markets are classified as Level 1.

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified as Level 2.

Investments classified as Level 3 have significant unobservable inputs.

The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

All digital assets held by the Fund are classified as Level 2.

## **10. SUBSEQUENT EVENT**

### **Ukraine-Russian Federation conflict**

Subsequent to December 31, 2021, the escalating conflict between Ukraine and the Russian Federation has resulted in significant volatility and uncertainty in financial markets. NATO, EU and G7 member countries, including Canada, have imposed severe and coordinated sanctions against Russia. Restrictive measures have also been imposed by Russia and some securities have materially declined in value and/or may no longer be tradable. These actions have resulted in significant disruptions to investing activities and businesses with operations in Russia. The longer-term impact to geopolitical norms, supply chains and investment valuations is uncertain.

While the situation remains fluid, the Manager continues to monitor ongoing developments and the impact to investment strategies.

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This document, and other information about the Fund, is available at [www.firstasset.com](http://www.firstasset.com), or at [www.sedar.com](http://www.sedar.com).



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