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Digital Assets 101: Understanding the Opportunity

This guide is designed to demystify digital assets. Our goal is to empower you to understand how this asset class can modernize your portfolios, offering meaningful crypto diversification and growth potential while maintaining the investment management skillset and regulatory standards you expect.

The Context: A Timeline of Innovation

To first understand digital assets, we should look at how technology has historically transformed society. Throughout human history, specific innovations—like the wheel, electricity, and the computer—have fundamentally improved how we live, work, and trade. Each of these technologies reduced friction and increased productivity.

The internet was the most recent major leap. It digitized information, allowing us to send emails, documents, and data instantly across the globe at near-zero cost. Before the internet, sending a letter took days; today, it takes milliseconds.

Blockchain technology is simply the next step in this timeline: it digitizes value. Just as the internet changed how we move data, blockchain is changing how we move assets.

What is a Blockchain?

At its core, a blockchain is simply a modernized record-keeping system. It is a digital ledger that records transactions across a network of computers rather than in a single, central file held by one institution.

Transparency Access

In the traditional system, a central authority (like a bank or title company) holds the "master copy" of the ledger. On a blockchain, all participants have a synchronized copy of the ledger. This means the record is transparent and verified by the network, not just one entity, creating a "single source of truth" that everyone agrees on.

Security

Once a transaction is verified, it is cryptographically sealed into a "block" and linked to the previous one in a continuous chain. This creates an unchangeable history. It is exceptionally difficult to alter past entries because doing so would require overpowering the entire global network of computers simultaneously, making the system highly resistant to fraud and hacking.

Efficiency

By allowing valid transfers to occur peer-to-peer, we can reduce the friction, time, and cost associated with intermediaries. Instead of waiting days for a trade to settle or a wire to clear, blockchain allows for near-instant settlement.

Four Digital Asset Pillars

bitcoin

The Digital Store of Value

Role: Bitcoin is the anchor of the asset class and a store of value.

Key feature: Mathematical scarcity. Bitcoin is strictly capped at 21 million coins, making it a hedge against inflation and currency debasement.

Why it matters: It is the foundational reserve asset of the digital economy, offering portfolio diversification with low correlation to traditional markets.

ethereum

The World's Computer

Role: Ethereum is a programmable platform rather than just money.

Key feature: Smart Contracts. These are self-executing agreements that power decentralized applications (dApps), stablecoins, and the tokenization of Real-World Assets (RWA).

Why it matters: It acts as the operating system for the crypto ecosystem. Ether (ETH) is the "digital oil" required to pay for transaction fees on the network.

SOLANA

High-Speed Finance

Role: Solana is the "Visa" of the digital world, built for mass adoption.

Key feature: Massive scalability. Solana is capable of processing over 50,000 transactions per second (TPS) for less than a penny ($0.01) per transaction.

Why it matters: It solves the bottleneck of slow, expensive networks. It is the ideal home for high-volume, consumer-use cases like merchant payments and gaming.

XRP

The Banking Bridge

Role: XRP is the infrastructure for cross-border payments and institutional liquidity.

Key feature: Settlement speed. XRP transactions settle in 3-5 seconds, compared to days for traditional SWIFT transfers.

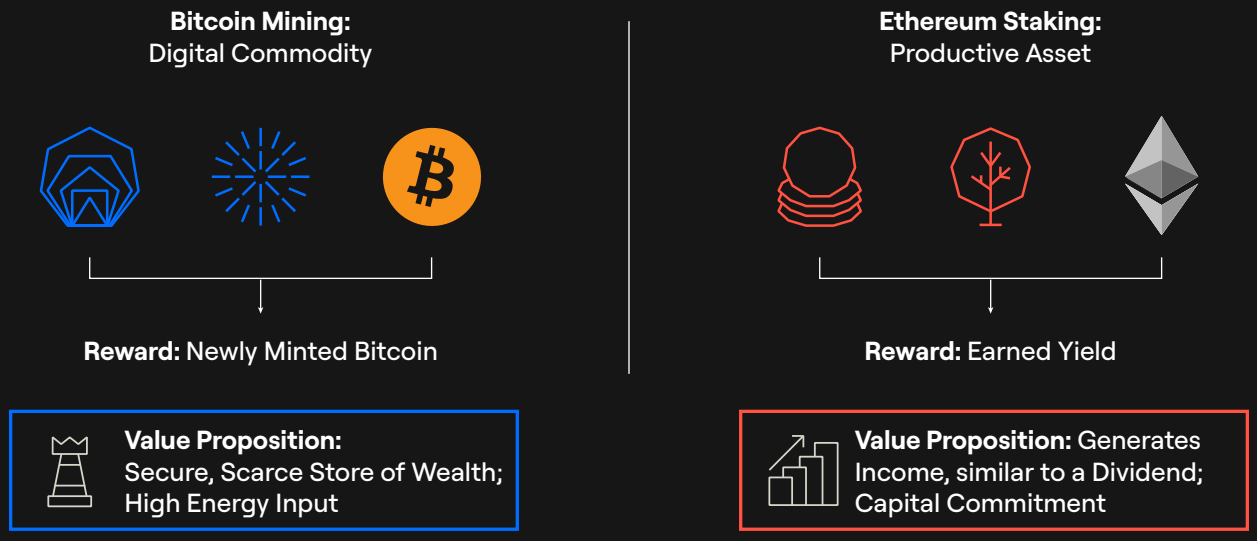
Why it matters: It works with the existing banking system to free up dormant capital, making international money transfers faster, cheaper, and more efficient.

Under the Hood: Mining vs. Staking

To maintain a secure financial ledger without a central bank, digital networks use consensus mechanisms. It is important to understand the two main types, as they impact the investment characteristics of the assets and how they generate value.

Consensus Algorithms	How Does It Work?	Investment Value
Mining (i.e., Bitcoin)	Think of this like physical mining. Specialized computers around the world spend massive amounts of energy to build a wall of digital security around the network.	Scarce, energy-backed, and hard to counterfeit—this asset functions as a store of value, much like gold, and is held to preserve wealth and capture potential long-term appreciation.
Staking (i.e., Ethereum)	Think of this like a security deposit or a bond. Instead of burning energy, network participants "lock up" their own coins as collateral to vouch for the system's safety.	In exchange for posting capital (the stake), the network pays them a reward. This acts as a "Yield-Bearing Asset", similar to a dividend stock or real estate. You hold it to capture potential growth plus a regular income stream.

Guide to Digital Asset Consensus Mechanisms



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Crypto Assets: Direct vs ETF Ownership

In the early days of crypto, investing required managing complex private keys, USB drives, and unregulated offshore exchanges. The risk of user error was high; if you lost your password or sent money to the wrong address, it was gone forever.

Today, **Crypto ETFs** have professionalized the space. They allow advisers to allocate to digital assets through a traditional, regulated investment vehicle that fits seamlessly into existing practice management workflows.

	Dynamic Active Multi-Crypto ETF	Spot Crypto ETF	Direct Ownership
Multi-asset diversification	✓	✗	✗
Active Management	✓	✗	✗
Asset Rebalancing	✓	✗	✗
TFSA / RRSP eligible	✓	✓	✗
T1135 reporting exempt	✓	✓	✗
Staking benefits flow through	✓	Varies	✗
Regulated custody	✓	✓	✗
Institutional-grade cold storage	✓	✓	✗

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A Modernized View of Risk

While digital asset adoption and innovation continue to advance, the asset class retains unique and specific risks.

Volatility

Digital assets are historically more volatile than traditional equities. While this volatility is decreasing as the asset class matures and institutional adoption grows, prices can still swing (+/-10% daily).

- A modest allocation can enhance diversification and offer the potential for higher returns to investors who meet the suitability requirements.

Regulatory Evolution

Governments are decisively moving from "banning" to "regulating," creating a foundation of certainty for the industry.

- **Canada:** The CSA has codified Public Crypto Asset Funds under NI 81-102, permitting direct crypto exposure within ETFs while imposing enhanced custody, risk-management, and operational safeguards.
- **United States:** Legislative efforts, including the Clarity Act, aim to define regulatory jurisdiction and treatment of digital assets.

Together, these developments signal that North American governments are moving to institutionalize the asset class. For investors in regulated ETFs, this structural clarity effectively lowers the residual regulatory risk.

Adoption Uncertainty

While utility is growing, widespread commercial adoption is not guaranteed. For assets like XRP or Solana, long-term value depends on businesses actually using these networks for commerce and settlement. The technology must continue to prove its value over incumbent systems.

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Copies of the prospectus may be obtained from 3iQ Corp. or at www.sedar.com

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