

# BITCOIN INVESTMENT TRUST

A Delaware Trust

*Sponsored by*

Grayscale Investments, LLC  
636 Avenue of the Americas  
New York, New York 10011  
Telephone: (212) 668-1427  
Facsimile: (212) 937-3645

Primary Standard Industrial Code: 6221

## 2017 ANNUAL REPORT

Shares Representing Common Units of Fractional Undivided Beneficial Interest

No Par Value Per Share

Unlimited Shares Authorized

174,283,200 Shares Issued and Outstanding as of December 31, 2017

**OTCQX: GBTC**

**Grayscale Investments, LLC (the “Sponsor”), on behalf of Bitcoin Investment Trust (the “Trust”), is responsible for the content of this annual report for the year ended December 31, 2017 (the “Annual Report”), which has been prepared to fulfill the disclosure requirements of the OTCQX U.S. Premier marketplace. The information contained in this Annual Report has not been filed with, or approved by, the U.S. Securities and Exchange Commission (the “SEC”) or any state securities commission. Any representation to the contrary is a criminal offense.**

All references to “the Trust,” “the Sponsor,” “the Issuer,” “Bitcoin Investment Trust,” “we,” “us” or “our” refers to the Trust or the Sponsor, as the context indicates. The Trust is a passive entity with no operations, and where the context requires, we provide disclosure with respect to the Sponsor, which administers the Trust.

Dated as of April 2, 2018

## **TABLE OF CONTENTS**

<b><u>PART A. GENERAL COMPANY INFORMATION</u></b>	<b><u>12</u></b>
Item 1. The exact name of the issuer and its predecessor (if any).	12
Item 2. The address of the issuer's principal executive offices.	12
Item 3. The jurisdiction(s) and date of the issuer's incorporation or organization.	12
<b><u>PART B. SHARE STRUCTURE</u></b>	<b><u>13</u></b>
Item 4. The exact title and class of securities outstanding.	13
Item 5. Par or stated value and description of the security.	13
Item 6. The number of shares or total amount of the securities outstanding for each class of securities authorized.	17
Item 7. The name and address of the transfer agent.	18
<b><u>PART C. BUSINESS INFORMATION</u></b>	<b><u>19</u></b>
Item 8. The nature of the issuer's business.	19
Item 9. The nature of products and services offered.	110
Item 10. The nature and extent of the issuer's facilities.	111
<b><u>PART D. MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION</u></b>	<b><u>112</u></b>
Item 11. The name of the chief executive officer, members of the board of directors, as well as control persons.	112
Item 12. Financial information for the issuer's most recent fiscal period.	114
Item 13. Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.	114
Item 14. Beneficial Owners.	114
Item 15. The name, address, telephone number, and email address of each of the following outside providers that provide services to the issuer on matters relating to operations, business development and disclosure.	114
Item 16. Management's Discussion and Analysis.	115
<b><u>PART E. ISSUANCE HISTORY</u></b>	<b><u>130</u></b>
Item 17. List of securities offerings and shares issued for services in the past two years.	130
<b><u>PART F. EXHIBITS</u></b>	<b><u>131</u></b>
Item 18. Material Contracts.	131
Item 19. Articles of Incorporation and Bylaws.	140
Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.	140
Item 21. Issuer's Certifications.	141

Exhibit 1 Audited Financial Statements for the years ended December 31, 2017 and 2016, respectively

### **Cautionary Note Regarding Forward-Looking Statements**

This Annual Report includes “forward-looking statements” with respect to the Trust’s financial conditions, results of operations, plans, objectives, future performance and business. Statements preceded by, followed by or that include words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other similar expressions are intended to identify some of the forward-looking statements. All statements (other than statements of historical fact) included in this Annual Report that address activities, events or developments that will or may occur in the future, including such matters as changes in market prices and conditions, the Trust’s operations, the Sponsor’s plans and references to the Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially from such statements. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors appropriate in the circumstances. You should specifically consider the numerous risks outlined under “Risk Factors.” Whether or not actual results and developments will conform to the Sponsor’s expectations and predictions, however, is subject to a number of risks and uncertainties, including:

- the risk factors discussed in this Annual Report, including the particular risks associated with new technologies such as Bitcoin and blockchain;
- the inability to redeem Shares;
- the economic conditions in the Bitcoin industry and market;
- general economic, market and business conditions;
- the use of technology by us and our vendors, including the Custodian, in conducting our business, including disruptions in our computer systems and data centers and our transition to, and quality of, new technology platforms;
- changes in laws or regulations, including those concerning taxes, made by governmental authorities or regulatory bodies;
- the costs and effect of any litigation or regulatory investigations;
- our ability to maintain a positive reputation; and
- other world economic and political developments.

Consequently, all the forward-looking statements made in this Annual Report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust’s operations or the value of the Shares. Should one or more of these risks discussed in “Risk Factors” or other uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those described in forward-looking statements. Forward-looking statements are made based on the Sponsor’s beliefs, estimates and opinions on the date the statements are made

and neither the Trust nor the Sponsor is under a duty or undertakes an obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, other than as required by applicable laws. Moreover, neither the Trust, the Sponsor, nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements, to conform such statements to actual results or to reflect a change in the Sponsor's expectations or predictions.

## **Glossary**

In this Annual Report, each of the following terms has the meaning assigned to it here:

“Actual Exchange Rate” — With respect to any particular asset, at any time, the price per single unit of such asset (determined net of any associated fees) at which the Trust is able to sell such asset for U.S. Dollars (or other applicable fiat currency) at such time to enable the Trust to timely pay any Additional Trust Expenses, through use of the Sponsor’s commercially reasonable efforts to obtain the highest such price.

“Additional Trust Expenses” — Together, any expenses of the Trust that are not assumed by the Sponsor, including, but not limited to, taxes and governmental charges, expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of the Trust to protect the Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), any indemnification of the Custodian or other agents, service providers or counterparties of the Trust, the fees and expenses related to the listing, quotation or trading of the Shares on any Secondary Market (including legal, marketing and audit fees and expenses) to the extent exceeding \$600,000 in any given fiscal year and extraordinary legal fees and expenses, including any legal fees and expenses incurred in connection with litigation, regulatory enforcement or investigation matters.

“Administrator” — Any Person from time to time engaged by the Sponsor to assist in the administration of the Shares.

“Administrator Fee” — The fee payable to the Administrator for services it provides to the Trust, which the Sponsor shall pay the Administrator as a Sponsor-paid Expense.

“Affiliate” — (i) Any Person directly or indirectly owning, controlling or holding with power to vote 10% or more of the outstanding voting securities of such Person, (ii) any Person 10% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such Person, (iii) any Person, directly or indirectly, controlling, controlled by or under common control of such Person, (iv) any employee, officer, director, member, manager or partner of such Person, or (v) if such Person is an employee, officer, director, member, manager or partner, any Person for which such Person acts in any such capacity.

“Agent” — A Person appointed by the Trust to act on behalf of the Shareholders in connection with any distribution of Incidental Rights and/or IR Virtual Currency.

“Annual Report” — This Annual Report for the year ended December 31, 2017.

“Authorized Participant” — Certain eligible financial institutions that have entered into an agreement with the Trust and the Sponsor concerning the creation (and, should the Trust commence a redemption program, redemption) of Shares. Each Authorized Participant (i) is a registered broker-dealer, (ii) has entered into a Participant Agreement with the Sponsor and (iii) owns an Authorized Participant Self-Administered Account.

“Authorized Participant Self-Administered Account” — A Bitcoin wallet address previously known to the Custodian as belonging to the Authorized Participant.

“Basket”—A block of 100 Shares.

“Basket Bitcoin Amount” — On any trade date, the number of Bitcoins required as of such trade date for each Creation Basket or Redemption Basket, as determined by dividing (x) the number of Bitcoins owned by the Trust at 4:00 p.m., New York time, on such trade date, after deducting the number of Bitcoins representing the U.S. Dollar value of accrued but unpaid fees and expenses of the Trust (converted using the Bitcoin Index Price at such time, and carried to the eighth decimal place), by (y) the number of Shares outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one Bitcoin (i.e., carried to the eighth decimal place)), and multiplying such quotient by 100.

“Bitcoin” — A type of digital currency based on an open-source cryptographic protocol existing on the Bitcoin Network, comprising units that constitute the assets underlying the Trust’s Shares. See “Overview of the Bitcoin Industry and Market.”

“Bitcoin Account” — Together, the Wallet Account and Vault Account and any sub-accounts associated therewith.

“Bitcoin Benchmark Exchange” — A Bitcoin Exchange that represents at least 25% of the aggregate U.S. Dollar-denominated trading volume of Bitcoin during the last 30 consecutive calendar days and that to the knowledge of the Sponsor is in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures, of such Bitcoin Exchange’s applicable jurisdiction. If there are fewer than three such Bitcoin Exchanges, then the Bitcoin Benchmark Exchanges will include such Bitcoin Exchange or Bitcoin Exchanges that meet the above-described requirements as well as one or more additional Bitcoin Exchanges, selected by the Sponsor, that have had monthly trading volume of at least 50,000 Bitcoins during the last 30 consecutive calendar days and that to the knowledge of the Sponsor is in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures, of such Bitcoin Exchange’s applicable jurisdiction.

“Bitcoin Cash” — A type of digital currency based on an open source cryptographic protocol existing on the Bitcoin Cash Network, which came into existence following the Bitcoin hard fork on August 1, 2017.

“Bitcoin Exchange” — An electronic marketplace where exchange participants may trade, buy and sell Bitcoins based on bid-ask trading. The largest Bitcoin Exchanges are online and typically trade on a 24-hour basis, publishing transaction price and volume data.

“Bitcoin Exchange Market” — The global exchange market for the trading of Bitcoins, which consists of transactions on electronic Bitcoin Exchanges.

“Bitcoin Gold” — A type of digital currency based on an open source cryptographic protocol existing on the Bitcoin Gold Network, which came into existence following the Bitcoin hard fork on October 24, 2017.

“Bitcoin Holdings”—The aggregate value, expressed in U.S. Dollars, of the Trust’s assets (other than U.S. Dollars, other fiat currency, Incidental Rights or IR Virtual Currency), less its liabilities (which include estimated accrued but unpaid fees and expenses) calculated in the manner set forth under “Valuation of Bitcoin and Determination of the Trust’s Bitcoin Holdings.”

“Bitcoin Index Price”—The U.S. Dollar value of a Bitcoin derived from the Bitcoin Exchanges that are reflected in the Index, calculated at 4:00 p.m., New York time, on each business day. See “Overview of the Bitcoin Industry and Market—Bitcoin Value—The Index and the Bitcoin Index Price” for a description of how the Bitcoin Index Price is calculated.

“Bitcoin Network” — The online, end-user-to-end-user network hosting the public transaction ledger, known as the Blockchain, and the source code comprising the basis for the cryptographic and algorithmic protocols governing the Bitcoin Network. See “Overview of the Bitcoin Industry and Market.”

“Bitcoin SegWit2X” — A type of digital currency based on an open source cryptographic protocol existing on the Bitcoin SegWit2X Network, which came into existence following the Bitcoin hard fork on December 28, 2017.

“Blockchain” or “Bitcoin Blockchain” — The public transaction ledger of the Bitcoin Network on which miners or mining pools solve algorithmic equations, allowing them to add records of recent transactions (called “blocks”) to the chain of transactions in exchange for an award of Bitcoins from the Bitcoin Network and the payment of transaction fees, if any, from users whose transactions are recorded in the block being added.

“CEA” — Commodity Exchange Act of 1936, as amended.

“CFTC” — The U.S. Commodity Futures Trading Commission, an independent agency with the mandate to regulate commodity futures and option markets in the United States.

“Code” — The U.S. Internal Revenue Code of 1986, as amended.

“Covered Person” — As defined in the section “Material Contracts. The Trust Agreement and the Custodian Agreement —Description of the Trust Agreement —The Sponsor —Liability of the Sponsor and Indemnification.”

“Creation Basket” — Basket of Shares issued by the Trust in exchange for deposits of the Basket Bitcoin Amount required for each such Creation Basket.

“Custodial Coins”—The Bitcoins of the Sponsor and the Trust kept by the Custodian.

“Custodian” — Xapo, Inc., as guaranteed by Xapo Holdings Limited.

“Custodian Agreement” — The agreement between the Sponsor and the Custodian which sets forth the obligations and responsibilities of the Custodian in respect of the safekeeping of the Trust’s Bitcoins.

“Custodian Fee” — Fee payable to the Custodian for services it provides to the Trust, which the Sponsor shall pay to the Custodian as a Sponsor-paid Expense.

“DCG”—Digital Currency Group, Inc.

“Distribution and Marketing Agreement” — The agreement among the Sponsor and the Distributor and Marketer, which sets forth the obligations and responsibilities of the Distributor and Marketer.

“Distributor” — Genesis, or any other person from time to time, who is engaged by the Sponsor to assist in the distribution of the Shares.

“DSTA” — The Delaware Statutory Trust Act, as amended.

“DTC” — The Depository Trust Company. DTC is a limited purpose trust company organized under New York law, a member of the U.S. Federal Reserve System and a clearing agency registered with the SEC. DTC will act as the securities depository for the Shares.

“DTC Participant” — A direct participant in DTC, such as a bank, broker, dealer or trust company.

“Exchange Act” — The Securities Exchange Act of 1934, as amended.

“FDIC” — The Federal Deposit Insurance Corporation.

“FinCEN” — The Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury.

“FINRA” — The Financial Industry Regulatory Authority, Inc., which is the primary regulator in the United States for broker-dealers, including Authorized Participants.

“GAAP” — United States Generally Accepted Accounting Principles.

“Genesis”—Genesis Global Trading, Inc., a wholly owned subsidiary of Digital Currency Group, Inc., which as of the date of this Annual Report, is the only acting Authorized Participant.

“ICO”—Initial coin offering.

“Incidental Rights” — Rights to acquire, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to the Trust’s ownership of Bitcoins and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust.

“Independent Auditor” — Friedman LLP.

“Index”— The TradeBlock XBX Index.

“Index License Agreement”—The license agreement entered into by the Index Provider and the Sponsor governing the Sponsor’s use of the Index for calculation of the Bitcoin Index Price.

“Index Provider” — TradeBlock, Inc., a Delaware corporation that publishes the Index

“Indirect Participants” — Those banks, brokers, dealers, trust companies and others who maintain, either directly or indirectly, a custodial relationship with a DTC Participant.

“Initial Purchaser” — Genesis Global Trading, Inc.

“Investment Advisers Act” — Investment Advisers Act of 1940, as amended.

“Investment Company Act” — Investment Company Act of 1940, as amended.

“Investor” — Any investor that has entered into a Subscription Agreement with an Authorized Participant, pursuant to which such Authorized Participant will act as agent for the investor.



“IR Virtual Currency” — Any virtual currency tokens, or other asset or right, acquired by the Trust through the exercise (subject to the applicable provisions of the Trust Agreement) of any Incidental Right.

“IRS” — The U.S. Internal Revenue Service, a bureau of the U.S. Department of the Treasury.

“Limited Owner” — Any Shareholder other than the Sponsor.

“Marketer” — Genesis or any other person from time to time engaged to provide marketing services or related services to the Trust pursuant to authority delegated by the Sponsor.

“Marketing Fee” — Fee payable to the Marketer for services it provides to the Trust, which the Sponsor will pay to the Marketer as a Sponsor-paid Expense.

“Mt. Gox” — Mt. Gox K.K., formerly a Japan-based Bitcoin exchange.

“NAV” — The net asset value of the Trust determined on a GAAP basis.

“NYDFS” — The New York State Department of Financial Services.

“NYDTF” — The New York State Department of Taxation and Finance.

“OTCQX” — The OTCQX tier of the OTC Markets Group Inc.

“Off-Blockchain transactions”—The transfer of control over, or ownership of, a specific digital wallet holding Bitcoins, or of the reallocation of ownership of certain Bitcoins in a pooled-ownership digital wallet.

“Participant Agreement” — An agreement entered into by an Authorized Participant with the Sponsor that provides the procedures for the creation and, if permitted, redemption of Baskets and for the delivery of Bitcoins required for Creation Baskets and the distribution of Bitcoins from the Trust for Redemption Baskets.

“Redemption Basket” — Baskets of Shares redeemed in exchange for Bitcoins in an amount equal to the Basket Bitcoin Amount required for each such Redemption Basket.

“Redemption Order” — An Authorized Participant’s request to redeem “Redemption Baskets” on any business day as defined and, in the manner, provided in the section “Description of the Trust – Creation and Redemption of Shares”.

“Rule 144” – Rule 144 under the Securities Act.

“SEC” — The U.S. Securities and Exchange Commission.

“Secondary Market” — Any marketplace or other alternative trading system, as determined by the Sponsor, on which the Shares may then be listed, quoted or traded, including but not limited to, the OTCQX tier of the OTC Markets Group Inc. and NYSE Arca, Inc.

“Securities Act” — The Securities Act of 1933, as amended.

“Service Providers” — Collectively, Grayscale Investments, LLC, Continental Stock Transfer & Trust Company, Genesis, Xapo Inc. and Digital Currency Group, Inc.

“Shareholder” — Any person that owns Shares.

“Shares” — Common units of fractional undivided beneficial interest in, and ownership of, the Trust.

“SIPC” — The Securities Investor Protection Corporation.

“Sponsor” — Grayscale Investments, LLC.

“Sponsor-paid Expenses”— The fees and expenses incurred by the Trust in the ordinary course of its affairs, excluding taxes, that the Sponsor is obligated to assume and pay, including the Marketing Fee, the Administrator Fee, the Vendors Fee, the Transfer Agent fee, the Trustee fee, the fees and expenses related to the listing, quotation or trading of the Shares on any Secondary Market (including legal, marketing and audit fees and expenses) in an amount up to \$600,000 in any given fiscal year, ordinary course legal fees and expenses, audit fees, regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act, printing and mailing costs, costs of maintaining the Trust’s website and applicable license fees.

“Sponsor’s Fee”—A fee, payable in Bitcoins, which accrues daily in U.S. Dollars at an annual rate of 2.0% of the Bitcoin Holdings of the Trust as of 4:00 p.m., New York time, on each day; *provided* that for a day that is not a business day, the calculation will be based on the Bitcoin Index Price from the most recent business day. The amount of Bitcoins payable in respect of each daily U.S. Dollar accrual will be determined by reference to the same Bitcoin Index Price used to determine such accrual.

“Share Split” — A 91-for-1 Share split of the Trust’s issued and outstanding Shares, which was effected on January 26, 2018 to Shareholders of record as of the close of business on January 22, 2018.

“Subscription Agreement” — An agreement between an Investor and an Authorized Participant pursuant to which the Investor can subscribe for Shares.

“Total Basket Bitcoin Amount”—With respect to any creation or redemption order, the applicable Basket Bitcoin Amount multiplied by the number of Baskets being created or redeemed.

“Transfer Agency and Service Agreement” — The agreement between the Sponsor and the Transfer Agent which sets forth the obligations and responsibilities of the Transfer Agent with respect to transfer agency services and related matters.

“Transfer Agent” — Continental Stock Transfer & Trust Company, a Delaware corporation.

“Transfer Agent Fee”—Fee payable to the Transfer Agent for services it provides to the Trust, which the Sponsor will pay to the Transfer Agent as a Sponsor-paid Expense.

“Treasury Regulations” — The regulations, including proposed or temporary regulations, promulgated under the Code.

“Trust” — The Bitcoin Investment Trust, a Delaware statutory trust, formed on September 13, 2013 under the DSTA and the pursuant to the Trust Agreement.

“Trust Agreement” — The Amended and Restated Declaration of Trust and Trust Agreement between the Trustee and the Sponsor establishing and governing the operations of the Trust, as the same may be amended from time to time.

“Trustee” — Delaware Trust Company (formerly known as CSC Trust Company of Delaware), a Delaware trust company, is the Delaware trustee of the Trust.

“U.S.” — United States.

“U.S. Dollar” or “\$” — United States Dollar or Dollars.

“Vault Account” — One or more cold storage accounts in the name of the Sponsor and of the Trust held for the safekeeping of the Trust’s Bitcoins.

“Wallet Account” — One or more wallets in the name of the Sponsor and of the Trust held for the deposit and withdrawal of Bitcoins.

## **PART A. GENERAL COMPANY INFORMATION**

### **Item 1. The exact name of the issuer and its predecessor (if any).**

The name of the trust is the Bitcoin Investment Trust.

### **Item 2. The address of the issuer's principal executive offices.**

The address of the Sponsor is:           Grayscale Investments, LLC  
636 Avenue of the Americas  
New York, New York 10011

The Sponsor's telephone number is: (212) 668-1427

The Sponsor's facsimile number is: (212) 937-3645

The Sponsor's website:                   The Sponsor maintains a corporate website, [www.grayscale.co](http://www.grayscale.co), which contains general information about the Trust and the Sponsor. The reference to our website is an interactive textual reference only, and the information contained on our website shall not be deemed incorporated by reference herein.

Investor relations contact:               Michael Sonnenshein  
Grayscale Investments, LLC  
636 Avenue of the Americas  
New York, New York 10011  
Telephone: (212) 668-1427  
Facsimile: (212) 937-3645  
Email: [info@grayscale.co](mailto:info@grayscale.co)

### **Item 3. The jurisdiction(s) and date of the issuer's incorporation or organization.**

The Trust was formed as a statutory trust in the State of Delaware on September 13, 2013.

## **PART B. SHARE STRUCTURE**

### **Item 4. The exact title and class of securities outstanding.**

The only class of securities outstanding is common units of fractional undivided beneficial interest (“Shares”), which represent ownership in the Trust. The Trust’s trading symbol on the OTCQX U.S. Premier Marketplace of the OTC Markets Group Inc. is “GBTC” and the CUSIP number for its Shares is 09173T108.

### **Item 5. Par or stated value and description of the security.**

#### **A. Par or Stated Value**

The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust and have no par value.

#### **B. Common or Preferred Stock**

The Trust is authorized under the Trust Agreement to create and issue an unlimited number of Shares. Shares will be issued only in Baskets (a Basket equals a block of 100 Shares) in connection with creations. The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust and have no par value.

The Shares may be purchased from the Trust on an ongoing basis, but only upon the order of Authorized Participants and only in blocks of 100 Shares, which are referred to as Baskets. The Trust creates Shares on an ongoing basis, but only in Baskets. Initially, each Share represented 1/10<sup>th</sup> of a Bitcoin (1/1000<sup>th</sup> of a Bitcoin post Share Split, as noted below). As of March 19, 2018, each Share represented approximately 0.001 of one Bitcoin. Shareholders that are not Authorized Participants may not purchase (or, if then permitted, redeem) Shares or Baskets from the Trust. At this time, the Trust is not operating a redemption program for Shares and therefore Shares are not redeemable by the Trust.

On January 26, 2018, the Trust completed a 91-for-1 Share split of the Trust’s issued and outstanding Shares. With the Share Split, Shareholders of record on January 22, 2018 received ninety additional Shares of the Trust for each Share held. References made to outstanding Shares or per Share amounts in the accompanying financial statements and applicable disclosures have been retroactively adjusted to reflect the Share Split.

#### *Management; Voting by Shareholders*

The Shares do not represent a traditional investment and should not be viewed as similar to “shares” of a corporation operating a business enterprise with management and a board of directors. A Shareholder will not have the statutory rights normally associated with the ownership of shares of a corporation. Each Share is transferable, is fully paid and non-assessable and entitles the holder to vote on the limited matters upon which Shareholders may vote under the Trust Agreement. For example, Shareholders do not have the right to elect directors and will not receive dividends. The Shares do not entitle their holders to any conversion or pre-emptive rights or, except as discussed below, any redemption rights or rights to distributions.

The Shareholders take no part in the management or control of the Trust and have no voice in the management of the affairs of the Trust. Under the Trust Agreement, Shareholders have limited voting rights. For example, in the event that the Sponsor withdraws, a majority of the Shareholders may elect and appoint a successor sponsor to carry out the affairs of the Trust. Limited Owners holding at least 75% of the outstanding Shares of the Trust (not including Shares held by the Sponsor and its Affiliates) may also elect to dissolve the Trust. In addition, no amendments to the Trust Agreement that materially adversely affect the interests of Shareholders may be made without the vote of at least a majority (over 50%) of the Shares (not including any Shares held by the Sponsor or its affiliates). However, the Sponsor may make any other amendments to the Trust Agreement in its sole discretion without Shareholder consent provided that the Sponsor provides 20 days' notice of any such amendment.

### *Transfer Restrictions*

The Shares are restricted securities that may not be resold except in transactions exempt from registration under the Securities Act and state securities laws and any such transaction must be approved by the Sponsor. Any attempt to sell Shares without the approval of the Sponsor in its sole discretion will be void *ab initio*. ***A minimum one year holding period will apply to all Shares purchased from the Trust.***

On a weekly basis, the Trust will aggregate the Shares that have been held over a year by non-affiliates of the Trust to assess whether the Rule 144 transfer restriction legends may be removed. Any Shares that qualify for the removal of the Rule 144 transfer restriction legends are presented to outside counsel, who may instruct the Transfer Agent to remove the transfer restriction legends from the Shares, allowing the Shares to then be resold without restriction, including on the OTCQX U.S. Premier marketplace. The outside counsel requires that certain representations be made, providing that:

- the Shares subject to each sale have been held for more than a year by the selling Shareholder;
- the Shareholder is the sole beneficial owner of the Shares;
- the Sponsor is aware of no circumstances in which the Shareholder would be considered an underwriter or engaged in the distribution of securities for the Trust;
- none of the Shares are subject to any agreement granting any pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance;
- none of the identified selling Shareholders is an affiliate of the Sponsor;
- the Sponsor consents to the transfer of the Shares; and
- outside counsel and the Transfer Agent can rely on the representations.

In addition, because the Trust Agreement prohibits the transfer or sale of Shares without the prior written consent of the Sponsor, the Sponsor must provide a written consent that explicitly states that it irrevocably consents to the transfer and resale of the Shares. Once the transfer restriction legends have been removed from a Share and the Sponsor has provided its written consent to the

transfer of that Share, no consent of the Sponsor is required for future transfers of that particular Share.

### *Book-Entry Form*

The Transfer Agent primarily holds the Shares in book-entry form. Upon the settlement date of any creation, transfer or, if permitted, redemption of Shares, the Transfer Agent credits or debits, on its book-entry registration and transfer system, the number of the Shares so created, transferred (or, should the Trust commence a redemption program, redeemed) to the accounts of the appropriate parties.

Ownership of Shares is shown on, and the transfer of ownership is affected through, a register of Shareholders maintained by the Transfer Agent. Shareholders will receive a written confirmation that their ownership has been reflected in the register of Shareholders.

One or more global certificates will be deposited by the Trustee with The Depository Trust Company (“DTC”) and registered in the name of Cede & Co., as nominee for DTC. The global certificates will evidence the majority of the Shares outstanding at any time. Shareholders are limited to (1) participants in DTC such as banks, brokers, dealers and trust companies (“DTC Participants”), (2) those who maintain, either directly or indirectly, a custodial relationship with a DTC Participant (“Indirect Participants”), and (3) those banks, brokers, dealers, trust companies and others who hold interests in the Shares through DTC Participants or Indirect Participants. The Shares are only transferable through the book-entry system of DTC. Shareholders who are not DTC Participants may transfer their Shares through DTC by instructing the DTC Participant holding their Shares (or by instructing the Indirect Participant or other entity through which their Shares are held) to transfer the Shares. Transfers will be made in accordance with standard securities industry practice.

The Sponsor may cause the Trust to issue Shares in certificated form in limited circumstances at its discretion.

### *Distributions*

When a proposed modification to the Bitcoin Network is not accepted by the vast majority of miners and users but is nonetheless accepted by a substantial population of participants in the network, a “fork” in the blockchain occurs, resulting in two separate Bitcoin Networks. A “hard fork” is a software upgrade that introduces a new rule to the network that is not compatible with the older software, while a “soft fork” is any change that is backward compatible. Holders of Bitcoins on the original Bitcoin Network, at the time the block is mined and the fork occurs, can then also receive an identical amount of new tokens on the new network. Pursuant to the terms of the Trust Agreement, the Trust may make distributions on the Shares in cash or in kind, including in such form as is necessary or permissible for the Trust to facilitate Shareholders’ access to any Incidental Rights or to IR Virtual Currency.

In addition, if the Trust is terminated and liquidated, the Sponsor will distribute to the Shareholders any amounts of the cash proceeds of the liquidation remaining after the satisfaction of all outstanding liabilities of the Trust and the establishment of reserves for applicable taxes, other governmental charges and contingent or future liabilities as the Sponsor will determine. See “Material Contracts—Description of the Trust Agreement—The Trustee—Termination of the

Trust.” Shareholders of record on the record date fixed by the Transfer Agent for a distribution will be entitled to receive their pro rata portions of any distribution.

On August 1, 2017, a hard fork in the Bitcoin Blockchain occurred and the Trust came into possession of rights to acquire Bitcoin Cash, which rights were incident to its ownership of Bitcoin. The Trust, acting on behalf of the Shareholders of record as of the close of business on November 6, 2017 (“Bitcoin Cash Record Date Shareholders”), and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin Cash Record Date Shareholders and distributed all of the Bitcoin Cash tokens then held by the Trust to the Bitcoin Cash Record Date Shareholders by transferring such tokens to the Agent. The Trust has no right to receive any information about the distributed Bitcoin Cash or the disposition thereof from the Bitcoin Cash Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that it liquidated the Bitcoin Cash tokens, on behalf of the Bitcoin Cash Record Date Shareholders, over a period of 32 days and remitted the proceeds from such sale to the Bitcoin Cash Record Date Shareholders, net of the administrative and other expenses incurred by the Agent in connection with the liquidation.

On October 24, 2017, a hard fork in the Bitcoin Blockchain occurred and the Trust came into possession of rights to acquire Bitcoin Gold, which rights were incident to its ownership of Bitcoin. The Trust, acting on behalf of the Shareholders of record as of the close of business on December 4, 2017 (the “Bitcoin Gold Record Date Shareholders”) and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin Gold Record Date Shareholders and distributed the Incidental Rights to Bitcoin Gold tokens held by the Trust to the Bitcoin Gold Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no right to receive any information about the distributed Incidental Rights, or the disposition of the underlying Bitcoin Gold, from the Bitcoin Gold Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that it had claimed the Bitcoin Gold tokens on behalf of the Bitcoin Gold Record Date Shareholders and began liquidating the Bitcoin Gold tokens. As of the date of this Annual Report, the Agent voluntarily informed the Trust that it has not remitted net cash proceeds to the Bitcoin Gold Record Date Shareholders but has net proceeds from liquidation of \$9,604,206 that are to be remitted on April 3, 2018.

On December 1, 2017, the Sponsor, announced that the Trust has irrevocably abandoned (i) all of the rights to Bitcoin Diamond tokens then held by the Trust as a result of the fork in the Bitcoin blockchain on November 24, 2017 and (ii) all of the rights to Bytether tokens then held by the Trust as a result of an airdrop on August 1, 2017. The Trust did not receive, and will not receive, any direct or indirect consideration for the abandonment of these rights. As a consequence of the abandonment, the Trust has no right to receive any Bitcoin Diamond tokens or Bytether tokens at any point in the future, will not accept any Bitcoin Diamond tokens or Bytether tokens, or any payment in respect thereof, at any point in the future and will not otherwise take any action in the future inconsistent with such abandonment.

On December 28, 2017, another hard fork in the Bitcoin Blockchain occurred and the Trust came into possession of rights to acquire Bitcoin SegWit2X, which rights were incident to its ownership of Bitcoin. The Trust, acting on behalf of the Shareholders of record as of the close of business on January 8, 2018 (the “Bitcoin SegWit2X Record Date Shareholders”) and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin SegWit2X



Record Date Shareholders and distributed the Incidental Rights to Bitcoin SegWit2X tokens held by the Trust to the Bitcoin SegWit2X Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no right to receive any information about the distributed Incidental Rights, or the disposition of the underlying Bitcoin SegWit2X, from the Bitcoin SegWit2X Record Date Shareholders, their Agent or any other person. However, the Agent has voluntarily informed the Trust that, on behalf of the Bitcoin SegWit2X Record Date Shareholders, it has irrevocably abandoned all of the Incidental Rights to Bitcoin SegWit2X tokens because it was determined that the costs that would be incurred by the Agent in connection with exercising such Incidental Rights and selling the Bitcoin SegWit2X tokens would exceed the gross proceeds from such sales.

### *Redemption of Shares*

Effective October 28, 2014, the Trust suspended its redemption program, in which Shareholders were permitted to request the redemption of their Shares through Genesis, the sole Authorized Participant at that time. On July 11, 2016, Genesis and the Trust entered into a settlement agreement with the SEC whereby they agreed to a cease-and-desist order against future violations of Rules 101 and 102 of Regulation M under the Exchange Act. Genesis also agreed to pay disgorgement of \$51,650.11 in redemption fees it collected, plus prejudgment interest of \$2,105.68, for a total of \$53,755.79.

As a result of the foregoing, redemptions of Shares are currently not permitted, and the Trust is unable to redeem Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.

Even if such relief is sought, no assurance can be given as to the timing of such relief or that such relief will be granted. If such relief is granted and the Sponsor approves a redemption program, the Shares will be redeemable only in accordance with the provisions of the Trust Agreement and the relevant Participant Agreement. See “Risk Factors—Risk Factors Related to the Trust and the Shares—If Authorized Participants are able to purchase or sell large aggregations of Bitcoins in the open market at prices that are different than the Bitcoin Index Price or are unable to create and redeem Shares on an ongoing basis, the arbitrage mechanism intended to keep the price of the Shares closely linked to the Bitcoin Index Price may not function properly due to multiple factors and the Shares may trade at a discount to, or premium over, the Bitcoin Holdings per Share” and “Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares.”

### **Item 6. The number of shares or total amount of the securities outstanding for each class of securities authorized.**

As of December 31, 2017, the Trust had unlimited Shares authorized. As of December 31, 2017, there were 174,283,200 Shares issued and outstanding.

The following table shows the number of the Shares outstanding<sup>1</sup>:

---

<sup>1</sup> Shares outstanding have been adjusted for the Share Split for all periods reported throughout this Annual Report.

	<b>As of Year Ended December 31, 2017</b>	<b>As of Year Ended December 31, 2016</b>
<b>(i) Number of Shares authorized</b>	Unlimited	Unlimited
<b>(ii) Number of Shares outstanding</b>	174,283,200	167,194,300
<b>(iii) Number of Shares freely tradable (public float)</b>	156,001,664	119,349,594
<b>(iv) Number of beneficial holders owning at least 100 Shares<sup>2</sup></b>	65	127
<b>(v) Number of holders of record<sup>2</sup></b>	65	127

**Item 7. The name and address of the transfer agent.**

The Trust's transfer agent is Continental Stock Transfer & Trust Company (the "Transfer Agent"). The Transfer Agent's address is 1 State Street, 30<sup>th</sup> Floor, New York, New York 10004, and its telephone number is (212) 509-4000. Continental Stock Transfer & Trust Company is registered under the Securities Exchange Act and is regulated by the SEC.

---

<sup>2</sup> Includes Cede & Co. as nominee for DTC for the Shares traded on OTCQX. Therefore, this number does not include the individual holders who have bought/sold Shares on OTCQX or transferred their eligible Shares to their brokerage accounts.

## **PART C. BUSINESS INFORMATION**

### **Item 8. The nature of the issuer's business.**

#### **A. Business Development**

The activities of the Trust will be limited to (i) issuing Baskets in exchange for Bitcoins transferred to the Trust as consideration in connection with the creations, (ii) transferring or selling Bitcoins, Incidental Rights and IR Virtual Currency as necessary to cover the Sponsor's Fee and/or any Additional Trust Expenses, (iii) transferring Bitcoins in exchange for Baskets surrendered for redemption (subject to obtaining regulatory approval from the SEC and approval from the Sponsor), (iv) causing the Sponsor to sell Bitcoins, Incidental Rights and IR Virtual Currency on the termination of the Trust, (v) making distributions of Incidental Rights and/or IR Virtual Currency or cash from the sale thereof and (vi) engaging in all administrative and security procedures necessary to accomplish such activities in accordance with the provisions of the Trust Agreement, the Custodian Agreement, the Index License Agreement and the Participant Agreements.

In addition, the Trust may engage in any lawful activity necessary or desirable in order to facilitate Shareholders' access to Incidental Rights or IR Virtual Currency, provided that such activities do not conflict with the terms of the Trust Agreement. The Trust will not be actively managed. It will not engage in any activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the market prices of Bitcoins.

#### **Trust Objective**

The investment objective of the Trust is for the Shares to reflect the value of the Bitcoins held by the Trust, determined by reference to the Bitcoin Index Price, less the Trust's expenses and other liabilities. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to Bitcoin. A substantial direct investment in Bitcoins may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of the Bitcoins and may involve the payment of substantial fees to acquire such Bitcoins from third-party facilitators through cash payments of U.S. Dollars. Although the Shares will not be the exact equivalent of a direct investment in Bitcoins, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in Bitcoin markets through the securities market. Because the value of the Shares is correlated with the value of the Bitcoins held by the Trust, it is important to understand the investment attributes of, and the market for, Bitcoins.

On January 19, 2017, in connection with and prior to the initial public filing of a registration statement on Form S-1 (the "Form S-1") with the SEC, the Trust suspended the creation of new Shares, which had been taking place through private placement transactions exempt from the registration requirements of the Securities Act. On January 20, 2017, the Trust made an initial public filing of the Form S-1 with the SEC, relating to the proposed registration of Trust's Shares. The Trust withdrew the Form S-1 on October 25, 2017 and resumed offering Shares in private placement transactions exempt from the registration requirements of the Securities Act on December 4, 2017.

**At this time, the Trust is not operating a redemption program for Shares and therefore Shares are not redeemable by the Trust. In addition, the Trust may halt creations for**

**extended periods of time.** As a result, the value of the Shares of the Trust may not approximate, and if traded on any Secondary Market, the Shares may trade at a substantial premium over, or discount to, the value of the Bitcoins held by the Trust, less the Trust's expenses and other liabilities. In the past, the price of the Shares as quoted on the OTCQX has varied significantly from the value of the Bitcoins held by the Trust, determined by reference to the Bitcoin Index Price, less the Trust's expenses and other liabilities. This is because Authorized Participants were not able to take advantage of arbitrage opportunities created when the market value of the Shares deviates from the value of the Trust's Bitcoin Holdings per Share, causing the Shares to trade at a substantial premium to the value of Bitcoins held by the Trust. For a discussion of risks relating to the unavailability of a redemption program, see "Risk Factors—Risk Factors Related to the Trust and the Shares—If Authorized Participants are able to purchase or sell large aggregations of Bitcoins in the open market at prices that are different than the Bitcoin Index Price or are unable to create and redeem Shares on an ongoing basis, the arbitrage mechanism intended to keep the price of the Shares closely linked to the Bitcoin Index Price may not function properly and the Shares may trade at a discount to, or premium over, the Bitcoin Holdings per Share" and "Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares."

### **Strategy Behind the Shares**

The Shares are intended to offer investors an opportunity to participate in Bitcoin markets through an investment in securities. As of March 19, 2018, each Share represented approximately 0.001 of one Bitcoin. The logistics of accepting, transferring and safekeeping of Bitcoins are dealt with by the Sponsor and Custodian, and the related expenses are built into the price of the Shares. Therefore, Shareholders do not have additional tasks or costs over and above those generally associated with investing in any other privately placed security.

The Shares are intended to provide institutional and retail investors with a simple and cost-effective means, with minimal credit risk, of gaining investment benefits similar to those of directly holding Bitcoins. The Shares offer an investment that is:

- *Easily Accessible and Relatively Cost Efficient.* Investors in the Shares can also directly access Bitcoin markets through the Bitcoin Exchange Market. The Sponsor believes that investors will be able to more effectively implement strategic and tactical asset allocation strategies that use Bitcoins by using the Shares instead of directly purchasing and holding Bitcoins, and for many investors, transaction costs related to the Shares will be lower than those associated with the direct purchase, storage and safekeeping of Bitcoins.
- *Exchange Traded and Transparent.* Shares of the Trust that have become unrestricted in accordance with Rule 144 under the Securities Act are listed and trade on the over-the-counter exchange, OTCQX, providing investors with an efficient means to implement various investment strategies. The Trust will not hold or employ any derivative securities. Furthermore, the value of the Trust's assets will be reported each day on <https://grayscale.co/bitcoin-investment-trust/#market-performance>.
- *Minimal Credit Risk.* The Shares represent an interest in actual Bitcoins owned by the Trust. The Trust's Bitcoins are not subject to borrowing arrangements with third parties or counterparty or credit risks. This contrasts with the other financial products such as

TeraExchange swaps through which investors gain exposure to Bitcoins through the use of derivatives that are subject to counterparty and credit risks.

- *Safekeeping System.* The Custodian has been appointed to store and safeguard the Bitcoins for the Trust using a segregated and therefore diversified safekeeping storage system. The hardware, software, administration and continued technological development that are used by the Custodian may not be available or cost-effective for many investors.

The Trust differentiates itself from competing digital currency financial vehicles, to the extent that such digital currency financial vehicles may develop, in the following ways:

- *Custodian.* The Custodian that holds the private keys for the digital wallets of the Trust is Xapo Inc. Other digital currency financial vehicles that use cold storage may not use a custodian to hold their private keys.
- *Cold Storage of Private Keys.* All of the private keys for the Trust's Vault Account are kept in "cold storage," which means that the Bitcoins held by the Trust's Vault Account are not directly connected to, or accessible from, the internet or other computers without the private keys. See "Custody of the Trust's Bitcoins" for more information relating to the distribution and withdrawal of the Trust's private keys to and from cold storage. Other digital currency financial vehicles may not utilize cold storage or may utilize less effective cold storage-related hardware and security protocols.
- *Location of Private Vaults.* Vaults are located in geographically dispersed locations across the world, including but not limited to the United States, Europe, including Switzerland, and South America. Confidential information such as the private keys and cryptographic materials are physically stored on offline servers that never have and never will have access to the internet or any other kind of network. Vault locations are protected by extraordinary security measures, including intense human, biometric and automated systems, 24 hours a day, seven days a week. Vaults incorporate multiple layers of extremely advanced forms of cryptographic security to secure Bitcoins. These processes include multi-factor authentication and private key segmentation. The geographic dispersion of vaults is designed to protect assets from being lost due to the compromise of any given vault location. Even if the physical and cryptographic layers of security in one jurisdiction are overcome, the other vault locations would remain uncompromised.
- *Enhanced Security.* The Custodian and Sponsor have put enhanced security procedures in place that require one or more employees of the Sponsor to verify each transaction, with each employee having a unique verification method. The Custodian and the Sponsor have put additional similar enhanced security procedures in place to protect against the malicious movement of Bitcoin.
- *Custodian Audits.* The Custodian has agreed to allow the Trust and the Sponsor to take any necessary steps to verify that satisfactory internal control system and procedures are in place, and to visit and inspect the systems on which the Custodian's coins are held.
- *Directly Held Bitcoins.* The Trust directly owns actual Bitcoins held through the Custodian. The direct ownership of Bitcoins is not subject to counterparty or credit risks. This may differ from other digital currency financial vehicles that provide Bitcoin exposure through other means, such as the use of financial or derivative instruments.

- *Sponsor's Fee.* The Sponsor's Fee is a competitive factor that may influence an investor's decision to purchase Shares.

## **Secondary Market Trading**

While the Trust's investment objective is for the Shares to reflect the value of the Bitcoins held by the Trust, as determined by reference to the Bitcoin Index Price, less the Trust's expenses and other liabilities, the Shares may trade in the Secondary Market on the OTCQX (or on another Secondary Market in the future) at prices that are lower or higher than the Bitcoin Holdings per Share or NAV per Share. The amount of the discount or premium in the trading price relative to the Bitcoin Holdings per Share may be influenced by non-concurrent trading hours and liquidity between OTCQX and larger Bitcoin Exchanges in the Bitcoin Exchange Market. While the Shares are listed and trade on the OTCQX from 6:00 a.m. until 5:00 p.m., New York time, liquidity in the Bitcoin Exchange Market may fluctuate depending upon the volume and availability of larger Bitcoin Exchanges. As a result, during periods in which Bitcoin Exchange Market liquidity is limited or a major Bitcoin Exchange is off-line, trading spreads, and the resulting premium or discount, on the Shares may widen.

### **1. The form of organization of the issuer.**

The Trust is a Delaware statutory trust.

### **2. The year that the issuer (or any predecessor) was organized.**

The Trust was formed on September 13, 2013.

### **3. The issuer's fiscal year end date.**

The Trust's fiscal year end date is December 31.

### **4. Whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding.**

The Trust has not been in, and is not in the process of, any bankruptcy, receivership or any similar proceeding within the last three years.

### **5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.**

The Trust has not undergone any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets within the last three years.

### **6. Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments;**

The Trust has not experienced any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the Trust to make payments within the last three years.

### **7. Any change of control.**

The Trust has not experienced any change of control within the last three years.

**8. Any increase of 10% or more of the same class of outstanding equity securities.**

The Trust has only one class of outstanding equity securities. The Trust has experienced increases of more than 10% of the Shares within the last three years. The Trust is an investment trust that has no limit on the number of Shares that can be issued. The Trust publishes the total number of Shares outstanding as of the end of each month on the Sponsor's website at [www.grayscale.co](http://www.grayscale.co).

**9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.**

On January 11, 2018, the Sponsor announced a 91-for-1 Share split of the Trust's issued and outstanding Shares, which was effected on January 26, 2018 to Shareholders of record as of the close of business on January 22, 2018. Outstanding Share and per Share amounts disclosed for all periods presented, throughout this Annual Report, have been retroactively adjusted to reflect the effects of the Share Split.

**10. Any delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board.**

There has not been any delisting of the Shares by any securities exchange or deletion from the OTC Bulletin Board.

**11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.**

On July 11, 2016, Genesis and the Trust entered into a settlement agreement with the SEC whereby they agreed to a cease-and-desist order against future violations of Rules 101 and 102 of Regulation M under the Exchange Act. Genesis also agreed to pay disgorgement of \$51,650.11 in redemption fees it collected, plus prejudgment interest of \$2,105.68, for a total of \$53,755.79.

**B. Business of Issuer.**

**OVERVIEW OF THE BITCOIN INDUSTRY AND MARKET**

**Introduction to Bitcoins and the Bitcoin Network**

A Bitcoin is a decentralized digital currency that is issued by, and transmitted through, an open source, digital protocol platform using cryptographic security that is known as the Bitcoin Network. The Bitcoin Network is an online, peer-to-peer user network that hosts the public transaction ledger, known as the Blockchain, and the source code that comprises the basis for the cryptography and digital protocols governing the Bitcoin Network. No single entity owns or operates the Bitcoin Network, the infrastructure of which is collectively maintained by a decentralized user base. Bitcoins can be used to pay for goods and services or can be converted to fiat currencies, such as the U.S. Dollar, at rates determined on Bitcoin Exchanges or in individual end-user-to-end-user transactions under a barter system. See "—Uses of Bitcoins—Bitcoin Exchange Market" below.

Bitcoins are “stored” or reflected on the digital transaction ledger known as the “Blockchain,” which is a digital file stored in a decentralized manner on the computers of each Bitcoin Network user. The Blockchain records the transaction history of all Bitcoins in existence and, through the transparent reporting of transactions, allows the Bitcoin Network to verify the association of each Bitcoin with the digital wallet that owns them. The Bitcoin Network and Bitcoin software programs can interpret the Blockchain to determine the exact Bitcoin balance, if any, of any digital wallet listed in the Blockchain as having taken part in a transaction on the Bitcoin Network.

The Blockchain is comprised of a digital file, downloaded and stored, in whole or in part, on all Bitcoin users’ software programs. The file includes all blocks that have been solved by miners and is updated to include new blocks as they are solved. See “—Bitcoin Mining — Creation of New Bitcoins” below. As each newly solved block refers back to and “connects” with the immediately prior solved block, the addition of a new block adds to the Blockchain in a manner similar to a new link being added to a chain. Because each new block records outstanding Bitcoin transactions, and outstanding transactions are settled and validated through such recording, the Blockchain represents a complete, transparent and unbroken history of all transactions on the Bitcoin Network.

Each Bitcoin transaction is broadcast to the Bitcoin Network and recorded in the Blockchain. Some Bitcoin transactions are conducted “off-Blockchain,” which are not recorded in the Blockchain.

The Bitcoin Network is decentralized and does not rely on either governmental authorities or financial institutions to create, transmit or determine the value of Bitcoins. Rather, Bitcoins are created and allocated by the Bitcoin Network protocol through a “mining” process subject to a strict, well-known issuance schedule. The value of Bitcoins is determined by the supply of and demand for Bitcoins in the Bitcoin Exchange Market (and in private end-user-to-end-user transactions), as well as the number of merchants that accept them. As Bitcoin transactions can be broadcast to the Bitcoin Network by any user’s Bitcoin software and Bitcoins can be transferred without the involvement of intermediaries or third parties, there are little or no transaction costs in direct peer-to-peer transactions on the Bitcoin Network. Third-party service providers such as Bitcoin Exchanges and Bitcoin third-party payment processing services may charge significant fees for processing transactions and for converting, or facilitating the conversion of, Bitcoins to or from fiat currency.

The Bitcoin Network was initially contemplated in a white paper that also described Bitcoin and the operating software to govern the Bitcoin Network. The white paper was purportedly authored by Satoshi Nakamoto; however, no individual with that name has been reliably identified as Bitcoin’s creator, and the general consensus is that the name is a pseudonym for the actual inventor or inventors. The first Bitcoins were created in 2009 after Nakamoto released the Bitcoin Network source code (the software and protocol that created and launched the Bitcoin Network). Since its introduction, the Bitcoin Network has been under active development by a group of engineers known as core developers. As an open source project, Bitcoin is not represented by an official organization or authority, although the Core Developers work to organize the Bitcoin community and to develop and protect the Bitcoin Network’s code.

### *Overview of the Bitcoin Network’s Operations*

In order to own, transfer or use Bitcoins, a person generally must have internet access to connect to the Bitcoin Network. Bitcoin transactions between parties occur quickly (typically between a few seconds and a few minutes, although in some cases hours or days) and may be made directly



between end-users without the need for a third-party intermediary, although there are entities that provide third-party intermediary services. To prevent the possibility of double-spending a single Bitcoin, each transaction is recorded, time stamped and publicly displayed in a “block” in the publicly available Blockchain. Thus, the Bitcoin Network provides confirmation against double-spending by memorializing every transaction in the Blockchain, which is publicly accessible and downloaded in part or in whole by all users’ Bitcoin Network software programs as described below. This memorialization and verification against double-spending is accomplished through the Bitcoin mining process, which adds “blocks” of data, including recent transaction information, to the Blockchain.

### *Brief Description of Bitcoin Transfers*

Prior to engaging in Bitcoin transactions, a user must first obtain a digital Bitcoin “wallet” (analogous to a Bitcoin account) in which to store Bitcoins. A “wallet” can be obtained, among other ways, through an open-source software program that generates Bitcoin addresses and enables users to engage in the transfer of Bitcoins with other users. A user may install a Bitcoin software program on its computer or mobile device that will generate a Bitcoin wallet or, alternatively, a user may retain a third party to create a digital wallet to be used for the same purpose. There is no limit on the number of digital wallets a user can have, and each such wallet includes one or more unique addresses and a verification system for each address consisting of a “public key” and a “private key,” which are mathematically related.

In a typical Bitcoin transaction, the Bitcoin recipient creates a new Bitcoin address and directs the payor to send the payment to the address by providing the address, or public key, for the digital wallet to the payor who will initiate the transfer. This activity is analogous to a recipient providing an address in wire instructions to the payor so that cash may be wired to the recipient’s account. The payor approves the transfer to the address provided by the recipient by “signing” the transaction request from the recipient with the private key of the address from where the payor is transferring the Bitcoins. The recipient does not make public its related private key or provide it to the payor, because the private key authorizes access to, and transfer of, the funds from the recipient’s digital wallet to other users. The process of signing the transaction is typically automated by the software that runs the payor and recipient’s digital wallet. The transfer is made from the payor to the recipient’s wallet and this transaction is validated by the Bitcoin Network.

Some Bitcoin transactions are conducted “off-Blockchain,” which are not recorded in the Blockchain. Some of such “off-Blockchain transactions” involve the transfer of control over or ownership of a specific digital wallet holding Bitcoins or of the reallocation of ownership of certain Bitcoins in a pooled-ownership digital wallet, such as a digital wallet owned by a Bitcoin Exchange. Information and data regarding such off-Blockchain transactions is generally not publicly available in contrast to on-Blockchain transactions, which are publicly recorded on the Blockchain. Such off-Blockchain transactions are not truly Bitcoin transactions in that they do not involve the transfer of transaction data on the Bitcoin Network and do not reflect a movement of Bitcoins between addresses recorded in the Blockchain. Such off-Blockchain transactions are subject to risks as any such transfer of Bitcoin ownership is not protected by the protocol behind the Bitcoin Network or recorded in and validated through the Blockchain mechanism.

### *Summary of a Bitcoin Transaction*

In an on-blockchain Bitcoin transaction between two parties, the following circumstances must be in place: (i) the party seeking to send Bitcoins must have a digital wallet and the Bitcoin Network must recognize that digital wallet as having sufficient Bitcoins for the spending transaction, (ii) the receiving party must have a digital wallet and (iii) the spending party must have internet access with which to send its spending transaction.

Next, the receiving party must provide the spending party with its wallet's digital address, an identifying series of 27 to 34 alphanumeric characters that represents the wallet's routing number on the Bitcoin Network and allows the Blockchain to record the sending of Bitcoins to that wallet. The receiving party can provide this address to the spending party in alphanumeric format or an encoded format such as a Quick Response Code (commonly known as a "QR Code"), which may be scanned by a smartphone or other device to quickly transmit the information.

After the provision of the receiving wallet's digital address, the spending party must enter the address into its Bitcoin software program along with the number of Bitcoins to be sent. The number of Bitcoins to be sent will typically be agreed upon between the two parties based on a set number of Bitcoins or an agreed upon conversion of the value of fiat currency to Bitcoins. Most Bitcoin software programs also allow, and often suggest, the payment of a transaction fee (also known as a miner's fee). Transaction fees are not required to be included by many Bitcoin software programs, but, when they are included, they are paid by the spending party on top of the specified amount of Bitcoins being sent in the transaction. Transaction fees, if any, are typically a fractional number of Bitcoins (for example, 0.005 or 0.0005 Bitcoins) and are automatically transferred by the Bitcoin Network to the Bitcoin miner that solves and adds the block recording the spending transaction on the Blockchain.

After the entry of the wallet's digital address, the number of Bitcoins to be sent and the transaction fees, if any, to be paid, the spending party will transmit the spending transaction. The transmission of the spending transaction results in the creation of a data packet by the spending party's Bitcoin software program, which data packet includes data showing (i) the destination digital wallet's address, (ii) the number of Bitcoins being sent, (iii) the transaction fees, if any, and (iv) the spending party's digital signature, verifying the authenticity of the transaction. The data packet also includes references called "inputs" and "outputs," which are used by the Blockchain to identify the source of the Bitcoins being spent and record the flow of Bitcoins from one transaction to the next transaction in which the Bitcoins are spent. The digital signature exposes the spending party's digital wallet address and public key to the Bitcoin Network, though, for the receiving party, only its digital wallet address is revealed. The spending party's Bitcoin software will transmit the data packet onto the decentralized Bitcoin Network, resulting in the propagation of the information among the software programs of Bitcoin users across the Bitcoin Network for eventual inclusion in the Blockchain. Typically, the data will spread to a vast majority of Bitcoin miners within the course of less than a minute.

As discussed in greater detail in "—Bitcoin Mining and Creation of New Bitcoins" below, Bitcoin miners record transactions when they solve for and add blocks of information to the Blockchain. When a miner solves for a block, it creates that block, which includes data relating to (i) the solution to the block, (ii) a reference to the prior block in the Blockchain to which the new block is being added and (iii) all transactions that have occurred but have not yet been added to the Blockchain. The miner becomes aware of outstanding, unrecorded transactions through the data

packet transmission and propagation discussed above. Typically, Bitcoin transactions will be recorded in the next chronological block if the spending party has an internet connection and at least one minute has passed between the transaction's data packet transmission and the solution of the next block. If a transaction is not recorded in the next chronological block, it is usually recorded in the next block thereafter.

Bitcoin transactions that are micropayments (typically, less than 0.0001 Bitcoins) and that do not include transaction fees to miners are currently deprioritized for recording, meaning that, depending on Bitcoin miner policies, these transactions may take longer to record than typical transactions if the transactions do not include a transaction fee. Additionally, transactions initiated by spending wallets with poor connections to the Bitcoin Network (i.e., few or poor quality connections to nodes or "supernodes" that relay transaction data) may be delayed in the propagation of their transaction data and, therefore, transaction recording on the Blockchain. Finally, to the extent that a miner chooses to limit the transactions it includes in a solved block (whether by the payment of transaction fees or otherwise), a transaction not meeting that miner's criteria will not be included.

To the extent that a transaction has not yet been recorded, there is a greater chance that the spending wallet can double-spend the Bitcoins sent in the original transaction. If the next block solved is by an honest miner not involved in the attempt to double-spend Bitcoin and if the transaction data for both the original and double-spend transactions have been propagated onto the Bitcoin Network, the transaction that is received with the earlier time stamp will be recorded by the solving miner, regardless of whether the double-spending transaction includes a larger transaction fee. If the double-spend transaction propagates to the solving miner and the original transaction has not, then the double-spending has a greater chance of success. As a result of the high difficulty in successfully initiating a double-spend without the assistance of a coordinated attack, the probability of success for a double-spend transaction attempt is limited. See "[—Double-Spending and the Bitcoin Network Confirmation System](#)" and "[—Forms of Attack Against the Bitcoin Network](#)" below.

Upon the addition of a block included in the Blockchain, the Bitcoin software program of both the spending party and the receiving party will show confirmation of the transaction on the Blockchain and reflect an adjustment to the Bitcoin balance in each party's digital wallet, completing the Bitcoin transaction. Typically, Bitcoin software programs will automatically check for and display additional confirmations of six or more blocks in the Blockchain. Once a transaction is confirmed on the Blockchain, it is irreversible. See "[—Double-Spending and the Bitcoin Network Confirmation System](#)" below.

## **Cryptographic Security Used in the Bitcoin Network**

### *Public and Private Keys*

All transactions on the Bitcoin Network are secured using public-key cryptography, a technique which underpins many online transactions. Public-key cryptography works by generating two mathematically related keys (one a public key and the other a private key). One of these, the private key, is retained in the individual's wallet and the other key is made public and serves as the address to which a Bitcoin can be transferred and from which money can be transferred by the owner of the Bitcoin wallet. In the case of Bitcoin transactions, the public key is an address (a string of letters and numbers) that is used to encode payments, which can then only be retrieved with its

associated private key, which is used to authorize the transaction. In other words, the payor, uses his private key to approve any transfers to a recipient's account. Users on the Bitcoin Network can confirm that the user signed the transaction with the appropriate private key, but cannot reverse engineer the private key from the signature.

### *Double-Spending and the Bitcoin Network Confirmation System*

To ensure the integrity of Bitcoin transactions from the recipient's side (i.e., to prevent double-spending by a payor), every Bitcoin transaction is broadcast to the Bitcoin Network and recorded in the Blockchain through the "mining" process (defined below), which time-stamps the transaction and memorializes the change in the ownership of the Bitcoin(s) transferred. Adding a block to the Blockchain requires Bitcoin "miners" (defined below) to exert significant computational effort to verify it is a valid transaction. Requiring this computational effort, or "proof of work," prevents a malicious actor from either adding fraudulent blocks to generate Bitcoins (i.e., counterfeit Bitcoins) or overwriting existing valid blocks to reverse its prior transactions.

A transaction in Bitcoins between two parties is recorded in the Blockchain in a block only if that block is accepted as valid by a majority of the nodes on the Bitcoin Network. Validation of a block is achieved by confirming the cryptographic hash value included in the block's solution and by the block's addition to the longest confirmed Blockchain on the Bitcoin Network. For a transaction, inclusion in a block on the Blockchain constitutes a "confirmation" of the Bitcoin transaction. As each block contains a reference to the immediately preceding block, additional blocks appended to and incorporated into the Blockchain constitute additional confirmations of the transactions in such prior blocks, and a transaction included in a block for the first time is confirmed once against double-spending. The layered confirmation process makes changing historical blocks (and reversing transactions) exponentially more difficult the further back one goes in the Blockchain. Bitcoin Exchanges and users can set their own threshold as to how many confirmations are required until funds from the transferor are considered valid. However, statistically speaking, a transaction is virtually final after six confirmations as it would be extremely difficult to challenge the validity of the transaction at that point.

At this point in the evolution of the Bitcoin Network, Bitcoin transactions are considered irreversible. Once a transaction appears in the Blockchain, no one has the authority to reverse it. If someone were to attempt to undo a past transaction in a block recorded on the Blockchain, such individual would have to exert tremendous processing power in a series of complicated transactions that may not be achieved at this point in the Bitcoin Network's development.

## **Bitcoin Mining – Creation of New Bitcoins**

### *Mining Process*

The process by which Bitcoins are created and Bitcoin transactions are verified is called mining. To begin mining, a user, or "miner," can download and run a mining client, which, like regular Bitcoin Network software programs, turns the user's computer into a "node" on the Bitcoin Network that validates blocks. Bitcoin transactions are recorded in new blocks that are added to the Blockchain and new Bitcoins being issued to the miners. Miners, through the use of the Bitcoin software program, engage in a set of prescribed complex mathematical calculations in order to add a block to the Blockchain and thereby confirm Bitcoin transactions included in that block's data.

Most Bitcoin transactions are recorded in blocks added to the Blockchain. Each block contains the details of some or all of the most recent transactions that are not memorialized in prior blocks, as well as a record of the award of Bitcoins to the miner who added the new block. In order to add blocks to the Blockchain, a miner must map an input data set (i.e., the Blockchain, plus a block of the most recent Bitcoin Network transactions and an arbitrary number called a “nonce”) to a desired output data set of a predetermined length (the “hash value”) using the SHA-256 cryptographic hash algorithm. Each unique block can only be solved and added to the Blockchain by one miner; therefore, all individual miners and mining pools on the Bitcoin Network are engaged in a competitive process of constantly increasing their computing power to improve their likelihood of solving for new blocks. As more miners join the Bitcoin Network and its processing power increases, the Bitcoin Network adjusts the complexity of the block-solving equation to maintain a predetermined pace of adding a new block to the Blockchain approximately every ten minutes.

A miner’s proposed block is added to the Blockchain once a majority of the nodes on the Bitcoin Network confirms the miner’s work. Miners that are successful in adding a block to the Blockchain are automatically awarded Bitcoins for their effort plus any transaction fees paid by transferors whose transactions are recorded in the block. This reward system is the method by which new Bitcoins enter into circulation to the public.

### *Incentives for Mining*

As noted above, miners that are successful in adding a block to the Blockchain are automatically awarded Bitcoins for their effort. Given the increasing difficulty of the target established by the Bitcoin Network, current miners are required to invest in expensive mining devices with adequate processing power to hash at a competitive rate. The first wave of mining devices used central processing units (CPUs) used in standard home computers. Miners soon discovered that graphic processing units (GPUs) provided them with more processing power and the second wave of miners entered the Bitcoin Network. Today, the Bitcoin Network is well into a third wave of mining devices which consist of mining computers that are designed solely for mining purposes. Such devices include ASIC (application-specific integrated circuit) machines built specifically for Bitcoin mining by specialized companies like Bitmain Technologies. These new computers are significantly more expensive than standard home computers. Miners also incur substantial electricity costs in order to continuously power and cool their devices while solving for a new block.

The Bitcoin Network is designed in such a way that the reward for adding new blocks to the Blockchain decreases over time and the production (and reward) of Bitcoins will eventually cease. Once such incentive mechanism ceases to be profitable, miners will only have transaction fees to incentivize them and as a result, it is expected that miners will need to be better compensated with higher transaction fees to ensure that there is adequate incentive for them to continue mining.

### *Mining Pools*

The significant increase in the number of miners and the associated increase in mining capacity have radically increased the difficulty of finding a valid hash since the first block was mined. In some respects, hashing is akin to a mathematical lottery, and miners that have devices with greater processing power (i.e., the ability to make more hash calculations per second) are more likely to be successful miners. Currently, the likelihood that an individual acting alone will be able to be

awarded a Bitcoin is extremely low. As a result, mining “pools” have developed in which multiple miners act cohesively and combine their processing power to solve blocks. When a pool solves a new block, the pool operator receives the Bitcoin and, after taking a nominal fee, splits the resulting reward among the pool participants based on the processing power they each contributed to solve for such block. Mining pools provide participants with access to smaller, but steadier and more frequent, Bitcoin payouts. According to Blockchain.info, as of March 19, 2018, the three largest identifiable mining pools were BTC.com, AntPool and ViaBTC, which, when aggregated, represented approximately 51% of the processing power on the Bitcoin Network (as calculated by determining the percentage of blocks mined by each such pool over the prior four days). Also, according to blockchain.info, as of the same date, the eight largest identifiable pools (BTC.com, AntPool, ViaBTC, SlushPool, BTC.TOP, F2Pool, BTCC Pool and BitFury), which accounted for approximately 84% of the mining processing power on the Bitcoin Network.

### **Mathematically Controlled Supply**

The supply of new Bitcoins is mathematically controlled so that the number of Bitcoins grows at a limited rate pursuant to a pre-set schedule. The number of Bitcoins awarded for solving a new block is automatically halved after every 210,000 blocks are added to the Blockchain. Currently, the fixed reward for solving a new block is 12.5 Bitcoins per block and this is expected to decrease by half to become 6.25 Bitcoins after the next 210,000 blocks have entered the Bitcoin Network, which is expected to be July 2020. This deliberately controlled rate of Bitcoin creation means that the number of Bitcoins in existence will increase at a controlled rate until the number of Bitcoins in existence reaches the pre-determined 21 million Bitcoins. As of March 19, 2018, approximately 16.92 million Bitcoins have been mined and estimates of when the 21 million Bitcoin limitation will be reached range from at or near the year 2140.

### **Modifications to the Bitcoin Protocol**

Bitcoin is an open source project (i.e., a product whose source code is freely available to the public and that utilizes crowdsourcing to identify possible issues, problems and defects) with no official developer or group of developers that controls the Bitcoin Network. However, the Bitcoin Network’s development is overseen by a core group of developers including those employed by MIT Media Lab’s Digital Currency Initiative. The Core Developers are able to access and can alter the Bitcoin Network source code and, as a result, they are responsible for quasi-official releases of updates and other changes to the Bitcoin Network’s source code. The release of updates to the Bitcoin Network’s source code does not guarantee that the updates will be automatically adopted. Users and miners must accept any changes made to the Bitcoin source code by downloading the proposed modification of the Bitcoin Network’s source code. A modification of the Bitcoin Network’s source code is only effective with respect to the Bitcoin users and miners that download it. If a modification is accepted only by a percentage of users and miners, a division in the Bitcoin Network will occur such that one network will run the pre-modification source code and the other network will run the modified source code. Such a division is known as a “fork” in the Bitcoin Network. See “Risk Factors—The acceptance of Bitcoin Network software patches or upgrades by a significant, but not overwhelming, percentage of the users and miners in the Bitcoin Network could result in a “fork” in the Blockchain, resulting in the operation of two separate networks.” Consequently, as a practical matter, a modification to the source code only becomes part of the Bitcoin Network if accepted by participants collectively having a majority of the processing power on the Bitcoin Network. In recent months, there have been several forks in the Bitcoin Network,

including forks resulting in the creation of Bitcoin Cash (August 1, 2017), Bitcoin Gold (October 24, 2017) and Bitcoin SegWit2X (December 28, 2017), among others.

Core Development of the Bitcoin source code has increasingly focused on modifications of the Bitcoin protocol to increase speed and scalability and also allow for non-financial, next generation uses (sometimes referred to as Bitcoin 2.0 projects). For example, following the recent activation of Segregated Witness on the Bitcoin Network, an alpha version of the Lightning Network was released. The Lightning Network is an open-source decentralized network that enables instant off-chain transfer of the ownership of Bitcoin without the need of a trusted third party. The system utilizes bidirectional payment channels that consist of multi-signature addresses. One on-chain transaction is needed to open a channel and another on-chain transaction can close the channel. Once a channel is open, value can be transferred instantly between counterparties, who are engaging in real Bitcoin transactions without broadcasting them to the Bitcoin Network. New transactions will replace previous transactions and the counterparties will store everything locally as long as the channel stays open to increase transaction throughput and reduce computational burden on the Bitcoin Network. Other uses include smart contracts and distributed registers built into, built atop or pegged alongside the Blockchain. For example, the white paper for Blockstream, a program of which Core Developers Pieter Wuille and Gregory Maxwell are a part, calls for the use of “pegged sidechains” to develop programming environments that are built within Blockchain ledgers that can interact with and rely on the security of the Bitcoin Network and Blockchain, while remaining independent thereof. Open-source projects such as RSK are a manifestation of this concept and seek to create the first open-source smart contract platform built on the Blockchain, to enable automated, condition-based payments with increased speed and scalability. The Trust’s activities will not directly relate to Bitcoin 2.0 projects, though Bitcoin 2.0 projects may utilize Bitcoins as tokens for the facilitation of their non-financial uses, thereby potentially increasing demand for Bitcoins and the utility of the Bitcoin Network as a whole. Conversely, Bitcoin 2.0 projects that operate and are built within the Blockchain may increase the data flow on the Bitcoin Network and could either “bloat” the size of the Blockchain or slow confirmation times. At this time, Bitcoin 2.0 projects remain in early stages and have not been materially integrated into the Blockchain or Bitcoin Network.

## **Bitcoin Value**

Bitcoins are not a fiat currency (i.e., a currency that is backed by a central bank or a national, supra-national or quasi-national organization) and are not backed by hard assets or other credit. As a result, the value of Bitcoins is currently determined by the value that various market participants place on Bitcoins through their transactions.

### *Exchange Valuation*

Due to the peer-to-peer framework of the Bitcoin Network and the protocols thereunder, transferors and recipients of Bitcoins are able to determine the value of the Bitcoins transferred by mutual agreement or barter with respect to their transactions. As a result, the most common means of determining the value of a Bitcoin is by surveying one or more Bitcoin Exchanges where Bitcoins are bought, sold and traded. On each Bitcoin Exchange, Bitcoins are traded with publicly disclosed valuations for each transaction, measured by one or more fiat currencies such as the U.S. Dollar or the Japanese Yen.

## **Forms of Attack Against the Bitcoin Network**

As with any other computer code, flaws in the Bitcoin Network source code have been exposed by certain malicious actors. Several errors and defects have been found and corrected, including those that disabled some functionality for users, exposed users' information, or allowed users to create multiple views of the Bitcoin Network. Discovery of flaws in or exploitations of the source code that allow malicious actors to take or create money in contravention of known Bitcoin Network rules have been relatively rare. For example, in 2010, a hacker or group of hackers exploited a flaw in the Bitcoin Network source code that allowed them to generate 184 billion Bitcoins in a transaction and send them to two digital wallet addresses. However, the Bitcoin community and developers identified and reversed the manipulated transactions within approximately three hours, and the flaw was corrected with an updated version of the Bitcoin protocol.

The Core Developers, in conjunction with other developers and miners, work continuously in an attempt to ensure that flaws are quickly fixed or removed. Because open source codes rely on transparency to promote community-sourced identification and solution of problems within the code, such flaws have been discovered and quickly corrected by the Core Developers or the Bitcoin community.

#### *Greater than 50% of Network Computational Power*

A malicious actor can structure an attack after such actor gains control of more than half of the Bitcoin Network's processing power or "hashrate." During May and June 2014, mining pool GHash.io's hashing power approached 50% of the processing power on the Bitcoin Network. During a brief period in early June, the mining pool may have controlled in excess of one-half of the Bitcoin Network's processing power. Although no malicious activity or abnormal transaction recording was observed, the incident establishes that it is possible that a substantial mining pool may accumulate close to or more than a majority of the processing power on the Bitcoin Network.

If a malicious actor acquired sufficient computational power necessary to control the Bitcoin Network, among other things, it would be able to reverse transactions and possibly engage in double-spending, or prevent some or all transactions from being confirmed, and prevent some or all other miners from mining any valid new blocks. A number of computer scientists and cryptographers believe that the immense collective processing power of the Bitcoin Network makes it impracticable for an actor to gain control of computers representing a majority of the processing power on the Bitcoin Network.

#### *Cancer Nodes*

Cancer nodes are fake Bitcoin nodes, which a malicious actor sets up to either place connecting users on a separate network or disconnect them from all networks. This form of attack involves a malicious actor propagating "cancer nodes" to isolate certain users from the legitimate Bitcoin Network. A target user who is surrounded by such cancer nodes would be placed on a separate "network," allowing the malicious actor to relay only blocks created by the separate network and thus opening the target user to double-spending attacks. By using cancer nodes, a malicious actor can also disconnect the target user from the Bitcoin economy entirely by refusing to relay any blocks or transactions. Bitcoin software programs make these attacks more difficult by limiting the number of outbound connections through which users are connected to the Bitcoin Network.



### *Double-Spending Risks*

A malicious actor may attempt to double-spend Bitcoins by manipulating the formation of the Blockchain rather than through control of the Bitcoin Network. Variations of this form of attack include the “Finney attack,” “race attack,” and “vector76 attack.” In this type of attack, a miner creates a valid new block containing a double-spend transaction and schedules the release of such attack block so that it is added to the Blockchain before a target user’s legitimate transaction can be included in a block. All double-spend attacks require that the miner sequence and execute the steps of its attack with sufficient speed and accuracy. Typically, transactions that allow for a zero-confirmation acceptance tend to be prone to these types of attacks. Users and merchants can reduce the risk of a double-spend attack by waiting for multiple confirmations from the Bitcoin Network before settling a transaction. These attacks require extensive coordination and are very expensive. Accordingly, traders and merchants may still execute instantaneous, low-value transactions without confirmation, because it is generally agreed that a malicious miner would be unwilling to carry out a double-spend attack for low-value transactions. Users and merchants can take additional precautions by adjusting their Bitcoin Network software programs to connect only to other well-connected nodes and to disable incoming connections. These precautions reduce the risk of double-spend attacks involving manipulation of a target’s connectivity to the Bitcoin Network (as is the case with vector76 and race attacks).

### **Market Participants**

#### *Miners*

Miners range from Bitcoin enthusiasts to professional mining operations that design and build dedicated machines and data centers, but the vast majority of mining is now undertaken by mining pools, which are groups of miners that act cohesively and combine their processing to solve blocks. When a pool solves a new block, the pool operator receives the Bitcoins and, after taking a nominal fee, splits the resulting reward among the pool participants based on the processing power each of them contributed to solve for such block. Mining pools provide participants with access to smaller, but steadier and more frequent, Bitcoin payouts. See “—Bitcoin Mining - Creation of New Bitcoins” above.

#### *Investment and Speculative Sector*

This sector includes the investment and trading activities of both private and professional investors and speculators. These participants range from hedge funds such as Jersey-based Global Advisors (Jersey) Limited (GABI) to day-traders who invest in Bitcoins by trading on Bitcoin Exchanges such as Luxembourg-based Bitstamp and Hong Kong-based Bitfinex. See “—Uses of Bitcoins—Bitcoin Exchange Market” below.

Historically, larger financial services institutions are publicly reported to have limited involvement in investment and trading in Bitcoin. In December 2013, Wedbush Securities and Bank of America Merrill Lynch released preliminary research reports on Bitcoin as both a payment tool and investment vehicle. Additionally, in December, the Federal Reserve Bank of Chicago released a primer on Bitcoin prepared by a senior economist. In early 2014, Fitch Ratings, Goldman Sachs, JPMorgan Chase, PricewaterhouseCoopers, UBS Securities and Wedbush Securities, among others, released additional research reports analyzing Bitcoin on the basis of Bitcoin value, technological innovation or payment system mechanics. In December 2014, the Federal Reserve Board’s Divisions of Research & Statistics and Monetary Affairs released an analysis of the

Bitcoin Network's transaction system and the Bitcoin Exchange Market's economics. In 2015, institutions including Alliance Bernstein, Goldman Sachs and KPMG issued further research reports. Additionally, institutions including Goldman Sachs, Citi, Nasdaq, Visa, MasterCard, CME Group, CIBC, Fortress Investment Group, J.P. Morgan, The Depository Trust & Clearing Corporation and The PNC Financial Services Group made, or proposed to make, direct or indirect investments in Bitcoins or the Bitcoin ecosystem. In 2016, this list grew to include ABN AMRO, Accenture, ASX Limited, BNP Paribas, Broadridge Financial Solutions, Deutsche Börse Group, ICAP, Santander InnoVentures, AXA Strategic Ventures, Bank of Tokyo-Mitsubishi UFJ, Thomson Reuters and Wells Fargo. In July 2017, Bank of America initiated coverage on Bitcoin and the CFTC granted a New York-based firm, LedgerX, a derivatives clearing organization (DCO) license, allowing it to clear and custody financial instruments backed by Bitcoin, Ether and a number of other Blockchain-based digital currencies. In October 2017, Goldman Sachs began exploring a dedicated Bitcoin trading operation and the CME Group launched Bitcoin futures in December 2017.

### *Retail Sector*

The retail sector includes users transacting in direct peer-to-peer Bitcoin transactions through the direct sending of Bitcoins over the Bitcoin Network. The retail sector also includes transactions between consumers paying for goods or services from commercial or service businesses through direct transactions or third-party service providers such as BitPay, Coinbase and GoCoin. Each of BitPay, Coinbase and GoCoin provides a merchant platform for instantaneous transactions whereby the consumer sends Bitcoins to BitPay, Coinbase or GoCoin, which then provides either the Bitcoins or the cash value thereof to the commercial or service business utilizing the platform. PayPal, Square and Shopify are examples of traditional merchant payment processors or merchant platforms that have also added Bitcoin payment options for their merchant customers. Payment processing through Bitcoin typically reduces the transaction cost for merchants, relative to the costs paid for credit card transaction processing.

### *Service Sector*

This sector includes companies that provide a variety of services including the buying, selling, payment processing and storing of Bitcoins. Bitfinex, Bitstamp and GDAX (formerly known as Coinbase Exchange) are three of the largest Bitcoin Exchanges in the world. Coinbase is a multi-service financial institution that provides digital wallets that store Bitcoins for users and also serves as a retail gateway whereby users can purchase Bitcoins for fiat currency. Coinbase, BitPay, BitPagos and GoCoin are examples of Bitcoin payment processors that allow merchants to accept Bitcoins as payment. As the Bitcoin Network continues to grow in acceptance, it is anticipated that service providers will expand the currently available range of services and that additional parties will enter the service sector for the Bitcoin Network. For example, Bitcoin custodian Xapo was the first Bitcoin company to propose and provide a Bitcoin debit card service that could permit more simple point-of-sale merchant transactions denominated in Bitcoins. Meanwhile, BitGo, a Bitcoin custodian and digital wallet, has pioneered the use of "multi-signature" storage as an enhanced security feature to retail and enterprise clients.

## Uses of Bitcoins

### *Global Bitcoin Market*

Global trade in Bitcoins consists of individual end-user-to-end-user transactions, together with facilitated exchange-based Bitcoin trading. A limited market currently exists for Bitcoin-based derivatives. There is currently no reliable data on the total number or demographic composition of users or miners on the Bitcoin Network.

### *Bitcoin Exchange Market*

Online Bitcoin Exchanges represent a substantial percentage of Bitcoin buying and selling activity and provide the most data with respect to prevailing valuations of Bitcoins. Currently, there are several Bitcoin Exchanges operating worldwide. These exchanges include established exchanges such as Bitstamp, GDAX and itBit, which provide a number of options for buying and selling Bitcoins. The below table reflects the trading volume (in Bitcoins) and market share of the U.S. Dollar-BTC trading pair of each of the Bitcoin Exchanges included in the Index as of December 31, 2017, using data reported by the Index Provider from June 16, 2015 to December 31, 2017:

<b>Bitcoin Exchanges included in the Index as of December 31, 2017</b>	<b>Volume (BTC) <sup>1 2 3</sup></b>	<b>Market Share <sup>4</sup></b>
Bitstamp	10,244,392	17.31%
GDAX	9,684,174	16.36%
ItBit	3,870,621	6.54%
<b>Total U.S. Dollar-BTC trading pair</b>	<b>23,799,187</b>	<b>40.21%</b>

The domicile, regulation and legal compliance of the Bitcoin Exchanges included in the Index varies. Information regarding each Bitcoin Exchange may be found, where available, on the websites for such Bitcoin Exchanges, among other places.

In addition to open online Bitcoin Exchanges, there are “dark pools,” which are Bitcoin trading platforms that do not publicly report Bitcoin trade data. Market participants have the ability to execute large block trades on a dark pool without revealing those trades and the related price data to the public Bitcoin Exchange Market, although any withdrawal from or deposit to a dark pool platform may be recorded on the Blockchain. Tradehill is an example of one such institutional dark pool, although it halted operations in August 2013. Genesis also operates a form of dark pool through a trading desk that buys and sells large blocks of Bitcoins without publicly reporting trade

---

<sup>1</sup> For the period from May 10, 2015 to December 30, 2016, Kraken EUR (U.S. Dollar equivalent) was included in the Index.

<sup>2</sup> Effective February 17, 2017, the Index Provider removed OKCoin from the Index due to a suspension in withdrawals.

<sup>3</sup> Bitfinex was previously included on the Index and was removed on May 3, 2017 due to difficulties withdrawing fiat currencies from its Taiwanese banks, and as a result, it stopped accepting incoming wires, leading to volatility in the price of Bitcoin on Bitfinex. In response to removing Bitfinex, the Index Provider added Kraken to the Index on May 3, 2017. On October 20, 2017, the Index Provider removed Kraken from the Index due to inconsistencies in the trade data timestamps.

<sup>4</sup> Market Share is calculated using trading volume (in Bitcoins) provided by the Index Provider which include, Bitfinex, Bitstamp, GDAX, itBit, Kraken, OKCoin and Gemini.

data. Informal dark pools are currently believed to exist, particularly among wholesale buyers of Bitcoin and Bitcoin mining groups that obtain large supplies of Bitcoin through mining. Such informal dark pools function as a result of the peer-to-peer nature of the Bitcoin Network, which allows direct transactions between any seller and buyer. As the Bitcoin Exchange Market and Bitcoin dark pools have a limited history, it is difficult to estimate the impact of dark pools on the Bitcoin Exchange Market.

To determine which exchange is the Trust's principal market for purposes of calculating the Trust's NAV for GAAP financial reporting purposes, the Trust considers only Bitcoin Exchanges that are U.S. Dollar-denominated, have an online platform and publish transaction price and volume data publicly. Based on these requirements, the Trust prepares a list of eligible Bitcoin Exchanges and considers the following criteria to select its principal market: (i) the volume of Bitcoin traded on a Bitcoin Exchange in the prior twelve months, (ii) a Bitcoin Exchange's regulatory compliance with applicable federal and state licensing requirements and practices regarding anti-money laundering procedures and (iii) the degree of intra-day price fluctuations a Bitcoin Exchange experiences as well as the degree of variance in prices across Bitcoin Exchanges.

The Trust determined the fair value per Bitcoin token to be \$14,168.54 on December 31, 2017, and \$966.02 on December 31, 2016 using the price provided at 4:00 p.m., New York time, by the Bitcoin Exchange considered to be the Trust's principal market, GDAX.

### *Goods and Services*

Bitcoins increasingly can be used to purchase goods and services, either online or at physical locations. While reliable data is not readily available on the retail and commercial market penetration of the Bitcoin Network, there are numerous indications of its increasing acceptance. For example, the Bitcoin payment processors Bitpay and Coinbase publicly represent that over 100,000 businesses and organizations are now using those processors' services to accept Bitcoin payments. Additionally, PayPal announced that it would allow merchants that use its payment processing services to accept Bitcoin. A wide range of industries now accept Bitcoins as a form of payment, from newspapers such as The *Chicago Sun-Times* to national sports franchises such as the Sacramento Kings. Additionally, for-profit internet-based companies such as Microsoft, WordPress, Reddit, Zynga, Expedia, Dell, TigerDirect.com and Overstock.com, as well as non-profit institutions such as Khan Academy and charitable organizations such as the Red Cross have received attention for accepting donations in Bitcoins.

### *End-User-to-End-User*

The Bitcoin end-user-to-end-user ecosystem operates on a continuous, 24-hour per day basis. This is accomplished through decentralized peer-to-peer transactions between parties on a principal-to-principal basis.

All risks and issues of credit are between the parties directly involved in the transaction. Liquidity can change from time to time during the course of a 24-hour trading day. The Bitcoin Network rules that require transaction fees are generally not enforced, therefore transaction costs, if any, are negotiable between the parties and may vary widely, although, where transaction fees are included, they are paid by the sending party in a Bitcoin transaction. These transactions occur remotely through the internet, in-person through forums such as localBitcoins.com, which offers both online and in-person opportunities to buy and sell Bitcoins. There are currently no official designated market makers for Bitcoins and hence no standard transaction sizes, bid-offer spreads or typical

known cost per transaction. Marketplaces like localBitcoins.com are intended to create a market by bringing together counterparties trading in Bitcoins but they do not provide any clearing or intermediary function.

### *Anonymity*

Bitcoins have a reputation for providing privacy to its users, but the Bitcoin Network was not designed to ensure the anonymity of users. While the Blockchain records the unique addresses of individual Bitcoin “wallets,” it does not contain anything about the people using them. However, an analysis of the public log of all Bitcoin transactions suggests that it may be easy for a law enforcement agency to identify a number of Bitcoin users. (Off-Blockchain transactions occurring off the Bitcoin Network are not recorded and do not represent the transfer of Bitcoins from one digital wallet address to another, though information regarding participants in an Off-Blockchain transaction may be recorded by the parties facilitating such Off-Blockchain transactions). Nevertheless, users determined to maintain anonymity may take certain precautions to enhance the likelihood that they and their transactions remain anonymous. For instance, a user may send its Bitcoins to different addresses multiple times to make tracking the Bitcoins through the Blockchain more difficult or, more simply, engage a so-called “mixing” service to switch its Bitcoins with those of other users. However, some Bitcoin Exchanges may refuse to accept Bitcoins from users who have used mixing services. To the extent that a significant portion of Bitcoin users begin to value these mixing services and a substantial number of Bitcoin Exchanges refuse to accept these Bitcoins, the demand for Bitcoin may decrease and an investment in the Shares may be adversely affected.

### **Competition**

Bitcoins are not the only type of digital currencies founded on cryptography, although as of the date of this Annual Report, it is considered the most prominent digital currency. Other cryptographic digital currencies have developed since the Bitcoin Network’s inception: Litecoin, Ripple, Ethereum, Ethereum Classic, Monero and Dash are just a few examples of Bitcoin alternatives. The Bitcoin Network, however, possesses the “first-to-market” advantage and has captured the majority of the industry’s market share. See “Risk Factors Related to the Bitcoin Exchange Market and the Index - Demand for Bitcoins is driven, in part, by its status as the most prominent and secure digital asset. Competition from the emergence or growth of other digital assets or methods of investing in Bitcoin could have a negative impact on the price of Bitcoins and adversely affect an investment in the Shares”.

### **Government Oversight**

As digital currencies such as Bitcoin have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies (including FinCEN, SEC, CFTC, FINRA, the Consumer Financial Protection Bureau (“CFPB”), the Department of Justice, the Department of Homeland Security, the Federal Bureau of Investigation, the IRS and state financial institution regulators) have been examining digital currencies, with particular focus on the extent to which digital currencies can be used to launder the proceeds of illegal activities or fund criminal or terrorist enterprises and the safety and soundness of exchanges or other service providers that take custody of digital currencies for users. Many of these state and federal agencies have issued consumer advisories regarding the risks posed to investors in digital currencies. In addition, federal and state agencies, and other regulatory bodies in other countries have issued rules or guidance

about the treatment of digital currency transactions or requirements for businesses engaged in digital currency activity. Additionally, U.S. state and federal, and foreign regulators and legislatures have taken action against digital currency businesses or enacted restrictive regimes in response to adverse publicity arising from hacks, consumer harm, or criminal activity stemming from digital currency activity with respect to digital currencies. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the nature of an investment in the Shares or the ability of the Trust to continue to operate.

In 2013 guidance, FinCEN took the position that any administrator or exchanger of convertible digital currencies must register with FinCEN as a money transmitter and must comply with the anti-money laundering regulations applicable to money transmitters. FinCEN subsequently issued several interpretive letters clarifying which entities would be considered administrators or exchangers and which would be considered mere “users” not subject to registration. In 2015, FinCEN, working in coordination with the U.S. Attorney’s Office for the Northern District of California, assessed a \$700,000 fine against Ripple Labs for violating several requirements of the Bank Secrecy Act by acting as a money services business (MSB) and selling XRP without registering with FinCEN, and by failing to implement and maintain an adequate anti-money laundering program. In 2017, FinCEN assessed a \$110 million fine against BTC-E, a now defunct digital currency, for similar violations. The requirement that exchangers that do business in the United States register with FinCEN and comply with anti-money laundering regulations may increase the cost of buying and selling digital currencies and therefore may adversely affect their price. In March 2018, a letter from FinCEN’s Assistant Secretary for Legislative Affairs to U.S. Senator Ron Wyden indicated that under current law both the developers and the exchanges involved in the sale of tokens in an ICO may be required to register with FinCEN as money transmitters and comply with the anti-money laundering regulations applicable to money transmitters.

In 2015, the NYDFS finalized a rule that requires most businesses involved in digital currency business activity in or involving New York, excluding merchants and consumers, to apply for a license, commonly known as a BitLicense, from the NYDFS and to comply with anti-money laundering, cyber security, consumer protection, and financial and reporting requirements, among others. As an alternative to the BitLicense in New York, firms can apply for a charter to become limited purpose trust companies qualified to engage in digital currency business activity.

Other states have considered regimes similar to the BitLicense (for example, a bill in California would impose a similar regime), or have required digital currency businesses to register with their states as money transmitters, such as Washington and Georgia, which results in digital currency businesses being subject to requirements similar to those of NYDFS’ BitLicense regime. Certain state regulators, such as the Texas Department of Banking, Kansas Office of the State Bank Commissioner and the Illinois Department of Financial and Professional Regulation, have found that mere transmission of Bitcoin, without activities involving transmission of fiat currency, does not constitute money transmission requiring licensure. New Hampshire has similarly passed into law a bill that exempts persons who engage solely in the transmission of virtual currency from the state’s money transmission regulations. The North Carolina Commissioner of Banks has issued guidance providing that North Carolina’s money transmission regulations only apply to the transmission of digital currency and not its use. Legislation has been passed in Wyoming that allows exempt tokens issued on an open blockchain from Wyoming’s money transmitter and securities laws, as long as the token has not been marketed as an investment and is exchangeable for goods or services.

The inconsistency in applying money transmitting licensure requirements to certain businesses may make it more difficult for these businesses to provide services, which may affect consumer adoption of digital currencies and their price. In an attempt to address these issues, the Uniform Law Commission passed a model law in July 2017, the Uniform Regulation of Virtual Currency Businesses Act, which has many similarities to the BitLicense and features a multistate reciprocity licensure feature, wherein a business licensed in one state could apply for accelerated licensure procedures in other states. It is still unclear, however, how many states, if any, will adopt some or all of the model legislation.

The SEC has not asserted regulatory authority over the Bitcoin Network or trading or ownership in Bitcoin and has not expressed the view that these digital currencies should be classified or treated as securities for purposes of U.S. federal securities laws. However, the SEC has commented on Bitcoin and Bitcoin-related market developments and has taken action against investment schemes involving Bitcoin. For example, in the SEC's recent review of proposed rule changes to list and trade shares of certain Bitcoin-related investment vehicles on public markets, it has stated that the Bitcoin markets are not properly regulated. The SEC asserts that this results in the public markets' inability to enter into surveillance-sharing agreements that help address concerns regarding fraudulent or manipulative acts and practices. Moreover, on January 18, 2018, the SEC's Division of Investment Management outlined several questions that sponsors would be expected to address before the SEC will consider granting approval for funds holding "substantial amounts" of cryptocurrencies or "cryptocurrency-related products." The questions, which focus on specific requirements of the Investment Company Act of 1940, generally fall into one of five key areas: valuation, liquidity, custody, arbitrage and potential manipulation. The SEC has not explicitly stated whether each of the questions set forth would also need to be addressed by entities with similar products and investment strategies that instead pursue registered offerings under the Securities Act, although such entities would need to comply with the registration and prospectus disclosure requirements of the Securities Act. Additionally, in March 2018, it was reported that the SEC is examining as many as 100 investment funds with strategies focused on digital currencies. The reported focus of the examinations is on the accuracy of risk disclosures to investors in these funds, digital asset pricing practices, and compliance with rules meant to prevent the theft of investor funds, as well as on information gathering so that the SEC can better understand new technologies and investment products. It has further been reported that some of these funds have received subpoenas from the SEC's Enforcement Division. The SEC has also recently determined that tokens issued by The DAO, are securities under the U.S. securities laws. The SEC reasoned that the unregistered sale of digital currency tokens can, in certain circumstances, including ICOs, be considered illegal public offering of securities. The SEC could make a similar determination with respect to digital tokens distributed in other ICOs or token sales, and in March 2018, it was reported that the SEC had issued at least 80 subpoenas to issuers of ICO tokens to gather information about potential illegal public securities offerings.

If the SEC were to determine that Bitcoin is a security, the Trust and the Sponsor would be subject to additional regulatory and compliance requirements under U.S. federal securities laws, including the Investment Company Act and, with respect to the Sponsor, the Investment Advisers Act.

On March 6, 2018, a United States District Court of New York ruled that the Commodity Futures Trading Commission's ("CFTC") has standing to exercise its enforcement power over fraud related to virtual currencies sold in interstate commerce. This ruling affirmed the CFTC's position that digital currencies are subject to its anti-fraud and anti-manipulation enforcement authority, thereby asserting jurisdiction over futures, swaps, and other CFTC-regulated derivatives that

reference digital currencies. The CFTC has not, to date, taken the view that digital currencies are a “commodity interest,” which is defined under the Commodity Exchange Act to include futures, swaps, and other derivatives based on commodities. Commodity interests are subject to CFTC regulation and thus, if one or more digital currencies were to be deemed a commodity interest by the CFTC, the Trust and the Sponsor would be subject to additional regulatory and compliance requirements under the Commodity Exchange Act and CFTC regulations, including additional periodic report and disclosure standards and requirements. Moreover, the Sponsor may be required to operate the Trust as a commodity pool operator or a commodity trading adviser registered with the CFTC through the National Futures Association. Such additional registrations may result in extraordinary expenses of the Trust, and adversely impact the value of the Shares. If the Sponsor determined not to comply with such additional regulatory and registration requirements, the Sponsor would dissolve and liquidate the Trust. Any such termination could result in the liquidation of the Trust’s digital currencies at a time that is disadvantageous to a holder of the Shares.

The CFTC granted registration in July 2017 to LedgerX as a swaps execution facility and derivatives clearing organization, and in 2016 to Tera Exchange as a swaps execution facility. LedgerX began offering Bitcoin-to-dollar options contracts in the Fall of 2017. In August 2017, the Chicago Board Options Exchange (the “CBOE”) announced plans to begin to offer digital currency derivatives trading in partnership with Gemini, a digital currency exchange, and launched Bitcoin futures contracts in December 2017. The development of a sustained derivatives market for digital currencies could have significant implications for the digital currency ecosystem. For example, by allowing businesses to better hedge their digital currency exposure risks, new business models could become possible. Nevertheless, the development of a robust derivatives market in the U.S. is uncertain.

Additionally, digital currencies currently face an uncertain regulatory landscape in many foreign jurisdictions such as the European Union, China, the United Kingdom, Australia, Japan, Russia, Israel, Poland, India, Hong Kong, Canada and Singapore. While certain governments have issued guidance as to how to treat Bitcoins, most regulatory bodies have not yet issued official statements regarding their intention to regulate or determinations on regulation of digital currencies, user or networks.

Germany, where the Ministry of Finance declared in 2013 digital currencies such as Bitcoins to be “Rechnungseinheiten” (a form of private money that is recognized as a unit of account, but not recognized in the same manner as fiat currency), was early to issue such guidance. In October 2015, the European Court of Justice ruled that Bitcoin transactions throughout the European Union should be treated as traditional currency transactions and not be subject to value-added tax. In addition, members of the European Parliament and the European Commission have proposed but have not yet adopted expansions of the EU’s Anti-Money Laundering Directive to include digital currencies that would allow individual EU countries to identify holders of digital currency by their digital currency addresses.

In China, a December 2013 government notice classified Bitcoins as “virtual commodities,” and not legal tender. The same notice restricted the existing banking and payment industries from using Bitcoin, limiting the scope of the operations of Bitcoin exchanges in one of the largest Bitcoin markets. In January 2017, in response to informal guidance received from the People’s Bank of China (the “PBoC”) concerning the creation of tighter anti-money laundering and foreign exchange controls, the largest China-based Bitcoin Exchanges—BTCC, Huobi and OKCoin—



adjusted their terms to pause or limit loan and borrowing services. These three exchanges later introduced a 0.2% fixed-rate transaction fee for all Bitcoin buy and sell orders, with similar measures soon adopted by many of China's smaller Bitcoin Exchanges. Bitcoin withdrawals were also being halted on BTCC, Huobi and OKCoin. In March 2017, the PBoC reaffirmed its commitment to regulating Bitcoin exchanges and indicated the possibility of licensing a number of qualified exchanges. More recently, certain Chinese exchanges have since been shut down by the Chinese government. There remains significant uncertainty regarding the Chinese government's future actions with respect to the regulation of digital currency and digital currency exchanges. These events have substantially reduced trading volume on Chinese exchanges. In the United Kingdom, Her Majesty's Treasury announced in 2016 its plan to apply the U.K.'s anti-money laundering regulations to digital currency exchange firms, but not to wallet services that do not offer fiat-to-digital exchange functionality.

The Australian government announced in 2016 its plan to update its anti-money laundering laws to apply to digital currency exchanges, following an inquiry by the government into the country's tax treatment and regulation of Bitcoin. In August 2017, the Australian Ministry of Justice released draft legislation building on this initiative that would, among other things, introduce regulation of digital currency exchanges and the possibility of imprisonment as a penalty for operating an unlicensed exchange.

In Japan, regulations went into effect in April 2017 that recognize digital currencies as a legal method of payment and require market participants, including exchanges, to meet certain compliance requirements and be subject to oversight by the Financial Services Agency, a Japanese regulator.

Russian regulators indicated in April 2017 their plan to recognize Bitcoin and other digital currencies as a legitimate financial instrument by 2018, as part of the government's broader efforts to tackle money laundering, standing in sharp contrast with the government's previous attempts to ban the conversion of Bitcoin and other "money surrogates" into fiat currency and impose criminal penalties for such violations. In September 2017, the Bank of Russia released a statement that it would not yet admit digital currencies for trading on official exchanges or for use in clearing and settlement infrastructure.

The government of Israel and the Israel Tax Authority decided in January 2017 to apply capital gains tax to sales of Bitcoins and other digital currencies.

The Polish National Bank and Poland's Financial Supervision Commission issued a joint statement in July 2017 clarifying that digital currencies are not legal tender in Poland and warning that investing in digital currencies carries risks such as price volatility and fraud and that financial institutions should avoid doing business with digital currency exchanges because of money laundering and terrorist financing risks.

Regulatory bodies in some countries such as India have thus far declined to exercise regulatory authority when afforded the opportunity, although an Indian intergovernmental body submitted a report to the Indian Ministry of Finance in August 2017 proposing possible steps towards regulation of digital currencies. At the other extreme, in 2014, Ecuador, Bolivia, and Bangladesh banned the use of Bitcoin and other digital currencies.

A number of foreign jurisdictions have, like the SEC, recently opined on the sale of digital currency tokens including through ICOs. The Canadian Securities Administrators issued in August 2017 a

staff notice stating that they had found many instances in which digital currency tokens issued through ICOs constituted securities for the purposes of Canadian securities laws. The Monetary Authority of Singapore (the “MAS”) issued in August 2017 a statement that some digital currency token sales may qualify as securities offerings under Singapore’s securities laws, followed by a notice warning prospective investors of the risks associated with unregulated digital currency token sales. The PBoC issued in September 2017 a statement on ICOs, finding that they are unauthorized and illegal public financing activity and ordering digital currency token issuances to stop immediately and listed a number of restrictions on businesses doing business related to tokens or token issuances. In September 2017, Hong Kong’s Securities and Futures Commission (the “SFC”) released a statement that digital tokens offered in an ICO may fall under the definition of securities, and that as a result, dealing in or advising on the digital tokens, or managing or marketing a fund investing in such digital tokens, may constitute a regulated activity requiring registration with the SFC. The SFC’s statement also noted that the anonymous basis on which digital tokens involved in ICOs are transacted or held pose money laundering and terrorist financing risks. In February 2018, the Swiss Financial Market Supervisory Authority (“FINMA”) published ICO guidelines, which categorized tokens into three categories. A token may fall under one or more of the categories set forth below:

- *Payment tokens*, which are akin to regular cryptocurrencies which do not have further functions or external links to other developmental projects;
- *Utility tokens*, which are intended to provide digital access to an application or service; and
- *Asset tokens*, which represent assets such as participations in real physical underlyings, companies, or earnings streams, or an entitlement to dividends or interest payments.

Payment tokens will not be treated as securities, but compliance with anti-money laundering regulations is required. Utility tokens will not be treated as securities only if their sole purpose is to confer digital access rights to an application or service and if the utility token can already be used in this way at the point of issue. If a utility token functions solely or partially as an investment in economic terms, FINMA will treat such tokens as securities. Asset tokens will be considered securities.

Various foreign jurisdictions have, and may continue to, in the near future, adopt laws, regulations or directives that affect the Bitcoin Network, the Bitcoin Exchange Market, and their users, particularly digital asset exchanges and service providers that fall within such jurisdictions’ regulatory scope. For example, on December 28, 2017, the South Korean government announced measures to ban the opening of anonymous digital currency accounts, which went into effect beginning on January 30, 2018. Those measures also provide the government with the authority to close digital currency exchanges that do not comply with specified know your customer (“KYC”) processes. The Chinese and South Korean governments have also banned ICOs and Chinese regulators have taken action to shut down a number of China-based digital currency exchanges. Further, on January 11, 2018 the South Korean Justice Minister announced that it was preparing a bill to ban trading in all cryptocurrencies (although the Ministry of Finance has disputed such a ban) and on January 19, 2018, a Chinese news organization reported that the People’s Bank of China had ordered financial institutions to stop providing banking or funding to “any activity related to cryptocurrencies.” There remains significant uncertainty regarding the South Korean and Chinese governments’ future actions with respect to the regulation of digital currency and digital

currency exchanges. Such laws, regulations or directives may conflict with those of the United States and may negatively impact the acceptance of digital assets generally or any one digital asset in particular by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the digital asset economy in the European Union, China, Japan, Russia and the United States and globally, or otherwise negatively affect the value of digital asset generally or any one digital asset in particular. See “Risk Factors—Risk Factors Related to the Regulation of the Trust and the Shares—Regulatory changes or actions may alter the nature of an investment in the Shares or restrict the use of Bitcoin or the operation of the Bitcoin Network or the Bitcoin Exchange Market in a manner that adversely affects an investment in the Shares.”

The effect of any future regulatory change on the Trust or Bitcoin is impossible to predict, but such change could be substantial and adverse to the Trust and the value of the Shares.

### **Not a Regulated Commodity Pool**

The Trust will not trade, buy, sell or hold Bitcoin derivatives, including Bitcoin futures contracts, on any futures exchange. The Trust is authorized solely to take immediate delivery of actual Bitcoins. The Sponsor does not believe the Trust’s activities are required to be regulated by the CFTC under the CEA as a “commodity pool” under current law, regulation and interpretation. The Trust will not be operated by a CFTC-regulated commodity pool operator because it will not trade, buy, sell or hold Bitcoin derivatives, including Bitcoin futures contracts, on any futures exchange. Investors in the Trust will not receive the regulatory protections afforded to investors in regulated commodity pools, nor may the COMEX division of the New York Mercantile Exchange or any futures exchange enforce its rules with respect to the Trust’s activities. In addition, investors in the Trust will not benefit from the protections afforded to investors in Bitcoin futures contracts on regulated futures exchanges.

## **BITCOIN INVESTMENT TRUST**

### **Description of the Trust**

The Trust is a Delaware Statutory Trust that was formed on September 13, 2013 by the filing of the Certificate of Trust with the Delaware Secretary of State in accordance with the provisions of the Delaware Statutory Trust Act (“DSTA”). The Trust operates pursuant to the Trust Agreement.

In general, the Trust will hold only Bitcoins and is expected from time to time to issue Baskets in exchange for Bitcoins and, subject to the Trust’s obtaining regulatory approval from the SEC to operate an ongoing redemption program and the consent of the Sponsor, to distribute Bitcoins in connection with redemptions of Baskets. The investment objective of the Trust is for the Shares to reflect the value of the Bitcoins held by the Trust, determined by reference to the Bitcoin Index Price, less the Trust’s expenses and other liabilities. The Sponsor believes that, for many investors, the Shares will represent a cost-effective and convenient investment relative to a direct, outright investment in Bitcoins. The foregoing notwithstanding, the redemption of Shares is not currently contemplated and the Trust does not currently operate a redemption program. In addition, the Trust may from time to time halt creations of Shares. As a result, there can be no assurance that the value of the Shares, if traded on any Secondary Market, will reflect the value of the Bitcoin held by the Trust, and the Shares may trade at a substantial premium over, or a substantial discount to, the value of the Bitcoin held by the Trust.

The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust. The Trust is passive and is not managed like a corporation or an active investment vehicle. The Trust’s Bitcoins are held by the Custodian on behalf of the Trust. The Trust’s Bitcoins will be transferred out of the Bitcoin Account only in the following circumstances: (i) transferred to pay the Sponsor’s Fee or any Additional Trust Expenses, (ii) distributed in connection with the redemption of Baskets (subject to the Trust’s obtaining regulatory approval from the SEC to operate an ongoing redemption program and the consent of the Sponsor), (iii) sold on an as-needed basis to pay Additional Trust Expenses or (iv) sold on behalf of the Trust in the event the Trust terminates and liquidates its assets or as otherwise required by law or regulation. Assuming that the Trust is treated as a grantor trust for U.S. federal income tax purposes, each delivery or sale of Bitcoins by the Trust to pay the Sponsor’s Fee or any Additional Trust Expenses will be a taxable event for Shareholders. See “Certain U.S. Federal Income Tax Consequences—Tax Consequences to U.S. Holders.”

The Trust is not registered as an investment company under the Investment Company Act and the Sponsor believes that the Trust is not required to register under the Investment Company Act. The Trust will not hold or trade in commodity futures contracts or other derivative contracts regulated by the CEA, as administered by the CFTC. The Sponsor believes that the Trust is not a commodity pool for purposes of the CEA, and that neither the Sponsor nor the Trustee is subject to regulation as a commodity pool operator or a commodity trading adviser in connection with the operation of the Trust.

The Trust expects to create (and, should the Trust commence a redemption program, redeem) Shares from time to time but only in Baskets. A Basket equals a block of 100 Shares. The number of outstanding Shares is expected to increase and decrease from time to time as a result of the creation (and, should the Trust commence a redemption program, redemption) of Baskets. The creation or, if permitted, redemption of Baskets will require the delivery to the Trust, or the

distribution by the Trust, as applicable, of the number of Bitcoins represented by the Baskets being created or redeemed. The creation and redemption of a Basket will be made only in exchange for the delivery to the Trust, or the distribution by the Trust, of the number of whole and fractional Bitcoins represented by each Basket being created or redeemed, the number of which is determined by dividing (x) the number of Bitcoins owned by the Trust at 4:00 p.m., New York time, on the relevant trade date, after deducting the number of Bitcoins representing the U.S. Dollar value of accrued but unpaid fees and expenses of the Trust (converted using the Bitcoin Index Price at such time, and carried to the eighth decimal place) by (y) the number of Shares outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one Bitcoin (i.e., carried to the eighth decimal place)), and multiplying such quotient by 100.

As of March 19, 2018, each Share represented approximately 0.001 of one Bitcoin. Each Share in the initial Baskets represented approximately one-tenth (0.1) of a Bitcoin (one-thousandth (0.001) post Share split). The number of Bitcoins required to create a Basket, or, if permitted, to redeem a Basket is expected to gradually decrease over time due to the transfer or sale of the Trust's Bitcoins to pay the Sponsor's Fee and any Additional Trust Expenses. The Trust will not accept or distribute cash in exchange for Baskets, other than upon its dissolution. Authorized Participants may sell to other investors the Shares they purchase from the Trust only in transactions exempt from registration under the Securities Act. For a discussion of risks relating to the unavailability of a redemption program, see "Risk Factors—Risk Factors Related to the Trust and the Shares—If Authorized Participants are able to purchase or sell large aggregations of Bitcoins in the open market at prices that are different than the Bitcoin Index Price or are unable to create and redeem Shares on an ongoing basis, the arbitrage mechanism intended to keep the price of the Shares closely linked to the Bitcoin Index Price may not function properly and the Shares may trade at a discount to, or premium over, the Bitcoin Holdings per Share" and "Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares."

The Sponsor will determine the Trust's Bitcoin Holdings (which is the aggregate U.S. Dollar value of the Trust's assets, as calculated using the Bitcoin Index Price, less the U.S. Dollar value of its expenses and other liabilities) on each business day as of 4:00 p.m., New York time, or as soon thereafter as practicable. The Sponsor will also determine the Bitcoin Holdings per Share, which equals the Bitcoin Holdings of the Trust divided by the number of outstanding Shares. Each business day, the Sponsor will publish the Trust's Bitcoin Holdings and Bitcoin Holdings per Share on the Trust's website, <https://grayscale.co/bitcoin-investment-trust/#market-performance>, as soon as practicable after the Trust's Bitcoin Holdings and Bitcoin Holdings per Share have been determined by the Sponsor. See "Valuation of Bitcoin and Determination of the Trust's Bitcoin Holdings."

The Trust's assets will consist solely of Bitcoins, Incidental Rights, IR Virtual Currency, proceeds from the sale of Bitcoins, Incidental Rights and IR Virtual Currency pending use of such cash for payment of Additional Trust Expenses or distribution to the Shareholders and any rights of the Trust pursuant to any agreements, other than the Trust Agreement, to which the Trust is a party. Each Share will represent a proportional interest, based on the total number of Shares outstanding, in each of the Trust's assets as determined in the case of Bitcoin by reference to the Bitcoin Index Price, less the Trust's expenses and other liabilities (which include accrued but unpaid fees and expenses). The Sponsor expects that the market price of the Shares will fluctuate over time in response to the market prices of Bitcoins. In addition, because the Shares will reflect the estimated accrued but unpaid expenses of the Trust, the number of Bitcoins represented by a Share will

gradually decrease over time as the Trust's Bitcoins are used to pay the Trust's expenses. The Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust's Bitcoin Holdings or the Bitcoin Holdings per Share.

Investors may obtain on a 24-hour basis Bitcoin pricing information from various financial information service providers or Bitcoin Network information sites such as Tradeblock.com or Bitcoincharts.com. The spot price and bid/ask spreads may also be available directly from Bitcoin Exchanges. As of the date of this Annual Report, the constituent Bitcoin Exchanges of the Index were Bitstamp, GDAX and itBit. OKCoin was previously included on the Index and was removed on February 17, 2017 due to its implementation of a policy suspending withdrawals from the exchange. Bitfinex was also previously included on the Index and was removed on May 3, 2017 due to difficulties withdrawing fiat currencies from its Taiwanese banks, which led it to stop accepting incoming wires, and led to volatility in the price of Bitcoin on Bitfinex. In response to removing Bitfinex, the Index Provider added Kraken to the Index on May 3, 2017. On October 20, 2017, the Index Provider removed Kraken from the Index due to inconsistencies in the trade data timestamps. Market prices for the Shares will be available from a variety of sources, including brokerage firms, information websites and other information service providers. In addition, on each business day the Trust's website will provide pricing information for the Shares.

Bitcoins are held by the Custodian on behalf of the Trust and are carried at fair value for financial reporting purposes. Unlike the procedure used for determining the Bitcoin Index Price and the Trust's Bitcoin Holdings, the fair value of Bitcoins and NAV presented in the financial statements are calculated in accordance with GAAP based on the price provided by the Bitcoin Exchange that the Trust considers its principal market as of 4:00 p.m., New York time on the valuation date. The Trust determines its principal market annually and conducts a quarterly analysis to determine if (i) there have been recent changes to each Bitcoin Exchange's transaction volume in the prior twelve months, (ii) any Bitcoin Exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make Bitcoin Exchanges previously inaccessible to the Trust now accessible or (iv) if recent changes to each Bitcoin Exchange's price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market. The Trust determined that as of December 31, 2017 and 2016, respectively, the principal market for purposes of determining the value of the Bitcoins held by the Trust was GDAX.

The Trust has no fixed termination date.

#### *Valuation of Bitcoin and Determination of the Trust's Bitcoin Holdings*

The Sponsor will evaluate the Bitcoins held by the Trust and determine the Bitcoin Holdings of the Trust in accordance with the relevant provisions of the Trust Documents. The following is a description of the material terms of the Trust Documents as they relate to valuation of the Trust's Bitcoins and the Bitcoin Holdings calculations.

On each business day at 4:00 p.m., New York time, or as soon thereafter as practicable (the "Evaluation Time"), the Sponsor will evaluate the Bitcoins held by the Trust and calculate and publish the Bitcoin Holdings of the Trust. To calculate the Bitcoin Holdings, the Sponsor will:

1. Determine the Bitcoin Index Price.

2. Multiply the Bitcoin Index Price by the Trust's aggregate number of Bitcoins owned by the Trust as of 4:00 p.m., New York time, on the immediately preceding day.
3. Add the U.S. Dollar value of Bitcoins, calculated using the Bitcoin Index Price, receivable under pending creation orders, if any, determined by multiplying the number of Creation Baskets represented by such creation orders by the Basket Bitcoin Amount and then multiplying such product by the Bitcoin Index Price.
4. Subtract the U.S. Dollar value of Bitcoins, calculated using the Bitcoin Index Price, constituting the Sponsor's Fee, determined by multiplying the number of Bitcoins payable to the Sponsor as the Sponsor's Fee by the Bitcoin Index Price.
5. Subtract the Additional Trust Expenses, if any.
6. Subtract the U.S. Dollar value of Bitcoins, calculated using the Bitcoin Index Price, to be distributed under pending Redemption Orders, if any, determined by multiplying the number of Redemption Baskets represented by such Redemption Orders by the Basket Bitcoin Amount and then multiplying such product by the Bitcoin Index Price.

In the event that the Sponsor determines that the primary methodology used to determine the Bitcoin Index Price is not an appropriate basis for valuation of the Trust's Bitcoins, the Sponsor will utilize the cascading set of rules as described in "Overview of the Bitcoin Industry Market—Bitcoin Value—The Index and the Bitcoin Index Price."

The Sponsor will publish the Bitcoin Index Price, the Trust's Bitcoin Holdings and the Bitcoin Holdings per Share on the Trust's website as soon as practicable after its determination by the Sponsor. If the Bitcoin Holdings and Bitcoin Holdings per Share have been calculated using a price per Bitcoin other than the Bitcoin Index Price for such Evaluation Time, the publication on the Trust's website will note the valuation methodology used and the price per Bitcoin resulting from such calculation.

In the event of a hard fork of the Bitcoin Network, the Sponsor will, if permitted by the terms of the Trust Agreement, use its discretion to determine, in good faith, which peer-to-peer network, among a group of incompatible forks of the Bitcoin Network, is generally accepted as Bitcoin and should therefore be considered "Bitcoin" for the Trust's purposes. The Sponsor will base its determination on a variety of then relevant factors, including (but not limited to) the following: (i) the Sponsor's beliefs regarding expectations of the core developers of Bitcoin, users, services, businesses, miners and other constituencies and (ii) the actual continued acceptance of, mining power on, and community engagement with the Bitcoin Network.

The Shareholders may rely on any evaluation furnished by the Sponsor. The determinations that the Sponsor makes will be made in good faith upon the basis of, and the Sponsor will not be liable for any errors contained in, information reasonably available to it. The Sponsor will not be liable to the Authorized Participants, the Shareholders or any other person for errors in judgment. However, the preceding liability exclusion will not protect the Sponsor against any liability resulting from gross negligence, willful misconduct or bad faith in the performance of its duties.

*Incidental Rights and IR Virtual Currency*

From time to time, the Trust may come into possession of Incidental Rights and/or IR Virtual Currency by virtue of its ownership of Bitcoins, generally through a fork in the Blockchain, an airdrop offered to holders of Bitcoins or other similar event. Pursuant to the terms of the Trust Agreement, the Trust may take any lawful action necessary or desirable in connection with the Trust's ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the Trust Agreement. These actions include selling Incidental Rights and/or IR Virtual Currency and distributing the cash proceeds to Shareholders or distributing Incidental Rights and/or IR Virtual Currency in kind to Shareholders, or to an agent acting on behalf of the Shareholders if such distribution would otherwise be infeasible. The Trust may also use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee and Additional Trust Expenses, if any, as discussed below under "—Trust Expenses." However, the Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust's Bitcoin Holdings or the Bitcoin Holdings per Share.

With respect to any fork, airdrop or similar event, the Sponsor may, in its discretion, decide to cause the Trust to distribute the Incidental Rights or IR Virtual Currency in kind to an agent of the Shareholders for resale by such agent, or to irrevocably abandon the Incidental Rights or IR Virtual Currency. In the case of a distribution in kind, the Shareholders' agent would attempt to sell the Incidental Rights or IR Virtual Currency, and if the agent is able to do so, remit the cash proceeds to Shareholders. There can be no assurance as to the price or prices for any Incidental Rights or IR Virtual Currency that the agent may realize, and the value of the Incidental Rights or IR Virtual Currency may increase or decrease after any sale by the agent. In the case of abandonment, the Trust would not receive any direct or indirect consideration for the Incidental Rights or IR Virtual Currency and thus the value of the Shares will not reflect the value of the Incidental Rights or IR Virtual Currency.

#### *The Index and the Bitcoin Index Price*

The Trust values its Bitcoins for operational purposes and non-GAAP purposes by reference to the Bitcoin Index Price. The Bitcoin Index Price is the value of a Bitcoin as represented by the Index, calculated at 4:00 p.m., New York time on each business day. The Index Provider develops, calculates and publishes the Index on a continuous basis using the volume-weighted price at trading venues, as selected by the Index Provider.

If the Index becomes unavailable, or if the Sponsor determines in good faith that the Index does not reflect an accurate Bitcoin price, then the Sponsor will, on a best efforts basis, contact the Index Provider in order to obtain the Bitcoin Index Price. If after such contact the Index remains unavailable or the Sponsor continues to believe in good faith that the Index does not reflect an accurate Bitcoin price, then the Sponsor will use the following cascading set of rules to calculate the Bitcoin Index Price. For the avoidance of doubt, the Sponsor will employ the below rules sequentially and in the order as presented below, should one or more specific rule(s) fail:

1. Bitcoin Index Price = The price set by the Index Provider as of 4:00 p.m., New York time, on the valuation date. The Index is a U.S. Dollar-denominated composite reference rate for the price of Bitcoin based on the volume-weighted price at trading venues selected by the Index Provider. Trading venues used to calculate the Index may include Bitcoin Exchanges, over-the-counter markets or derivatives platforms. To ensure that the Index Provider's trading venue selection process is impartial, the Index Provider considers depth of liquidity, compliance with applicable legal and regulatory



requirements, data availability, U.S. domicile and acceptance of U.S. Dollar deposits. The Index Provider conducts a quarterly review of these criteria.

In the calculation of the Bitcoin Index Price, the Index Provider cleanses the trade data and compiles it in such a manner as to algorithmically reduce the impact of anomalistic or manipulative trading. This is accomplished by adjusting the weight of each input based on price deviation relative to the observable set of data for the relevant trading venue, as well as recent and long-term trading volume at each venue relative to the observable set for the relevant trading venues. The Index Provider reduces the weighting of data inputs as they get further from the mean price across the trading venues and ultimately excludes any trade with a price that deviates beyond a certain predetermined threshold level from the mean. In addition, the Index groups trade bursts, or movements during off-peak trading hours, on any given venue into single data inputs, which reduces the potentially erratic price movements caused by small, individual orders. The Index Provider formally reevaluates the weighting algorithm quarterly, but maintains discretion to change the way in which the Index is calculated based on its periodic review or in extreme circumstances. The Index Provider does not currently include data from over-the-counter markets or derivatives platforms. Over-the-counter data is not currently included because of the potential for trades to include a significant premium or discount paid for larger liquidity, which creates an uneven comparison relative to more active markets. There is also a higher potential for over-the-counter transactions to not be arms-length, and thus not be representative of a true market price. Bitcoin derivative markets are also not currently included as the markets remain relatively thin. The Index Provider will consider International Organization of Securities Commissions principles for financial benchmarks and the management of trading venues of Bitcoin derivatives when considering inclusion of over-the-counter or derivative platform data in the future.

The Bitcoin Index Price is calculated by applying the weighting algorithm to the price and volume of all inputs for the immediately preceding 24-hour period as of 4:00 p.m., New York time, on the valuation date. To measure volume data and trading halts, the Index Provider monitors trading activity and regards as eligible those Bitcoin Exchanges that it determines represent a substantial portion of U.S. Dollar-denominated trading over a sustained period on a platform without a significant history of trading disruptions. The Index Provider maintains a monitoring system that tests for these criteria on an ongoing basis.

The description of the Index is based on information publicly available at the Index Provider's website at <https://tradeblock.com/markets/index/>. The Index Provider publishes the Index spot price continuously on its website noted above.

None of the information on the Index Provider's websites is incorporated by reference into this Annual Report. TradeBlock may change the trading venues that are used to calculate the Index or otherwise change the way in which the Index is calculated based on its periodic review and expert discretion described above.

If the Index becomes unavailable, or if the Sponsor determines in good faith that the Index does not reflect an accurate Bitcoin value, then the Sponsor will, on a best efforts basis, contact the Index Provider to obtain the Bitcoin Index Price directly from the

- Index Provider. If after such contact the Index remains unavailable or the Sponsor continues to believe in good faith that the Index does not reflect an accurate Bitcoin price, then the Sponsor will employ the next rule to determine the Bitcoin Index Price.
2. Bitcoin Index Price = The volume-weighted average Bitcoin price for the immediately preceding 24-hour period as of 4:00 p.m., New York time on the valuation date as calculated based upon the volume-weighted average Bitcoin prices of the Major Bitcoin Exchanges (as published by an alternative third party's public data feed that is reasonably reliable as determined by the Sponsor ("Second Source")). "Major Bitcoin Exchanges" are those Bitcoin Exchanges that are online, trade on a 24-hour basis and make transaction price and volume data publicly available. Subject to the next sentence, if the Second Source becomes unavailable (for example, data sources from the Second Source for Bitcoin prices become unavailable, unwieldy or otherwise impractical for use), or if the Sponsor determines in good faith that the Second Source does not reflect an accurate Bitcoin price, then the Sponsor will, on a best efforts basis, contact the Second Source in an attempt to obtain the relevant data. If after such contact the Second Source remains unavailable or the Sponsor continues to believe in good faith that the Second Source does not reflect an accurate Bitcoin price, then the Sponsor will employ the next rule to determine the Bitcoin Index Price.
  3. Bitcoin Index Price = The volume-weighted average Bitcoin price as calculated by dividing (i) the U.S. Dollar value of the Bitcoin transactions on the Major Bitcoin Exchanges by (ii) the total number of Bitcoins traded on the Major Bitcoin Exchanges, in each case for the immediately preceding 24-hour period as of 4:00 p.m., New York time (or as soon as practicable thereafter), on the valuation date as published by a third party's public data feed that is reasonably reliable as determined by the Sponsor, subject to the requirement that such data is calculated based upon a volume-weighted average Bitcoin price obtained from the Major Bitcoin Exchanges ("Third Source"). Subject to the next sentence, if the Third Source becomes unavailable (for example, data sources from the Third Source become unavailable, unwieldy or otherwise impractical for use), or if the Sponsor determines in good faith that the Third Source does not reflect an accurate Bitcoin value, then the Sponsor will, on a best efforts basis, contact the Third Source in an attempt to obtain the relevant data. If after such contact the Third Source remains unavailable or the Sponsor continues to believe in good faith that the Third Source does not reflect an accurate Bitcoin price then the Sponsor will employ the next rule to determine the Bitcoin Index Price.
  4. Bitcoin Index Price = The volume-weighted average Bitcoin price as calculated by dividing (i) the U.S. Dollar value of the Bitcoin transactions on the Bitcoin Benchmark Exchanges (as defined below) by (ii) the total number of Bitcoins traded on the Bitcoin Benchmark Exchanges, in each case for the immediately preceding 24-hour period as of 4:00 p.m., New York time (or as soon as practicable thereafter), on the valuation date. A "Bitcoin Benchmark Exchange" is a Bitcoin Exchange that represents at least 25% of the aggregate U.S. Dollar-denominated trading volume of the Bitcoin market during the last 30 consecutive calendar days and that to the knowledge of the Sponsor are in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures, of such Bitcoin Exchange's applicable jurisdiction; provided that if there are fewer than three such Bitcoin Exchanges, then the Bitcoin Benchmark Exchanges will include such Bitcoin

Exchange or Bitcoin Exchanges that meet the above-described requirements as well as one or more additional Bitcoin Exchanges, selected by the Sponsor, that have had monthly trading volume of at least 50,000 Bitcoins during the last 30 consecutive calendar days and that to the knowledge of the Sponsor is in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures, of such Bitcoin Exchange's applicable jurisdiction.

The Sponsor will review the composition of the exchanges that comprise the Bitcoin Benchmark Exchanges at the beginning of each month, or more frequently if necessary, in order to ensure the accuracy of its composition.

Subject to the next sentence, if one or more of the Bitcoin Benchmark Exchanges become unavailable (for example, data sources from the Bitcoin Benchmark Exchanges of Bitcoin prices become unavailable, unwieldy or otherwise impractical for use), or if the Sponsor determines in good faith that the Bitcoin Benchmark Exchange does not reflect an accurate Bitcoin value, then the Sponsor will, on a best efforts basis, contact the Bitcoin Benchmark Exchange that is experiencing the service outages in an attempt to obtain the relevant data. If after such contact one or more of the Bitcoin Benchmark Exchanges remain unavailable or the Sponsor continues to believe in good faith that the Bitcoin Benchmark Exchange does not reflect an accurate Bitcoin price, then the Sponsor will employ the next rule to determine the Bitcoin Index Price.

5. Bitcoin Index Price = The Sponsor will use its best judgment to determine a good faith estimate of the Bitcoin Index Price.

In the event of a fork, the Index Provider may calculate the Bitcoin Index Price based on a virtual currency that the Sponsor does not believe to be the appropriate asset that is held by the Trust. In this event, the Sponsor has full discretion to use a different index provider or calculate the Bitcoin Index Price itself using its best judgment.

Data used for the above calculation of the Bitcoin Index Price is gathered by the Sponsor or its delegate who calculates the Bitcoin Index Price each business day as of 4:00 p.m., New York time, or as soon thereafter as practicable. The Sponsor or its delegate will disseminate the Bitcoin Index Price on each business day.

The Index Provider may change the trading venues that are used to calculate the Index, or otherwise change the way in which the Index is calculated at any time. The Index Provider does not have any obligation to consider the interests of the Sponsor, the Trust, the Shareholders, or anyone else in connection with such changes. The Index Provider is not required to publicize or explain the changes, or to alert the Sponsor to such changes.

#### *Creation and Redemption of Shares*

The Trust is currently unable to redeem Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. ***The Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.***

The Trust will issue Shares to Authorized Participants from time to time, but only in one or more Baskets (with a Basket being a block of 100 Shares). The Trust will not issue fractions of a Basket.

The creation (and, should the Trust commence a redemption program, redemption) of Baskets will be made only in exchange for the delivery to the Trust, or the distribution by the Trust, of the number of whole and fractional Bitcoins represented by each Basket being created (or, should the Trust commence a redemption program, redeemed), which is determined by dividing (x) the number of Bitcoins owned by the Trust at 4:00 p.m., New York time, on the trade date of a creation order or redemption order, after deducting the number of Bitcoins representing the U.S. Dollar value of accrued but unpaid fees and expenses of the Trust (converted using the Bitcoin Index Price at such time, and carried to the eighth decimal place), by (y) the number of Shares outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one Bitcoin (i.e., carried to the eighth decimal place)), and multiplying such quotient by 100 (the “Basket Bitcoin Amount”). All questions as to the calculation of the Basket Bitcoin Amount will be conclusively determined by the Sponsor and will be final and binding on all persons interested in the Trust. The Basket Bitcoin Amount multiplied by the number of Baskets being created or redeemed is the “Total Basket Bitcoin Amount.” The number of Bitcoins represented by a Share will gradually decrease over time as the Trust’s Bitcoins are used to pay the Trust’s expenses. Each Share represented approximately 0.00101 and 0.00103 of one Bitcoin as of December 31, 2017 and 2016, respectively.

Authorized Participants are the only persons that may place orders to create (and, should the Trust commence a redemption program, redeem) Baskets. Each Authorized Participant must (i) be a registered broker-dealer, (ii) enter into a Participant Agreement with the Sponsor and (iii) own a Bitcoin wallet address that is recognized by the Custodian as belonging to the Authorized Participant (an “Authorized Participant Self-Administered Account”). An Authorized Participant may act for its own account or as agent for investors who have entered into a subscription agreement (each such agreement, a “Subscription Agreement”) with the Authorized Participant (each such investor, an “Investor”). An investor that enters into a Subscription Agreement with an Authorized Participant subscribes for Shares by submitting a purchase order and paying a subscription amount, either in U.S. dollars or in Bitcoins, to the Authorized Participant.

Shareholders who are not Authorized Participants will be able to redeem their Shares only through an Authorized Participant.

The creation of Baskets requires the delivery to the Trust of the Total Basket Bitcoin Amount. The redemption of Baskets, if permitted, requires the distribution by the Trust of the Total Basket Bitcoin Amount, and Shareholders who are not Authorized Participants will be able to redeem their Shares only through an Authorized Participant.

The Participant Agreement provides the procedures for the creation and, if permitted, redemption of Baskets and for the delivery of the whole and fractional Bitcoins required for such creations and, if permitted, redemptions. The Participant Agreement and the related procedures attached thereto may be amended by the Sponsor and the relevant Authorized Participant. Under the Participant Agreement, the Sponsor has agreed to indemnify each Authorized Participant against certain liabilities, including liabilities under the Securities Act.

Authorized Participants do not pay a transaction fee to the Trust in connection with the creation or, if permitted, redemption of baskets, but there may be transaction fees associated with the validation of the transfer of Bitcoins by the Bitcoin Network. Authorized Participants who deposit Bitcoins with the Trust in exchange for Baskets will receive no fees, commissions or other form of compensation or inducement of any kind from either the Sponsor or the Trust, and no such

person has any obligation or responsibility to the Sponsor or the Trust to effect any sale or resale of Shares.

The following description of the procedures for the creation and redemption of Baskets is only a summary and investors should refer to the relevant provisions of the Trust Agreement and the form of Participant Agreement for more detail.

### *Creation Procedures*

On any business day, an Authorized Participant may order one or more Creation Baskets from the Trust by placing a creation order with the Sponsor no later than 4:00 p.m., New York time, which the Sponsor will accept or reject. By placing a creation order, an Authorized Participant agrees to transfer the Total Basket Bitcoin Amount from the Authorized Participant Self-Administered Account to the Bitcoin Account.

All creation orders are accepted (or rejected) by the Sponsor on the business day on which the relevant creation order is placed. If a creation order is accepted, the Sponsor will calculate the Total Basket Bitcoin Amount on the same business day, which will be the trade date, and will communicate the Total Basket Bitcoin Amount to the Authorized Participant. The Authorized Participant must transfer the Total Basket Bitcoin Amount to the Trust no later than 6:00 p.m., New York time, on the trade date. The expense and risk of delivery, ownership and safekeeping of Bitcoins will be borne solely by the Authorized Participant until such Bitcoin have been received by the Trust.

Following receipt of the Total Basket Bitcoin Amount by the Custodian, the Transfer Agent will credit the number of Shares to the account of the Investor on behalf of which the Authorized Participant placed the creation order by no later than 6:00 p.m., New York time, on the trade date. The Authorized Participant may then transfer the Shares directly to the relevant Investor.

### *Redemption Procedures*

Redemptions of Shares are currently not permitted and the Trust is unable to redeem Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. ***The Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.*** For a discussion of risks relating to the Trust's inability to redeem Shares, see "Risk Factors—Risk Factors Related to the Trust and the Shares—If Authorized Participants are able to purchase or sell large aggregations of Bitcoins in the open market at prices that are different than the Bitcoin Index Price or are unable to create and redeem Shares on an ongoing basis, the arbitrage mechanism intended to keep the price of the Shares closely linked to the Bitcoin Index Price may not function properly and the Shares may trade at a discount to, or premium over, the Bitcoin Holdings per Share" and "Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares."

If permitted, the procedures by which an Authorized Participant can redeem one or more Baskets will mirror the procedures for the creation of Baskets. On any business day, an Authorized Participant may place a redemption order no later than 4:00 p.m., New York time, which the Sponsor will accept or reject. By placing a redemption order, an Authorized Participant agrees to deliver to the Sponsor the Baskets to be redeemed through the book-entry system to the Trust. The

redemption procedures do not allow a Shareholder other than an Authorized Participant to redeem Shares.

All redemption orders are accepted (or rejected) by the Sponsor on the business day on which the relevant redemption order is placed. If a redemption order is accepted, the Sponsor will calculate the Total Basket Bitcoin Amount on the same business day, which will be the trade date, and will communicate the Total Basket Bitcoin Amount to the Authorized Participant. The Sponsor will then direct the Transfer Agent to debit the account of the Investor on behalf of which the Authorized Participant placed the redemption order the number of Redemption Baskets ordered no later than 6:00 p.m., New York time, on the trade date.

Following receipt of confirmation by the Transfer Agent that the Redemption Baskets have been debited, the Sponsor or its delegates will instruct the Custodian to send the Authorized Participant the Total Basket Bitcoin Amount by no later than 6:00 p.m., New York time, on the trade date.

#### *Suspension or Rejection of Orders and Total Basket Bitcoin Amount*

The creation or, if permitted, redemption of Shares may be suspended generally, or refused with respect to particular requested creations or redemptions, during any period when the transfer books of the Transfer Agent are closed or if circumstances outside the control of the Sponsor or its delegates make it for all practical purposes not feasible to process such creation orders or redemption orders. The Sponsor may reject an order or, after accepting an order, may cancel such order by rejecting the Total Basket Bitcoin Amount, in the case of creations, or the Baskets to be redeemed, in the case of redemptions, if (i) such order is not presented in proper form as described in the Participant Agreement, (ii) the deposit of the Total Basket Bitcoin Amount, in the case of creations, comes from an account other than an Authorized Participant Self-Administered Account or (iii) the fulfillment of the order, in the opinion of counsel, might be unlawful, among other reasons. None of the Sponsor or its delegates will be liable for the suspension, rejection or acceptance of any creation order, redemption order or Total Basket Bitcoin Amount.

In particular, upon the Trust's receipt of any Incidental Rights and/or IR Virtual Currency in connection with a fork, airdrop or similar event, the Sponsor will suspend creations and redemptions until it is able to cause the Trust to sell or distribute such Incidental Rights and/or IR Virtual Currency.

None of the Sponsor or its delegates will be liable for the suspension, rejection or acceptance of any creation order, redemption order or Total Basket Bitcoin Amount.

#### *Tax Responsibility*

Authorized Participants are responsible for any transfer tax, sales or use tax, stamp tax, recording tax, value-added tax or similar tax or governmental charge applicable to the creation (or, should the Trust commence a redemption program, redemption) of Baskets, regardless of whether such tax or charge is imposed directly on the Authorized Participant, and agree to indemnify the Sponsor and the Trust if the Sponsor or the Trust is required by law to pay any such tax, together with any applicable penalties, additions to tax or interest thereon.

### *Trust Expenses*

The Trust's only ordinary recurring expense is expected to be the Sponsor's Fee. The Sponsor's Fee will be determined by applying a 2.0% annual rate to the Trust's Bitcoin Holdings, as calculated and published by the Sponsor or its delegates, and converting the resulting U.S. Dollar amount into Bitcoins at the Bitcoin Index Price. Payments of the Sponsor's Fee will occur monthly in arrears. To cause the Trust to pay the Sponsor's Fee, the Custodian will, when directed by the Sponsor, (i) withdraw from the Bitcoin Account the number of Bitcoins equal to the accrued but unpaid Sponsor's Fee and (ii) transfer such Bitcoins to the Sponsor's account monthly in arrears. If the Trust holds any Incidental Rights or IR Virtual Currency at any time, the Trust may also pay the Sponsor's Fee, in whole or in part, with such Incidental Rights and/or IR Virtual Currency by entering into an agreement with the Sponsor and transferring such Incidental Rights and/or IR Virtual Currency to the Sponsor at a value to be determined pursuant to such agreement. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee only if such agreement and transfer do not conflict with the terms of the Trust Agreement. The Sponsor, from time to time, may temporarily waive all or a portion of the Sponsor's Fee in its discretion for stated periods of time. Presently, the Sponsor does not intend to waive any of the Sponsor's Fee.

After the Trust's payment of the Sponsor's Fee to the Sponsor, the Sponsor may elect to convert the Bitcoin, Incidental Rights and/or IR Virtual Currency received as payment of the Sponsor's Fee to U.S. Dollars. The rate at which the Sponsor converts such Bitcoin, Incidental Rights and/or IR Virtual Currency to U.S. Dollars may differ from the rate at which the relevant Sponsor's Fee was determined. The Trust will not be responsible for any fees and expenses incurred by the Sponsor to convert Bitcoin, Incidental Rights and/or IR Virtual Currency received in payment of the Sponsor's Fee into U.S. Dollars.

As consideration for its receipt of the Sponsor's Fee, the Sponsor has assumed the obligation to pay the Sponsor-paid Expenses. The Sponsor has not assumed the obligation to pay Additional Trust Expenses. If Additional Trust Expenses are incurred, the Sponsor (i) will withdraw from the Bitcoin Account (or other applicable account) Bitcoins, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such Bitcoins, Incidental Rights and/or IR Virtual Currency into U.S. Dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver such Bitcoins, Incidental Rights and/or IR Virtual Currency in kind, at a value to be determined pursuant to an agreement with the relevant payee, in satisfaction of such Additional Trust Expenses. The Trust may use Incidental Rights or IR Virtual Currency to pay Additional Trust Expenses only if doing so does not conflict with the terms of the Trust Agreement. The number of Bitcoins represented by a Share will decline each time the Trust pays the Sponsor's Fee or any Additional Trust Expenses by transferring or selling Bitcoins. See "Expenses; Sales of Bitcoins."

### *Impact of Trust Expenses on the Trust's Bitcoin Holdings*

The Trust will pay the Sponsor's Fee to the Sponsor in Bitcoins, Incidental Rights and/or IR Virtual Currency. In addition, the Trust will sell Bitcoins, Incidental Rights and/or IR Virtual Currency to raise the funds needed for the payment of any Additional Trust Expenses or will pay Additional Trust Expenses in Bitcoins, Incidental Rights and/or IR Virtual Currency. The Trust's Bitcoin, Incidental Rights and IR Virtual Currency, and purchase price received as consideration for such sales of Bitcoin, Incidental Rights and IR Virtual Currency, will be the Trust's sole source of funds

to cover its Additional Trust Expenses. Because the number of Bitcoins held by the Trust will decrease when Bitcoins are used to pay the Sponsor's Fee or Additional Trust Expenses or are sold to permit the payment of Additional Trust Expenses, it is expected that the fractional number of Bitcoin represented by each Share will gradually decrease over the life of the Trust. Accordingly, the Shareholders will bear the cost of the Sponsor's Fee and Additional Trust Expenses. New Bitcoins deposited into the Bitcoin Account in exchange for additional new Baskets issued by the Trust will not reverse this trend.



## **RISK FACTORS**

*You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included in this Annual Report, including the Trust's financial statements and related notes thereto. See "Glossary" for the definition of certain capitalized terms used in this Annual Report.*

### **Risk Factors Related to the Bitcoin Network and Bitcoins**

***The loss or destruction of a private key required to access a Bitcoin may be irreversible. The Trust's loss of access to its private keys or its experience of a data loss relating to the Trust's Bitcoins could adversely affect an investment in the Shares.***

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online 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, private keys must be safeguarded and kept private in order to prevent a third party from accessing the Bitcoins held in such wallet. To the extent a private key is lost, destroyed or otherwise compromised and no backup of the private key is accessible, the Trust will be unable to access the Bitcoins held in the related digital wallet and the private key will not be capable of being restored by the Bitcoin Network. Any loss of private keys relating to digital wallets used to store the Trust's Bitcoins could adversely affect an investment in the Shares.

***A determination that Bitcoin is a "security" may adversely affect the value of Bitcoin and an investment in the Shares, and result in potentially extraordinary, nonrecurring expenses to the Trust or termination of the Trust.***

If Bitcoin is determined to be a "security" under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for Bitcoin as a digital asset. For example, it may become more difficult for Bitcoin to be traded, cleared and custodied as compared to other digital assets that are not considered to be securities, which could in turn negatively affect the liquidity and general acceptance of Bitcoin and cause users to migrate to other digital assets. As such, any determination that Bitcoin is a security under federal or state securities laws may adversely affect the value of the Bitcoin and, as a result, an investment in the Shares.

To the extent that Bitcoin is determined to be a security, the Trust and the Sponsor may also be subject to additional regulatory requirements, including under the Investment Company Act, and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act. See "Risk Factors—Risks Relating to the Regulation of the Trust and the Shares—Regulatory changes or interpretations could cause the Trust and the Sponsor to register and comply with new regulations, resulting in potentially extraordinary, nonrecurring expenses to the Trust." If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust's Bitcoin at a time that is disadvantageous to Shareholders.

***The further development and acceptance of the Bitcoin Network and other cryptographic and algorithmic protocols governing the issuance of transactions in Bitcoins and other digital currencies, which represent a new and rapidly changing industry, are subject to a variety of factors that are difficult***

***to evaluate. The slowing or stopping of the development or acceptance of the Bitcoin Network may adversely affect an investment in the Shares.***

The use of digital currencies such as Bitcoin to, among other things, buy and sell goods and services, is part of a new and rapidly evolving industry that employs digital assets based upon a computer-generated mathematical and/or cryptographic protocol. Bitcoin is a prominent, but not unique, part of this industry. The growth of this industry in general, and the Bitcoin Network in particular, is subject to a high degree of uncertainty. The factors affecting the further development of this industry, include, but are not limited to:

- continued worldwide growth in the adoption and use of Bitcoin and other digital currencies;
- government and quasi-government regulation of Bitcoin and other digital assets and their use, or restrictions on or regulation of, access to and operation of the Bitcoin Network or similar digital currency networks;
- regulatory enforcement actions, including, but not limited to, legal prosecution of Bitcoin merchants and public prosecution of prominent figures in the Bitcoin community;
- changes in consumer demographics and public tastes and preferences;
- the maintenance and development of the open-source software protocol of the Bitcoin Network and other digital currency networks;
- the availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies;
- general economic conditions and the regulatory environment relating to digital assets; and
- negative consumer perception of Bitcoin specifically and cryptocurrencies generally.

The Trust is not actively managed and will not have any strategy relating to the development of the Bitcoin Network. Furthermore, the Sponsor cannot be certain as to the impact of the expansion of its Bitcoin holdings on the digital currency industry and the Bitcoin Network. A decline in the popularity or acceptance of the Bitcoin Network would harm the price of the Shares.

***Currently, there is relatively limited use of Bitcoins in the retail and commercial marketplace in comparison to relatively extensive use by speculators, thus contributing to price volatility that could adversely affect an investment in the Shares.***

Bitcoins have only recently become selectively accepted as a means of payment for goods and services by many major retail and commercial outlets, and use of Bitcoins by consumers to pay such retail and commercial outlets remains limited. Banks and other established financial institutions may refuse to process funds for Bitcoin transactions; process wire transfers to or from Bitcoin exchanges, Bitcoin-related companies or service providers; or maintain accounts for persons or entities transacting in Bitcoin. Conversely, a significant portion of Bitcoin demand is generated by speculators and investors seeking to profit from the short- or long-term holding of Bitcoins. Price volatility undermines Bitcoin's role as a medium of exchange, as retailers are much less likely to accept it as a form of payment. A lack of further expansion of the use of Bitcoins in retail and commercial markets, or a contraction of such use, may result

in increased volatility or a reduction in the Bitcoin Index Price, either of which could adversely affect an investment in the Shares.

***The Core Developers or other programmers could propose amendments to the Bitcoin Network's protocols and software that, if accepted and authorized by the Bitcoin Network community, could adversely affect an investment in the Shares.***

The Bitcoin Network uses a cryptographic protocol to govern the peer-to-peer interactions between computers connected to the Bitcoin Network. The code that sets forth the protocol is informally managed by a development team, which includes MIT's Media Lab (the "Core Developers"), that was initially appointed informally by the Bitcoin Network's purported creator, Satoshi Nakamoto. The members of the Core Developers evolve over time, largely based on self-determined participation in the resource section dedicated to Bitcoin on Github.com. The Core Developers can propose amendments to the Bitcoin Network's source code through software upgrades that alter the protocols and software of the Bitcoin Network and the properties of Bitcoins, including the irreversibility of transactions and limitations on the mining of new Bitcoins. Proposals for upgrades and related discussions take place on online forums including GitHub.com and Bitcointalk.org. To the extent that a significant majority of the users and miners on the Bitcoin Network install such software upgrade(s), the Bitcoin Network would be subject to new protocols and software that may adversely affect an investment in the Shares.

***If a malicious actor or botnet obtains control of more than 50% of the processing power on the Bitcoin Network, or otherwise obtains control over the Bitcoin Network through its influence over Core Developers or otherwise, such actor or botnet could manipulate the Blockchain to adversely affect an investment in the Shares or the ability of the Trust to operate.***

If a malicious actor or botnet (a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers) obtains a majority of the processing power dedicated to mining on the Bitcoin Network, it may be able to alter the Blockchain on which the Bitcoin Network and most Bitcoin transactions rely by constructing fraudulent blocks or preventing certain transactions from completing in a timely manner, or at all. The malicious actor or botnet could also control, exclude or modify the ordering of transactions. Although the malicious actor or botnet would not be able to generate new Bitcoins or transactions using such control, it could "double-spend" its own Bitcoins (i.e., spend the same Bitcoins in more than one transaction) and prevent the confirmation of other users' transactions for so long as it maintained control. To the extent that such malicious actor or botnet did not yield its control of the processing power on the Bitcoin Network or the Bitcoin community did not reject the fraudulent blocks as malicious, reversing any changes made to the Blockchain may not be possible. Further, a malicious actor or botnet could create a flood of transactions in order to slow down the Bitcoin Network.

Although there are no known reports of malicious activity or control of the Blockchain achieved through controlling over 50% of the processing power on the network, it is believed that certain mining pools may have exceeded the 50% threshold. The possible crossing of the 50% threshold indicates a greater risk that a single mining pool could exert authority over the validation of Bitcoin transactions, and this risk is heightened if over 50% of the processing power on the network falls within the jurisdiction of a single governmental authority. For example, it is believed that more than 50% of the processing power on the Bitcoin Network is located in China. Because the Chinese government has subjected digital currencies to heightened levels of scrutiny recently, reportedly forcing several digital currency exchanges to shut down (see "Risk Factors—It may be illegal now, or in the future, to acquire, own, hold, sell or use Bitcoins in one or more countries, and ownership of, holding or trading in Shares may also be considered illegal and subject

to sanctions” below), there is a risk that the Chinese government could also achieve control over more than 50% of the processing power on the Bitcoin Network. To the extent that the Bitcoin ecosystem, including the Core Developers and the administrators of mining pools, do not act to ensure greater decentralization of Bitcoin mining processing power, the feasibility of a malicious actor obtaining control of the processing power on the Bitcoin Network will increase, which may adversely affect an investment in the Shares.

A malicious actor may also obtain control over the Bitcoin Network through its influence over Core Developers by gaining direct control over a Core Developer or an otherwise influential programmer. To the extent that the Bitcoin ecosystem does not grow, the probability that a malicious actor may be able obtain control of the processing power on the Bitcoin Network in this manner will remain a risk.

***If the award of Bitcoins for solving blocks and the transaction fees for recording transactions are not sufficiently high to incentivize miners, miners may cease expending processing power to solve blocks and confirmations of transactions on the Blockchain could be slowed temporarily. A reduction in the processing power expended by miners on the Bitcoin Network could increase the likelihood of a malicious actor or botnet obtaining control.***

Miners generate revenue from both newly created Bitcoins, known as the “block reward,” and from fees taken upon verification of transactions. If the aggregate revenue from transaction fees and the block reward is below a miner’s cost, miners may mine digital currencies other than Bitcoins or may cease operations. For instance, the current fixed reward for solving a new block on the Bitcoin Network is 12.5 Bitcoins per block, which decreased from 25 Bitcoins in July 2016. It is estimated that it will halve again in July 2020. This reduction may result in a reduction in the aggregate hashrate of the Bitcoin Network as the incentive for miners decreases. Miners ceasing operations would reduce the collective processing power on the Bitcoin Network, which would adversely affect the confirmation process for transactions (i.e., temporarily decreasing the speed at which blocks are added to the Blockchain until the next scheduled adjustment in difficulty for block solutions) and make the Bitcoin Network more vulnerable to a malicious actor or botnet obtaining control in excess of 50% of the processing power on the Bitcoin Network, which would allow such actor or botnet to manipulate the Blockchain and hinder transactions. Any reduction in confidence in the confirmation process or processing power of the Bitcoin Network may adversely affect an investment in the Shares.

Alternatively, if miners demand higher transaction fees for recording transactions in the Blockchain or a software upgrade automatically charges fees for all transactions, the cost of using Bitcoin may increase and the marketplace may be reluctant to accept Bitcoin as a means of payment. Existing users may be motivated to switch from Bitcoin to another digital currency or back to fiat currency. Decreased use and demand for Bitcoin may adversely affect their value and result in a reduction in the Bitcoin Index Price and the price of the Shares.

***To the extent that any miners cease to record transactions in solved blocks, transactions that do not include the payment of a transaction fee will not be recorded on the Blockchain until a block is solved by a miner who does not require the payment of transaction fees. Any widespread delays in the recording of transactions could result in a loss of confidence in the Bitcoin Network, which could adversely impact an investment in the Shares.***

To the extent that any miners cease to record transactions in solved blocks, such transactions will not be recorded on the Blockchain until a block is solved by a miner who does not require the payment of transaction fees or is willing to accept a lower fee. Currently, there are no known incentives for miners to

elect to exclude the recording of transactions in solved blocks. However, to the extent that any such incentives arise (for example, a collective movement among miners or one or more mining pools forcing Bitcoin users to pay transaction fees as a substitute for, or in addition to, the award of new Bitcoin upon the solving of a block), miners could delay the recording and confirmation of a significant number of transactions on the Blockchain. If such delays became systemic, it could result in greater exposure to double-spending transactions and a loss of confidence in the Bitcoin Network, which could adversely affect an investment in the Shares.

***Miners could act in collusion to raise transaction fees, which may adversely affect the usage of the Bitcoin Network.***

Miners, functioning in their transaction confirmation capacity, collect fees for each transaction they confirm. Miners validate unconfirmed transactions by adding the previously unconfirmed transactions to new blocks in the Blockchain. Miners are not forced to confirm any specific transaction, but they are economically incentivized to confirm valid transactions as a means of collecting fees. Miners have historically accepted relatively low transaction confirmation fees. If miners collude in an anticompetitive manner to reject low transaction fees, then Bitcoin users could be forced to pay higher fees, thus reducing the attractiveness of the Bitcoin Network. Mining occurs globally and it may be difficult for authorities to apply antitrust regulations across multiple jurisdictions. Any collusion among miners may adversely impact the attractiveness of the Bitcoin Network and may adversely impact an investment in the Shares or the ability of the Trust to operate.

***The Bitcoin Network faces significant scaling obstacles that can lead to high fees or slow transaction settlement times, and attempts to increase the volume of transactions may not be effective.***

Many digital currency networks, including the Bitcoin Network, face significant scaling challenges. As of July 2017, Bitcoin could handle, on average, five to seven transactions per second. For several years, participants in the Bitcoin ecosystem debated potential approaches to increasing the average number of transactions per second that the Bitcoin Network could handle. As of August 2017, Bitcoin was upgraded with a technical feature known as “Segregated Witness” that, among other things, potentially approximately doubles the transactions per second that can be handled on-chain. More importantly, Segregated Witness also enables so-called second layer solutions, such as the Lightning Network or payment channels, that allow potentially unlimited transactions throughput (i.e., millions of transactions per second).

Wallets and intermediaries that support Segregated Witness or Lightning Network-like technology do not yet have material adoption as of the date of this Annual Report. Additionally, the Lightning Network has not yet seen significant use and there are open questions about Lightning Network services, such as its cost and who will serve as Lightning Network intermediaries, among other questions.

As corresponding increases in throughput lag behind growth in the use of digital asset networks, average fees and settlement times may increase considerably. The Bitcoin Network, has been, at times, at capacity, which has led to increased transaction fees. Since January 1, 2017, Bitcoin transaction fees have increased from \$0.35 per Bitcoin transaction, on average, to a high of \$55.16 per transaction on December 22, 2017. As of March 19, 2018, Bitcoin transaction fees stood at \$1.35 per Bitcoin transaction, on average. Increased fees and decreased settlement speeds could preclude certain uses for digital assets (e.g., micropayments), and can reduce demand for and the price of digital assets, which could adversely impact an investment in the Shares.

Increased fees and decreased settlement speeds could preclude certain use cases for digital currencies (e.g., micropayments), and can reduce demand for and the price of digital currencies, which could adversely impact an investment in the Shares.

There is no guarantee that any of the mechanisms in place or being explored for increasing the scale of settlement of Bitcoin transactions will be effective, or how long it will take for it to become effective, which could adversely impact an investment in the Shares.

***To the extent that the profit margins of Bitcoin mining operations are not high, Bitcoin miners are more likely to immediately sell Bitcoins earned by mining in the Bitcoin Exchange Market, resulting in a reduction in the price of Bitcoins that could adversely affect an investment in the Shares.***

Over the past several years, Bitcoin Network mining operations have evolved from individual users mining with computer processors, graphics processing units and first generation ASIC (application-specific integrated circuit) machines. Currently, new processing power brought onto the Bitcoin Network is predominantly added by incorporated and unincorporated “professionalized” mining operations. Professionalized mining operations may use proprietary hardware or sophisticated ASIC machines acquired from ASIC manufacturers. They require the investment of significant capital for the acquisition of this hardware, the leasing of operating space (often in data centers or warehousing facilities), incurring of electricity costs and the employment of technicians to operate the mining farms. As a result, professionalized mining operations are of a greater scale than prior Bitcoin Network miners and have more defined, regular expenses and liabilities. These regular expenses and liabilities require professionalized mining operations to more immediately sell Bitcoins earned from mining operations on the Bitcoin exchange market (“Bitcoin Exchange Market”), whereas it is believed that individual miners in past years were more likely to hold newly mined Bitcoins for more extended periods. The immediate selling of newly mined Bitcoins would increase the supply of Bitcoins on the Bitcoin Exchange Market, creating downward pressure on the price of Bitcoins.

The extent to which the value of Bitcoins mined by a professionalized mining operation exceeds the allocable capital and operating costs determines the profit margin of such operation. A professionalized mining operation may be more likely to sell a higher percentage of its newly mined Bitcoins rapidly if it is operating at a low profit margin, and it may partially or completely cease operations if its profit margin is negative. In a low profit margin environment, a higher percentage of the 1,600 to 2,000 new Bitcoins mined each day will be sold into the Bitcoin Exchange Market more rapidly, thereby reducing Bitcoin prices. Further, in July 2020, it is expected that the reward for mining Bitcoins will be reduced from 12.5 Bitcoins to 6.25 Bitcoins, thereby further reducing the profit margin. Lower Bitcoin prices will result in further tightening of profit margins, particularly for professionalized mining operations with higher costs and more limited capital reserves, creating a network effect that may further reduce the price of Bitcoins until mining operations with higher operating costs become unprofitable and remove mining power from the Bitcoin Network. The network effect of reduced profit margins resulting in greater sales of newly mined Bitcoins could result in a reduction in the price of Bitcoins that could adversely affect an investment in the Shares.

***The acceptance of Bitcoin Network software patches or upgrades by a significant, but not overwhelming, percentage of the users and miners in the Bitcoin Network could result in a “fork” in the Blockchain, resulting in the operation of two separate networks.***

There is no official developer or group of developers that formally controls the Bitcoin Network. Any individual can download the Bitcoin Network software and make any desired modifications, which are

proposed to users and miners on the Bitcoin Network through software downloads and upgrades, typically posted to the Bitcoin development forum on GitHub.com. A substantial majority of miners and Bitcoin users must consent to such software modifications by downloading the altered software or upgrade; otherwise, the modifications do not become a part of the Bitcoin Network. Since the Bitcoin Network's inception, modifications to the Bitcoin Network have been accepted by the vast majority of users and miners, ensuring that the Bitcoin Network remains a coherent economic system.

If, however, less than a substantial majority of users and miners consent to the proposed modification, and the modification is not compatible with the software prior to its modification, the consequence would be what is known as a "hard fork" of the Bitcoin Network, with one prong running the pre-modified software and the other running the modified software. The effect of such a fork would be the existence of two versions of Bitcoin running in parallel, yet lacking interchangeability. The Trust would be expected to hold equivalent amounts of each prong following any such fork. For example, in August 2017, Bitcoin "forked" into Bitcoin and a new digital currency, Bitcoin Cash, as a result of a several-year dispute over how to increase the rate of transactions that the Bitcoin network can process. Further hard forks of Bitcoin could impact demand for Bitcoin or other digital currencies and could adversely affect an investment in the Shares.

Forks may occur after a significant security breach. For example, in June 2016, an anonymous hacker exploited a smart contract running on the Ethereum Network to syphon approximately \$60 million of ETH into a segregated account. In response to the hack, most participants in the Ethereum community elected to adopt a "hard fork" that effectively reversed the hack. However, a minority of users continued to develop the old Blockchain, now referred to as "Ethereum Classic" with the digital asset on that Blockchain now referred to as Ethereum Classic, or ETC. ETC remains traded on several digital asset exchanges. Additionally, a fork may also occur as a result of an unintentional or unanticipated software flaw in the various versions of otherwise compatible software that users run. Such a fork could lead to users and miners abandoning the digital asset with the flawed software. It is possible, however, that a substantial number of users and miners could adopt an incompatible version of the asset while resisting community-led efforts to merge the two chains. This could result in a permanent fork, as in the case of Ethereum and Ethereum Classic.

Furthermore, a hard fork can lead to new security concerns. For example, when the Ethereum network experienced a hard fork in July 2016, replay attacks, in which transactions from one network are rebroadcast to nefarious effect on the other network, plagued Ethereum exchanges through at least October 2016. A digital asset exchange announced in July 2016 that it had lost 40,000 Ethereum Classic, which was worth about \$100,000 at that time, as a result of replay attacks. Another possible result of a hard fork is an inherent decrease in the level of security. After a hard fork, it may become easier for an individual miner's or mining pool's hashing power to exceed 50% of the processing power of the digital asset network, thereby making digital assets that rely on proof-of-work more susceptible to attack. See "—Risk Factors Related to Bitcoin Network and Bitcoin —If a malicious actor or botnet obtains control of more than 50% of the processing power on the Bitcoin Network, or otherwise obtains control over the Bitcoin Network through its influence

over Core Developers or otherwise, such actor or botnet could manipulate the Blockchain to adversely affect an investment in the Shares or the ability of the Trust to operate.”

A future fork in the network of a particular digital currency could adversely affect an investment in the Shares or the ability of the Trust to operate.

***Shareholders may not receive the benefits of any forks or “airdrops.”***

In addition to forks, a digital currency may become subject to a similar occurrence known as an “airdrop.” In an airdrop, the promoters of a new digital currency announce to holders of another digital currency that they will be entitled to claim a certain amount of the new digital currency for free. For example, in March 2017 the promoters of Stellar Lumens announced that anyone that owned Bitcoin as of June 26, 2017 could claim, until August 27, 2017, a certain amount of Stellar Lumens. The Trust did not participate in the 2017 Stellar Lumen airdrop.

Furthermore, on December 1, 2017, the Trust announced that it had irrevocably abandoned (i) all of the rights to Bitcoin Diamond tokens then held by the Trust as a result of the fork in the Bitcoin blockchain on November 24, 2017 and (ii) all of the rights to Bytether tokens then held by the Trust as a result of the fork in the Bitcoin blockchain on August 1, 2017. The Trust did not receive any direct or indirect consideration for the abandonment of these rights. As a consequence of the abandonment, the Trust has no right to receive any Bitcoin Diamond tokens or Bytether tokens at any point in the future, will not accept any Bitcoin Diamond tokens or Bytether tokens, or any payment in respect thereof, at any point in the future and will not otherwise take any action in the future inconsistent with such abandonment.

Shareholders may not receive the benefits of any forks, the Trust may not choose, or be able, to participate in an airdrop, and the timing of receiving any benefits from a fork or an airdrop is uncertain. We refer to the right to receive any such benefit as an “Incidental Right” and any such virtual currency acquired through an Incidental Right as “IR Virtual Currency.” There are likely to be operational, tax, securities law, regulatory, legal and practical issues that significantly limit, or prevent entirely, Shareholders’ ability to realize a benefit, through their interests in the Trust, from any such Incidental Rights or IR Virtual Currency. For instance, the Custodian may not agree to provide access to the IR Virtual Currency. In addition, the Sponsor may determine that there is no safe or practical way to custody the IR Virtual Currency, or that trying to do so may pose an unacceptable risk to the Trust’s holdings in Bitcoin, or that the costs of taking possession and/or maintaining ownership of the IR Virtual Currency exceed the benefits of owning the IR Virtual Currency. Additionally, laws, regulation or other factors may prevent Shareholders from benefitting from the Incidental Right or IR Virtual Currency even if there is a safe and practical way to custody and secure the IR Virtual Currency. For example, it may be illegal to sell or otherwise dispose of the Incidental Right or IR Virtual Currency, or there may not be a suitable market into which the Incidental Right or IR Virtual Currency can be sold (immediately after the fork or airdrop, or ever).

The Sponsor intends to evaluate each fork or airdrop on a case-by-case basis in consultation with the Trust’s legal advisors, tax consultants, and Custodian, and may decide to abandon any Incidental Rights or IR Virtual Currency resulting from a hard fork or airdrop should any of the above circumstances occur or for any other reason should the Sponsor conclude, in its discretion, that such abandonment is in the best interests



of the Trust. Any inability to realize the economic benefit of a hard fork or airdrop could adversely impact an investment in the Shares.

***In the event of a hard fork of the Bitcoin Network, the Sponsor will, if permitted by the terms of the Trust Agreement, use its discretion to determine which network should be considered “Bitcoin” for the Trust’s purposes, and in doing so may adversely affect the value of the Shares.***

In the event of a hard fork of the Bitcoin Network, the Sponsor will, if permitted by the terms of the Trust Agreement, use its discretion to determine, in good faith, which peer-to-peer network, among a group of incompatible forks of the Bitcoin Network, is generally accepted as Bitcoin and should therefore be considered “Bitcoin” for the Trust’s purposes. The Sponsor will base its determination on a variety of then relevant factors, including, but not limited to, the Sponsor’s beliefs regarding expectations of the Core Developers of Bitcoin, users, services, businesses, miners and other constituencies, as well as the actual continued acceptance of, mining power on, and community engagement with, the Bitcoin Network. There is no guarantee that the Sponsor will choose the currency that is, or ultimately becomes, the more valuable fork, and the Sponsor’s decision may adversely affect the value of the Shares. The Sponsor may also disagree with investors, security vendors and the Index Provider on what is generally accepted as Bitcoin and should therefore be considered “Bitcoin.” See “—The acceptance of Bitcoin Network software patches or upgrades by a significant, but not overwhelming, percentage of the users and miners in the Bitcoin Network could result in a “fork” in the Blockchain, resulting in the operation of two separate networks. There can be no assurance regarding whether or when Shareholders will receive any benefits with respect to the product of a fork that the Sponsor determines should not be treated as “Bitcoin” for the Trust’s purposes. See “—Shareholders may not receive the benefits of any forks or “airdrops.”

***A disruption of the internet may affect the use of Bitcoins and subsequently the value of the Shares.***

Many digital currencies, including Bitcoins, are dependent upon the internet. A significant disruption in internet connectivity could disrupt a currency’s network operations until the disruption is resolved and have an adverse effect on the price of digital currencies. In particular, some variants of digital currency have been subjected to a number of denial-of-service attacks, which have led to temporary delays in block creation and in the transfer of the currency. While in certain cases in response to an attack, an additional “hard fork” has been introduced to increase the cost of certain network functions, the relevant network continues to be the subject of additional attacks. Moreover, it is possible that as digital currencies increase in value, they may become bigger targets for hackers and subject to more frequent hacking and denial-of-service attacks.

Digital currencies are also susceptible to border gateway protocol hijacking, or BGP hijacking. Such an attack can be a very effective way for an attacker to intercept traffic en route to a legitimate destination. BGP hijacking impacts the way different nodes and miners are connected to one another to isolate portions of them from the remainder of the network, which could lead to a risk of the network allowing double-spending and other security issues. If BGP hijacking occurs on a digital currency network, participants may lose faith in the security of digital currencies, which could affect the value of those digital currencies and consequently the value of the Shares.

Any future attacks that impact the ability to transfer the digital currency could have a material adverse effect on the price of the currency and the value of an investment in the Shares.

***Intellectual property rights claims may adversely affect the operation of the Bitcoin Network.***

Third parties may assert intellectual property rights claims relating to the operation of digital currencies and their source code. Regardless of the merit of any intellectual property or other legal action, any threatened action that reduces confidence in the Bitcoin Network's long-term viability or the ability of end-users to hold and transfer Bitcoins may adversely affect an investment in the Shares. Additionally, a meritorious intellectual property rights claim could prevent the Trust and other end-users from accessing the Bitcoin Network or holding or transferring their Bitcoins, which could force the Sponsor to terminate the Trust and liquidate the Trust's Bitcoins (if such liquidation of the Trust's Bitcoins is possible). As a result, an intellectual property rights claim against the Trust or other large Bitcoin Network participants could adversely affect an investment in the Shares.

***The open-source structure of the Bitcoin Network protocol means that the Core Developers 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 and the value of an investment in the Shares.***

The Bitcoin Network operates based on an open-source protocol maintained by the Core Developers and other contributors, largely on the GitHub resource section dedicated to Bitcoin development. As the Bitcoin Network protocol is not sold and its use does not generate revenues for its development team, the Core Developers are generally not compensated for maintaining and updating the Bitcoin Network protocol. Consequently, there is a lack of financial incentive for developers to maintain or develop the Bitcoin Network and the Core Developers may lack the resources to adequately address emerging issues with the Bitcoin Network protocol. Although the Bitcoin Network is currently supported by the Core Developers, there can be no guarantee that such support will continue or be sufficient in the future. Additionally, some development and developers are funded by companies whose interests may be at odds with other participants in the Bitcoin Network or with investors' interests. To the extent that material issues arise with the Bitcoin Network protocol and the Core Developers and open-source contributors are unable to address the issues adequately or in a timely manner, the Bitcoin Network and an investment in the Shares may be adversely affected.

***Lack of clarity in the governance of the Bitcoin Network may lead to ineffective decision-making that slows development or prevents a network from overcoming important obstacles.***

Governance of the Bitcoin Network is by voluntary consensus and open competition. Bitcoin has no central decision-making body or clear manner in which participants can come to an agreement other than through overwhelming consensus. The lack of clarity on governance may stymie Bitcoin's utility and ability to grow and face challenges, both of which might require solutions and directed effort to overcome problems, especially long-term problems. Recently, a seemingly simple, technical issue has divided the Bitcoin community, namely, whether to increase the block size of the Blockchain or implement another change to increase the scalability of Bitcoin, known as "Segregated Witness," and help it continue to grow. See "— The Bitcoin Network faces significant scaling obstacles that can lead to high fees or slow transaction settlement times, and attempts to increase the volume of transactions may not be effective." Because the resolution of the scaling issue has taken several years, some have referred to a "governance crisis" at decentralized currencies. To the extent lack of clarity in governance of digital currency systems leads to ineffective decision-making that slows development and growth, the value of the Shares may be adversely effected.

***If the source code or cryptography underlying the Bitcoin Network proves to be flawed or ineffective, malicious actors may be able to take the Trust's Bitcoins, which would adversely affect an investment in the Shares.***

In the past, flaws in the source code for digital currencies have been exposed and exploited. Several errors and defects have been publicly found and corrected, including those that disabled some functionality for users and exposed users' personal information. Discovery of flaws in, or exploitations of, the source code that allow malicious actors to take or create money in contravention of known network rules have occurred. In addition, the cryptography underlying Bitcoin could prove to be flawed or ineffective, or developments in mathematics and/or technology, including advances in digital computing, algebraic geometry and quantum computing, could result in such cryptography becoming ineffective. In any of these circumstances, a malicious actor may be able to take the Trust's Bitcoin, which would adversely affect an investment in the Shares. Even if another digital currency other than Bitcoin were affected, any reduction in confidence in the source code or cryptography underlying digital currencies generally could negatively impact the demand for digital currencies and therefore adversely affect an investment in the Shares.

***Due to the limited history of digital currencies and the rapidly evolving nature of the digital currency market, it is not possible to know all the risks involved in making an investment in Bitcoin, and new risks may emerge at any time.***

Digital currencies have been in existence for a short period of time and have only gained commercial acceptance within the past decade. As a result, there is little to no data on their long-term investment potential. As digital currencies, including Bitcoin, continue to develop there may be additional risks to investors in the Trust to additional risks which are impossible to predict as of the date of this Annual Report. This uncertainty makes an investment in the Trust very risky.

### **Risk Factors Related to the Bitcoin Exchange Market and the Index**

***The value of the Shares relates directly to the value of the Bitcoins held by the Trust and fluctuations in the price of Bitcoins could materially and adversely affect an investment in the Shares.***

The Shares are designed to mirror as closely as possible the performance of the price of Bitcoins, as measured by the Index (non-GAAP) and principal market price (GAAP), and the value of the Shares relates directly to the value of the Bitcoins held by the Trust, less the Trust's liabilities (including estimated accrued but unpaid fees and expenses). Using a composite reference rate of volume-weighted trading data, the Index is derived from the transaction prices on electronic market places where exchange participants may first use fiat currency to trade, buy and sell Bitcoins based on bid-ask trading (a "Bitcoin Exchange"). The Index uses U.S. Dollar-denominated trading data from qualified Bitcoin Exchanges as determined by the standardized eligibility criteria in the Index governance principles. The principal market price is determined as discussed in Management's Discussion & Analysis – Critical Accounting Policies – Valuation of Bitcoins. The price of Bitcoins has fluctuated widely over the past several years and may continue to experience significant price fluctuations. Several factors may affect the Bitcoin Index Price and principal market price, including, but not limited to:

- Total Bitcoins in existence (estimated at approximately 16.93 million as of March 19, 2018 according to [www.blockchain.info](http://www.blockchain.info));
- Global Bitcoin demand, which is influenced by the growth of retail merchants' and commercial businesses' acceptance of Bitcoins as payment for goods and services, the security of online Bitcoin

Exchanges and digital wallets that hold Bitcoins, the perception that the use and holding of Bitcoins is safe and secure, the lack of regulatory restrictions on their use and the reputation of Bitcoins for illicit use;

- Global Bitcoin supply, which is influenced by similar factors as global Bitcoin demand, in addition to fiat currency needs by miners (for example, to invest in equipment or pay electricity bills) and taxpayers who may liquidate Bitcoin holdings around tax deadlines to meet tax obligations;
- Investors' expectations with respect to the rate of inflation of fiat currencies;
- Investors' expectations with respect to the rate of inflation of Bitcoin;
- Interest rates;
- Currency exchange rates, including the rates at which Bitcoins may be exchanged for fiat currencies;
- Fiat currency withdrawal and deposit policies of Bitcoin Exchanges and liquidity of such Bitcoin Exchanges;
- Interruptions in service from or failures of major digital currency exchanges;
- Decreased confidence in Bitcoin Exchanges due to the unregulated nature and lack of transparency surrounding the operations of Bitcoin Exchanges;
- Cyber theft of Bitcoins from online Bitcoin wallet providers, or news of such theft from such providers, or from individuals' Bitcoin wallets;
- Security breaches or hacks, resulting in leaks of user information;
- Consumer preferences and perceptions of Bitcoin or digital assets generally;
- Investment and trading activities of large investors, including private and registered funds, that may directly or indirectly invest in Bitcoins;
- A "short squeeze" resulting from speculation on the price of Bitcoin, if aggregate short exposure exceeds the number of Shares available for purchase;
- An active derivatives market for Bitcoin or for digital assets generally;
- Monetary policies of governments, trade restrictions, currency devaluations and revaluations and regulatory measures or enforcement actions, if any, that restrict the use of Bitcoin as a form of payment or the purchase of Bitcoin;
- Regulatory measures, if any, that restrict the use of Bitcoins as a form of payment or the purchase of Bitcoins on the Bitcoin market;
- The availability and popularity of businesses that provide Bitcoin-related services;
- The maintenance and development of the open-source software protocol of the Bitcoin Network;
- Increased competition from other forms of cryptocurrency or payment services;

- The Trust's own acquisitions or dispositions of Bitcoin, since there is no limit on the number of Bitcoins that the Trust may acquire
- Global or regional political, economic or financial conditions or events and situations;
- Expectations among Bitcoin economy participants that the value of Bitcoins will soon change; and
- Fees associated with processing a Bitcoin transaction and the speed at which Bitcoin transactions are settled.

If Bitcoin markets continue to be subject to sharp fluctuations, you may experience losses if you need to sell your Shares at a time when the price of Bitcoins is lower than it was when you made your prior investment. Even if you are able to hold Shares for the long-term, your Shares may never generate a profit, since Bitcoin markets have historically experienced extended periods of flat or declining prices, in addition to sharp fluctuations.

In addition, investors should be aware that there is no assurance that Bitcoins will maintain their long-term value in terms of future purchasing power or that the acceptance of Bitcoin payments by mainstream retail merchants and commercial businesses will continue to grow. In the event that the price of Bitcoins declines, the Sponsor expects the value of an investment in the Shares to decline proportionately.

***The value of Bitcoins as represented by the Bitcoin Index Price (non-GAAP) and principal market price (GAAP) may be subject to momentum pricing due to speculation regarding future appreciation in value, leading to greater volatility which could adversely affect an investment in the Shares.***

Momentum pricing typically is associated with growth stocks and other assets whose valuation, as determined by the investing public, accounts for anticipated future appreciation in value. The Bitcoin Index Price is determined using data from various Bitcoin Exchanges, over-the-counter markets and derivatives platforms. The principal market price is determined as discussed in Management's Discussion & Analysis – Critical Accounting Policies – Valuation of Bitcoins. The Sponsor believes that momentum pricing of Bitcoins has resulted, and may continue to result, in speculation regarding future appreciation in the value of Bitcoins, inflating and making the Bitcoin Index Price and principal market price more volatile. As a result, Bitcoins may be more likely to fluctuate in value due to changing investor confidence, which could impact future appreciation or depreciation in the Bitcoin Index Price or principal market price and adversely affect an investment in the Shares.

***The Index is an average composite reference rate calculated using volume-weighted trading price data from various Bitcoin Exchanges chosen by the Index Provider. Pricing on any Bitcoin Exchange in the Bitcoin Exchange Market can be volatile and can adversely affect an investment in the Shares.***

The Index has a limited history and is an average composite reference rate that is based on volume-weighted trading price data from various Bitcoin Exchanges chosen by the Index Provider. The data inputs are drawn from the application programming interface of various Bitcoin Exchanges and include trade time, price and volume. The Index Provider selects which Bitcoin Exchanges to include in the Index based on currency-denomination, liquidity and such other factors as the Index Provider may deem material (for example, availability of data). The Index Provider reviews the eligibility of Bitcoin Exchanges periodically, and not less frequently than quarterly. As of the date of this Annual Report, the eligible Bitcoin Exchanges selected by the Index Provider include Bitstamp, GDAX (formerly known as Coinbase Exchange) and itBit. The calculation of the Index at 4:00 p.m., New York time on each business day will be used as the Bitcoin Index

Price for the calculation of the Trust's Bitcoin Holdings, which, for the avoidance of doubt, is a non-GAAP measure. See "Overview of the Bitcoin Industry and Market—Bitcoin Value."

The price of Bitcoins on public Bitcoin Exchanges has a limited history of less than eight years. During such history, Bitcoin prices on the Bitcoin Exchange Market as a whole, and on Bitcoin Exchanges individually, have been volatile and subject to influence by many factors including the levels of liquidity on Bitcoin Exchanges. Even the largest Bitcoin Exchanges have been subject to operational interruption, limiting the liquidity of Bitcoins on the Bitcoin Exchange Market and resulting in volatile prices and a reduction in confidence in the Bitcoin Network and the Bitcoin Exchange Market. For example, both OKCoin and Bitfinex were previously included in the Index but have been removed due to operational difficulties. Effective February 17, 2017, OKCoin was removed due to its implementation of a policy that suspends withdrawals from its exchange. On April 17, 2017, Bitfinex announced that it was having difficulty withdrawing fiat currencies from its Taiwanese banks, and as a result, it stopped accepting incoming wires, leading to volatility in the price of Bitcoin on Bitfinex. On May 3, 2017, the Index Provider removed Bitfinex from the Index and added Kraken. On October 20, 2017 the Index Provider removed Kraken from the index after the exchange's application program interface ("API") published trade data with significant discrepancies. Notably, some of the transactions were published with timestamps that were ahead of the then-current timestamps. Prices and volumes were also diverging substantially from trading activity in the broader market at the time. Given the inconsistencies observed, the exchange was removed as an input from the Index. The exchange's future inclusion in the Index is under consideration and will only occur at such time as its API publishes accurate data. The trading prices of many digital assets, including Bitcoin, have experienced extreme volatility in recent periods and may continue to do so. In light of steep increases in the value of certain digital assets, including Bitcoin, over the course of 2017, multiple market observers have asserted that digital assets are currently experiencing a "bubble." If these observers are correct, trading prices for many of the most popular digital assets, including Bitcoin, could experience steep declines in value and the Shares could lose all or substantially all of their value.

The Index is designed to have limited exposure to Bitcoin Exchange interruption by utilizing transaction data from the high-volume U.S. Dollar-denominated Bitcoin Exchanges, measured over the prior 24-hour period. The Index is also designed to limit exposure to trading or price distortion on Bitcoin Exchanges experiencing periods of unusual activity or limited liquidity by discounting, in real-time, anomalous price movement at individual exchanges. The Sponsor believes the Index calculation methodology provides a more accurate picture of Bitcoin price movements than a simple average of Bitcoin Exchange prices, and that the inclusion of only the highest volume Bitcoin Exchanges during the calculation period limits the likelihood that included data is influenced by temporary price dislocations that may result from technical problems or limited liquidity on otherwise eligible exchanges. The Index Provider periodically reviews which Bitcoin Exchanges are used to calculate the Bitcoin Index Price using considerations such as depth of liquidity, compliance with applicable legal and regulatory requirements, data availability, U.S. domicile and acceptance of U.S. Dollar deposits.

The price of Bitcoins on public Bitcoin Exchanges may also be impacted by policies on or interruptions in the deposit or withdrawal of fiat currency into or out of larger Bitcoin Exchanges. On large Bitcoin Exchanges, users may buy or sell Bitcoins for fiat currency or transfer Bitcoins to other wallets. Operational limits (including regulatory, exchange policy or technical or operational limits) on the size or settlement speed of fiat currency deposits by users into Bitcoin Exchanges may reduce demand on such Bitcoin Exchanges, resulting in a reduction in the Bitcoin price on such Bitcoin Exchange. Operational limits (including regulatory, exchange policy or technical or operational limits) on the size or settlement speed of

fiat currency withdrawals by users from Bitcoin Exchanges may reduce supply on such Bitcoin Exchanges, resulting in an increase in the Bitcoin price on such Bitcoin Exchange. To the extent that fees for the transfer of Bitcoins either directly or indirectly occur between Bitcoin Exchanges, the impact on Bitcoin prices of operational limits on fiat currency deposits and withdrawals may be reduced by “exchange shopping” among Bitcoin Exchange users. For example, a delay in U.S. Dollar withdrawals on one site may temporarily increase the price on such site by reducing supply (i.e., sellers transferring Bitcoins to another exchange without operational limits in order to settle sales more rapidly), but the resulting increase in price will also reduce demand because bidders on Bitcoins will follow increased supply on other Bitcoin Exchanges not experiencing operational limits. To the extent that users are able or willing to utilize or arbitrage prices between more than one Bitcoin Exchange, exchange shopping may mitigate the short-term impact on and volatility of Bitcoin prices due to operational limits on the deposit or withdrawal of fiat currency into or out of larger Bitcoin Exchanges.

Despite efforts to ensure accurate pricing on a volume-weighted basis, the Bitcoin Index Price, and the price of Bitcoins generally, remains subject to volatility experienced by the Bitcoin Exchanges. Such volatility can adversely affect an investment in the Shares.

***Due to the unregulated nature and lack of transparency surrounding the operations of Bitcoin Exchanges, the marketplace may lose confidence in Bitcoin Exchanges, upon which the Trust is dependent.***

The Bitcoin Exchanges on which the Bitcoins trade are relatively new and, in some cases, unregulated. Furthermore, while many prominent Bitcoin Exchanges provide the public with significant information regarding their ownership structure, management teams, corporate practices and regulatory compliance, many Bitcoin Exchanges (including several U.S. Dollar denominated Bitcoin Exchanges and many Chinese Yuan denominated Bitcoin Exchanges) do not provide this information. As a result, the marketplace may lose confidence in Bitcoin Exchanges, including prominent exchanges that handle a significant volume of Bitcoin trading.

Over the past several years, many digital asset exchanges been closed due to fraud, business failure, security breaches or distributed denial of service attacks (“DDoS Attacks”). In many of these instances, the customers of such digital asset exchanges were not compensated or made whole for the partial or complete losses of their account balances in such digital asset exchanges. While smaller digital asset exchanges are less likely to have the infrastructure and capitalization that make larger digital asset exchanges more stable, larger digital asset exchanges are more likely to be appealing targets for hackers and malware and may be more likely to be targets of regulatory enforcement action. For example, the collapse of Mt. Gox, which filed for bankruptcy protection in Japan in late February 2014, indicated that even the largest digital asset exchanges could be subject to abrupt failure with consequences for both users of a digital asset exchange and the digital asset industry as a whole. In particular, in the two weeks that followed the February 7, 2014 halt of Bitcoin withdrawals from Mt. Gox, the value of one Bitcoin fell on other exchanges from around \$795 on February 6, 2014 to \$578 on February 20, 2014. Additionally, in January 2015, Bitstamp announced that approximately 19,000 Bitcoin had been stolen from its operational or “hot” wallets. Further, in August 2016, it was reported that almost 120,000 Bitcoins worth around \$78 million were stolen from Bitfinex, a large Bitcoin Exchange. The value of Bitcoin immediately decreased over 10% following reports of the theft at Bitfinex and the Shares suffered a corresponding decrease in value. In July 2017, the Financial Crimes Enforcement Network (“FinCEN”) assessed a \$110 million fine against BTC-E, a now defunct digital currency exchange, for facilitating crimes such as drug sales and ransomware attacks. In addition, in December 2017, Yopian, the operator of Seoul-based cryptocurrency exchange Yobit, suspended digital

asset trading and filed for bankruptcy following a hack that resulted in a loss of 17% of Yopian's assets. Following the hack, Yobit users were allowed to withdraw approximately 75% of the digital assets in their exchange accounts, with any potential further distributions to be made following Yopian's pending bankruptcy proceedings. In addition, in January 2018, the Japanese digital asset exchange, Coincheck, was hacked, resulting in losses of approximately \$535 million, and in February 2018, the Italian digital asset exchange, Bitrail, was hacked, resulting in approximately \$170 million in losses.

A lack of stability in the Bitcoin Exchange Market and the closure or temporary shutdown of Bitcoin Exchanges, including in particular any Bitcoin Exchanges included in the Index, due to fraud, business failure, hackers or malware, or government-mandated regulation may reduce confidence in the Bitcoin Network and result in greater volatility in the Bitcoin Index Price. Furthermore, the closure or temporary shutdown of a Bitcoin Exchange used in calculating the Bitcoin Index Price may result in a loss of confidence in the Trust's ability to determine its Bitcoin Holdings on a daily basis. These potential consequences of a Bitcoin Exchange's failure could adversely affect an investment in the Shares.

***Since there is no limit on the number of Bitcoins that the Trust may acquire, the Trust itself, as it grows, may have an impact on the supply and demand of Bitcoins that ultimately may affect the price of the Shares in a manner unrelated to other factors affecting the global market for Bitcoins.***

The Trust Agreement places no limit on the number of Bitcoins the Trust may hold. Moreover, the Trust may issue an unlimited number of Shares, subject to registration requirements, and therefore acquire an unlimited number of Bitcoins in existence at any point in time. Additionally, new or existing investment vehicles like the Trust or large speculative investors may acquire large positions in Bitcoins. The global market for Bitcoins is characterized by supply and demand constraints that generally are not present in the markets for commodities or other assets such as gold and silver. The Bitcoin Network's mathematical protocols under which Bitcoins are created or "mined" permit the creation of a limited, predetermined number of Bitcoins not to exceed 21 million. Furthermore, the rate of creation or issuance of Bitcoins cannot be increased ahead of the protocol's schedule. As of March 19, 2018, approximately 16.92 million Bitcoins had been created.

If the number of Bitcoins acquired by the Trust, other investment vehicles or speculative investors is large enough relative to global Bitcoin supply and demand, further in-kind creations and redemptions of Shares, if permitted, could have an impact on the supply of and demand for Bitcoins in a manner unrelated to other factors affecting the global market for Bitcoins. Such an impact could affect the Bitcoin Index Price, which would directly affect the price at which Shares are traded on OTCQX or the price of future Baskets created or redeemed by the Trust.

As of March 19, 2018, the Trust held approximately 183,316 Bitcoins that it acquired in the sale of Baskets, representing approximately 1.08% of the total Bitcoins in existence. The Trust and the Sponsor cannot provide any assurance that increased Bitcoin Holdings by the Trust in the future will have no long-term impact on the Bitcoin Index Price, thereby affecting Share trading prices.

***The Shares may trade at a discount or premium in the trading price relative to the Trust's Bitcoin Holdings per Share.***

The value of a Share may be influenced by non-concurrent trading hours between the OTCQX and various Bitcoin Exchanges, including those that represent components of the Index. While OTCQX is open for trading in the Shares for a limited period each day, the Bitcoin Exchange Market is a 24-hour marketplace.



During periods when the OTCQX is closed but Bitcoin Exchanges are open, significant changes in the price of Bitcoin on the Bitcoin Exchange Market could result in a difference in performance between the value of Bitcoins as measured by the Index and the most recent Bitcoin Holdings per Share or closing trading price. To the extent that the price of Bitcoin on the Bitcoin Exchange Market, and the value of Bitcoins as measured by the Index, moves significantly in a negative direction after the close of the OTCQX, the trading price of the Shares may “gap” down to the full extent of such negative price shift when the OTCQX reopens. To the extent that the price of Bitcoin on the Bitcoin Exchange Market drops significantly during hours the OTCQX is closed, investors may not be able to sell their Shares until after the “gap” down has been fully realized, resulting in an inability to mitigate losses in a rapidly negative market.

Additionally, during periods when the OTCQX is open but large Bitcoin Exchanges (or a substantial number of smaller Bitcoin Exchanges) are either lightly traded or are closed, trading spreads and the resulting premium or discount on the Shares may widen and, therefore, increase the difference between the price of the Shares and the Trust’s Bitcoin Holdings per Share. Premiums or discounts may have an adverse effect on an investment in the Shares if a Shareholder sells or acquires its Shares during a period of discount or premium, respectively.

***A possible “short squeeze” due to a sudden increase in demand for the Shares that largely exceeds supply may lead to price volatility in the Shares.***

Investors may purchase Shares to hedge existing Bitcoin or other digital currencies, commodity or currency exposure or to speculate on the price of Bitcoins. Speculation on the price of Bitcoins may involve long and short exposures. To the extent that aggregate short exposure exceeds the number of Shares available for purchase (for example, in the event that, if permitted, large redemption requests by Authorized Participants dramatically affect Share liquidity), investors with short exposure may have to pay a premium to repurchase Shares for delivery to Share lenders. Those repurchases may, in turn, dramatically increase the price of the Shares until additional Shares are created through the creation process. This is often referred to as a “short squeeze.” A short squeeze could lead to volatile price movements in the Shares that are not directly correlated to the price of Bitcoins.

***Purchasing activity in the Bitcoin Exchange Market associated with Basket creations or selling activity following Basket redemptions, if permitted, may affect the Bitcoin Index Price and Share trading prices, adversely affecting an investment in the Shares.***

Purchasing activity associated with acquiring Bitcoins required for deposit with the Trust in connection with the creation of Baskets may increase the market price of Bitcoins on the Bitcoin Exchange Market, which will result in higher prices for the Shares. Increases in the market price of Bitcoins may also occur as a result of the purchasing activity of other market participants. Other market participants may attempt to benefit from an increase in the market price of Bitcoins that may result from increased purchasing activity of Bitcoins connected with the issuance of Baskets. Consequently, the market price of Bitcoins may decline immediately after Baskets are created.

Selling activity associated with sales of Bitcoins withdrawn from the Trust in connection with the redemption, if permitted, of Baskets may decrease the market price of Bitcoins on the Bitcoin Exchange Market, which will result in lower prices for the Shares. Decreases in the market price of Bitcoins may also occur as a result of sales in Secondary Markets by other market participants. If the Bitcoin Index Price declines, the trading price of the Shares will generally also decline.

***The Bitcoin Index Price may be affected by the sale of other digital currency financial vehicles that invest in and track the price of Bitcoins.***

There have been a growing number of funds that invest in and aim to track the price of Bitcoins, both in the United States and abroad. To the extent digital currency financial vehicles other than the Trust tracking the price of Bitcoins are formed and represent a significant proportion of the demand for Bitcoins, large redemptions of the securities of these digital currency financial vehicles, or private funds holding Bitcoins, could negatively affect the Bitcoin Index Price and the price of the Shares.

***Political or economic crises may motivate large-scale sales of Bitcoin, which could result in a reduction in the Bitcoin Index Price and adversely affect an investment in the Shares.***

As an alternative to fiat currencies that are backed by central governments, digital assets such as Bitcoin, which are relatively new, are subject to supply and demand forces based upon the desirability of an alternative, decentralized means of buying and selling goods and services, and it is unclear how such supply and demand will be impacted by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of Bitcoin either globally or locally. Large-scale sales of Bitcoin would result in a reduction in the Bitcoin Index Price and adversely affect an investment in the Shares.

***Failure of funds that hold Bitcoin or that have exposure to Bitcoin through derivatives to receive SEC approval to list their shares on exchanges could adversely affect an investment in the Shares.***

There have been a growing number of attempts to list on national securities exchanges the shares of funds that hold digital assets or that have exposures to digital assets through derivatives. These investment vehicles attempt to provide institutional and retail investors exposure to markets for digital assets and related products. The SEC has repeatedly denied such requests. On January 18, 2018, the SEC's Division of Investment Management outlined several questions that sponsors would be expected to address before the SEC will consider granting approval for funds holding "substantial amounts" of cryptocurrencies or "cryptocurrency-related products." The questions, which focus on specific requirements of the Investment Company Act of 1940, generally fall into one of five key areas: valuation, liquidity, custody, arbitrage and potential manipulation. The SEC has not explicitly stated whether each of the questions set forth would also need to be addressed by entities with similar products and investment strategies that instead pursue registered offerings under the Securities Act, although such entities would need to comply with the registration and prospectus disclosure requirements of the Securities Act. Furthermore, the Trust has withdrawn its application with the SEC to list on a national security exchange. Requests to list the shares of other funds on national securities exchanges have also been submitted to the SEC. Exchange-listed digital asset fund shares would create more opportunities for institutional and retail investors to invest in the digital asset market. If exchange-listing requests are not approved by the SEC and the outstanding requests are ultimately denied by the SEC, increased investment interest by institutional or retail investors could fail to materialize, which could reduce the demand for digital assets generally and therefore adversely affect an investment in the Shares.

***Demand for Bitcoins is driven, in part, by its status as the most prominent and secure digital asset. Competition from the emergence or growth of other digital assets or methods of investing in Bitcoin could have a negative impact on the price of Bitcoins and adversely affect an investment in the Shares.***

The Bitcoin Network and Bitcoins, as an asset, hold a "first-to-market" advantage over other digital assets. This first-to-market advantage is driven in large part by having the largest user base and, more importantly,

the largest combined mining power in use to secure the Blockchain and transaction verification system. See “Overview of the Bitcoin Industry and Market—Cryptographic Security Used in the Bitcoin Network.” Having a large mining network results in greater user confidence regarding the security and long-term stability of a digital asset’s network and its Blockchain; as a result, the advantage of more users and miners makes a digital asset more secure, which makes it more attractive to new users and miners, resulting in a network effect that strengthens the first-to-market advantage.

As of March 19, 2018, there were approximately 1,565 alternate digital assets (or “altcoins”) tracked by CoinMarketCap.com, having a total market capitalization (including Bitcoin) of approximately \$321.96 billion, using market prices and total available supply of each digital asset. According to CoinMarketCap.com calculations, Bitcoin represented 44% of the total market cap of all digital assets. As of March 19, 2018, Bitcoin’s \$141.95 billion market cap was nearly 2.68 times as large as the \$52.79 billion market cap of Ethereum (the second largest digital currency by market cap) and more than 5.28 times larger than the \$26.87 billion market cap of Ripple (the third largest digital currency by market cap). Bitcoin also enjoys significantly greater acceptance and usage than other digital currency networks in the retail and commercial marketplace, due in part to the relatively well-funded efforts of payment processing companies including BitPay and Coinbase.

Despite the marked first-mover advantage of the Bitcoin Network over other digital assets, it is possible that a digital currency could become materially popular due to either a perceived or exposed shortcoming of the Bitcoin Network protocol that is not immediately addressed by the Core Developers or a perceived advantage of a digital currency that includes features not incorporated into Bitcoin. If a digital currency obtains significant market share (either in market capitalization, mining power or use as a payment technology), or if a similarly named digital currency causes confusion, this could reduce Bitcoin’s market share and have a negative impact on the demand for, and price of, Bitcoins.

In addition, investors may invest in Bitcoin through means other than an investment in Shares, including through direct investments in Bitcoin and other potential financial vehicles, possibly including securities backed by or linked to Bitcoin and digital currency financial vehicles similar to the Trust. Market and financial conditions, and other conditions beyond the Sponsor’s control, may make it more attractive to invest in other financial vehicles or to invest in Bitcoin directly, which could limit the market for Shares and reduce the liquidity of the Shares. In addition, to the extent digital currency financial vehicles other than the Trust tracking the price of Bitcoin are formed and represent a significant proportion of the demand for Bitcoin, large purchases or redemptions of the securities of these digital currency financial vehicles, or private funds holding Bitcoin, could negatively affect the Bitcoin Index Price, the Bitcoin Holdings and the price of the Shares.

### **Risk Factors Related to the Trust and the Shares**

***As the Sponsor and its management have limited history of operating an investment vehicle like the Trust, their experience may be inadequate or unsuitable to manage the Trust.***

The Sponsor was formed to be the Sponsor of the Trust. Although the Sponsor now manages other investment vehicles, it has a limited history of past performance in managing investment vehicles like the Trust. The past performances of the Sponsor’s management in other investment vehicles, including their experiences in the digital asset and venture capital industries, are no indication of their ability to manage an investment vehicle such as the Trust. If the experience of the Sponsor and its management is inadequate or

unsuitable to manage an investment vehicle such as the Trust, the affairs of the Trust may be adversely affected.

Furthermore, the Sponsor is currently engaged in the management of other investment vehicles which could divert their attention and resources. If the Sponsor were to experience difficulties in the management of such other investment vehicles that damaged the Sponsor or its reputation, it could have an adverse impact on the Sponsor's ability to continue to serve as Sponsor for the Trust.

***The value of the Shares could decrease if unanticipated operational or trading problems arise.***

The mechanisms and procedures governing the creation, redemption and offering of the Shares and storage of the Bitcoins have been developed specifically for this product. There may be unanticipated problems or issues with respect to the mechanics of the Trust's operations and the trading of the Shares that could have an adverse effect on an investment in the Shares. In addition, although the Trust is not actively "managed" by traditional methods, to the extent that unanticipated operational problems or issues arise, the Sponsor's past experience and qualifications may not be suitable for solving these problems or issues.

***An active public market for the Shares may not continue to develop or be sustained, and the Shares may have a volatile public trading price.***

The Shares are qualified for public trading on the OTCQX and an active trading market for the Shares has developed. However, there can be no assurance that such trading market will be maintained or continue to develop. In addition, the OTCQX can halt the trading of the Shares for a variety of reasons. To the extent that the OTCQX halts trading in the Shares, whether on a temporary or permanent basis, investors may not be able to buy or sell Shares, which could adversely affect an investment in the Shares. If an active trading market for the Shares does not continue to exist, the market prices and liquidity of the Shares may be adversely affected.

***The Sponsor will incur significant costs as a result of the Trust's qualification on the OTCQX, and those costs will increase further if the Trust becomes a fully reporting issuer under the Exchange Act.***

As the sponsor of a trust quoted on the OTCQX, the Sponsor will incur significant legal, accounting and other expenses that it did not incur previously. In addition, the OTCQX Alternative Reporting Standards impose various requirements on issuers that require the Sponsor's management and other personnel to devote a substantial amount of time to compliance initiatives. These costs will further increase if, as and when the Trust becomes a fully reporting issuer under the Exchange Act. The Sponsor has agreed to pay as a Sponsor-paid Expense up to \$600,000 of annual costs associated with public trading of the Shares on the OTCQX. Any costs in excess of \$600,000 will be deemed Additional Trust Expenses that will be payable by the Trust.

***The Shares may trade at a price which is at, above or below the Trust's Bitcoin Holdings per Share and any discount or premium in the trading price relative to the Trust's Bitcoin Holdings per Share may widen as a result of non-concurrent trading hours.***

The Shares may trade on the OTCQX at, above or below the Trust's Bitcoin Holdings per Share. The Trust's Bitcoin Holdings per Share will fluctuate with changes in the market value of the Trust's assets. The trading price of the Shares will fluctuate in accordance with changes in the Trust's Bitcoin Holdings per Share as well as market supply and demand. The price difference may be due, in large part, to the fact that supply and demand forces at work in the public trading market for Shares are closely related, but not identical, to

the same forces influencing the Bitcoin Index Price. Consequently, an Authorized Participant may be able to create or redeem a Basket of Shares at a discount or a premium to the public trading price per Share.

Authorized Participants, or their clients or customers, may have an opportunity to realize a riskless profit if they can create a Basket at a discount to the public trading price of the Shares or, if permitted, can redeem a Basket at a premium over the public trading price of the Shares. Such arbitrage opportunities will not be available to Shareholders who are not Authorized Participants. The Sponsor generally expects that the exploitation of such arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track the Bitcoin Holdings per Share closely over time. However, because redemption of Shares of the Trust are currently suspended, the arbitrage mechanism that would tend to cause the public trading price to track the Bitcoin Holdings per Share closely over time is unlikely to operate correctly. If the Trust receives relief from the SEC and is able to resume redemptions, the arbitrage mechanism could cause this premium to disappear and cause the price of the Shares to decline quickly and more accurately reflect the Trust's Bitcoin Holdings per Share.

***If Authorized Participants are able to purchase or sell large aggregations of Bitcoins in the open market at prices that are different than the Bitcoin Index Price or are unable to create and redeem Shares on an ongoing basis, the arbitrage mechanism intended to keep the price of the Shares closely linked to the Bitcoin Index Price may not function properly and the Shares may trade at a discount to, or premium over, the Bitcoin Holdings per Share.***

The Trust relies on arbitrage opportunities resulting from differences between the price of the Shares and the price of Bitcoins to keep the price of the Shares closely linked to the Bitcoin Index Price. If Authorized Participants are unable to redeem the Shares, as is the case as of the date of this Annual Report, or if the Trust halts creations for an extended period of time, this arbitrage mechanism is unlikely to function properly and the value of the Shares of the Trust may not approximate, and the Shares may trade at a substantial premium over, or discount to, the value of the Bitcoins held by the Trust, less the Trust's expenses and other liabilities, if traded on any Secondary Market. In the past, the price of the Shares as quoted on the OTCQX has varied significantly from the value of the Bitcoins held by the Trust, determined by reference to the Bitcoin Index Price, less the Trust's expenses and other liabilities. This is because Authorized Participants were not able to take advantage of arbitrage opportunities created when the market value of the Shares deviates from the value of the Trust's Bitcoin Holdings per Share, causing the Shares to trade at a substantial premium over, or discount to, the value of Bitcoins held by the Trust.

Moreover, even if a redemption program is authorized, this arbitrage mechanism may not function properly if the Trust experiences operational difficulties with the order process or Authorized Participants are required to purchase or sell large aggregations of Bitcoins in the open market at prices that are materially higher or lower than the Bitcoin Index Price. Authorized Participants may purchase or sell Bitcoins on public or private markets not included among the Bitcoin Exchanges included in the Index, and such transactions may take place at prices materially higher or lower than the Bitcoin Index Price. Furthermore, while the Index provides a U.S. Dollar-denominated composite reference rate for the price of Bitcoin based on the volume-weighted price of a Bitcoin on certain constituent Bitcoin Exchanges at any given time, the prices on each individual Bitcoin Exchange are not necessarily equal to the value of a Bitcoin as represented by the Index.

In addition, under the Trust Agreement, the Sponsor may suspend or reject creation or, if permitted, redemption orders, as applicable, for a variety of permitted reasons under certain circumstances. The creation and, if permitted, redemption of Baskets may also encounter unanticipated difficulties, including,

but not limited to, technical difficulties such as the disruption of the timely transfer of Bitcoin to and from the Trust's accounts. To the extent orders are suspended, rejected or otherwise disrupted, potential market participants may not be willing or able to take advantage of any potential arbitrage opportunities and the arbitrage mechanism may fail to closely link the price of the Shares to the value of the underlying Bitcoin, as measured using the Bitcoin Index Price. If this is the case, the liquidity of the Shares may decline and the price of the Shares may fluctuate independently of the Bitcoin Index Price and may fall.

***If the processes of creation and, if permitted, redemption of Baskets encounter any unanticipated difficulties, the opportunities for arbitrage transactions intended to keep the price of the Shares closely linked to the Bitcoin Index Price may not exist and, as a result, the price of the Shares may fall.***

If the creation and redemption of the Shares (which depend on timely transfers of Bitcoins to and from the custody accounts maintained by the Custodian) encounter any unanticipated difficulties, including, but not limited to, the Trust's inability in the future to obtain regulatory approvals for the offer and sale of additional Shares, potential market participants who would otherwise be willing to purchase or redeem Baskets to take advantage of any arbitrage opportunity arising from discrepancies between the price of the Shares and the price of the underlying Bitcoins may not take the risk that, as a result of those difficulties, they may not be able to realize the profit they expect. If this is the case, the liquidity of Shares may decline and the price of the Shares may fluctuate independently of the Bitcoin Index Price and may fall.

***The Sponsor could experience unforeseen difficulties in operating and maintaining key elements of the Trust's technical infrastructure.***

The Bitcoin Account has been designed specifically to provide security for the Trust's assets, and may be expanded, updated and altered from time to time. Any effort to expand, update or alter the security system (including with respect to Incidental Rights and IR Virtual Currency belonging to the Trust) is likely to be complex, and unanticipated delays in the completion of these projects may lead to unanticipated project costs, operational inefficiencies or vulnerabilities to security breaches. In addition, there may be problems with the design or implementation of the Bitcoin Account or with an expansion or upgrade thereto that are not evident during the testing phases of design and implementation, and that may only become apparent after the Trust has utilized the infrastructure. This could further expose the Trust to operational inefficiencies or vulnerabilities. Any issues relating to the performance and effectiveness of the security procedures used by the Trust and the Custodian to protect the Bitcoin Account, such as algorithms, codes, passwords, multiple signature systems, encryption and telephone call-backs (together, the "Security Procedures"), may have an adverse impact on an investment in the Shares.

The Trust's internal systems rely on Security Procedures implemented by the Custodian that are technical and complex. In addition, the Custodian's storage and safekeeping responsibilities depend on administration by the Custodian and the ability of the agreed upon Security Procedures to protect the storage, acceptance and distribution of data relating to Bitcoins and the digital wallets into which the Trust deposits such Bitcoins. The Security Procedures may not protect against all errors, software flaws (i.e., bugs) or vulnerabilities. Defects in the Security Procedures may only be discovered after a failure in the Custodian's safekeeping and storage of the Trust's Bitcoins, which could result in the theft, loss or damage of the Trust's assets. Any such theft, loss or damage of the Trust's Bitcoins would have a negative impact on the value of the Shares for which the Trust may have no recourse or means of recovery.

It is not uncommon for businesses in the digital currency industry to experience large losses due to fraud and breaches of their security systems. For example, in September 2015, the global Bitcoin payment agent,

BitPay, lost approximately \$1.8 million of Bitcoins due to a hacker's fraudulent impersonation of BitPay's CFO, whereby the hacker was able to access the CFO's email account and successfully request BitPay's custodian to transfer funds.

The Trust, the Sponsor, the Custodian and each of their agents will take measures to protect the Trust and its Bitcoins from unauthorized access, damage or theft. However, it is possible that the security procedures in place may not prevent the improper access to, or damage or theft of the Trust's Bitcoins. A security breach could harm the Trust's reputation or result in the loss of some or all of the Trust's digital currency assets. A resulting perception that the security procedures do not adequately protect the Trust's Bitcoins could result in a loss of current or potential Shareholders, reducing the demand for and the value of the Shares.

Furthermore, the Trust's private keys required to transfer the Trust's Bitcoins are stored in vaults located across the world, including but not limited to the United States, Europe, including Switzerland, and South America, which could be subject to (i) hostile regulatory treatment of Bitcoin, (ii) unforeseen social, economic or political unrest and (iii) natural or man-made disaster. For example, one of the Custodian's vaults is located in a South American country that could be considered to have an elevated risk of hostile regulatory treatment and social, economic or political unrest, including high rates of inflation and general economic mismanagement. If a vault were compromised, it could cause a possible delay in operations of up to 72 hours which could have a negative impact on the value of the Shares.

***The Sponsor's and the Custodian's ability to adopt technology in response to changing security needs or trends poses a challenge to the safekeeping of the Trust's Bitcoins.***

Bitcoin Exchanges and large holders of Bitcoins must adapt to technological change in order to secure and safeguard client accounts. While the Sponsor believes the Security Procedures in place have been reasonably designed to safeguard the Trust's Bitcoins from theft, loss, destruction or other issues relating to hackers and technological attack, such assessment is based upon known technology and threats. As technological change occurs, the security threats to the Trust's Bitcoins will likely adapt and previously unknown threats may emerge. Furthermore, the Sponsor believes that the Trust may become a more appealing target of security threats as the size of the Trust's assets grows. To the extent that the Sponsor or the Custodian is unable to identify and mitigate or stop new security threats or otherwise adapt to technological change in the digital asset industry, the Trust's Bitcoins may be subject to theft, loss, destruction or other attack, which could have a negative impact on the performance of the Shares or result in loss of the Trust's assets.

***Security threats to the Bitcoin Account could result in the halting of Trust operations, the suspension of redemptions (if a redemption program has been authorized by the SEC and approved by the Sponsor), and a loss of Trust assets or damage to the reputation of the Trust, each of which could result in a reduction in the price of the Shares.***

Security breaches, cyber-attacks, computer malware and computer hacking attacks have been a prevalent concern in the Bitcoin Exchange Market since the launch of the Bitcoin Network. Any 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 result in loss of the Trust's assets or otherwise adversely affect the Trust's affairs. Digital currency exchanges or custodians may in particular be at risk of cyber security breaches orchestrated or funded by state actors. It has been reported, for instance, that South

Korean digital currency exchanges have been subject to cybersecurity attacks by North Korean state actors with the intent of stealing digital currencies, possibly with the intention of evading international economic sanctions. Any breach of the Trust's infrastructure could result in damage to the Trust's reputation and reduce demand for the Shares, resulting in a reduction in the price of the Shares. Furthermore, the Sponsor believes that, as the Trust's assets grow, it may become a more appealing target for security threats such as hackers and malware. Furthermore, cybersecurity attacks orchestrated or funded by state actors may be particularly difficult to defend against because of the resources that state actors have at their disposal.

The Security Procedures cannot guarantee the prevention of any loss due to a security breach, software defect or act of God that may be borne by the Trust, absent gross negligence, willful misconduct or bad faith on the part of the Sponsor, the Custodian or their agents.

The Security Procedures and operational infrastructure may be breached due to the actions of outside parties, error or malfeasance of an employee of the Sponsor or Custodian, or otherwise, and, as a result, an unauthorized party may obtain access to the Bitcoin Account, private keys, data or Bitcoins. Additionally, outside parties may attempt to fraudulently induce employees of the Custodian or the Sponsor to disclose sensitive information in order to gain access to the Trust's infrastructure. As the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, the Sponsor may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of the Bitcoin Account occurs, the market perception of the effectiveness of the Trust could be harmed, which could result in a reduction in the price of the Shares.

In the event of a security breach of the Bitcoin Account, the Trust may cease operations, suspend redemptions (if a redemption program has been authorized by the SEC) or suffer a reduction in assets, the occurrence of each of which could result in a reduction in the price of the Shares.

***A loss of confidence or breach in the Trust's security and technology policies may adversely affect the Trust and the value of an investment in the Shares.***

The Trust, Sponsor, Custodian and each of their agents will take measures to protect the Trust and its Bitcoins from unauthorized access, damage or theft. However, it is possible that the Security Procedures in place may not prevent the improper access to, or damage or theft of the Trust's Bitcoins. A security breach could harm the Trust's reputation or result in the loss of some or all of the Trust's Bitcoins, which represent the Trust's only asset. A resulting perception that the Security Procedures do not adequately protect the Trust's Bitcoins could result in a loss of current or potential Shareholders, reducing demand for, and price of, the Shares.

***Bitcoin transactions are irrevocable and stolen or incorrectly transferred Bitcoins may be irretrievable. As a result, any incorrectly executed Bitcoin transactions could adversely affect an investment in the Shares.***

Bitcoin transactions are not reversible without the consent and active participation of the recipient of the transaction. Once a transaction has been verified and recorded in a block that is added to the Blockchain, an incorrect transfer of Bitcoins or a theft of Bitcoins generally will not be reversible, and the Trust may not be capable of seeking compensation for any such transfer or theft. Although the Trust's transfers of Bitcoins will regularly be made to or from the Bitcoin Account, it is possible that, through computer or



human error, or through theft or criminal action, the Trust's Bitcoins could be transferred from the Trust's Bitcoin Account in incorrect amounts or to unauthorized third parties, or to uncontrolled accounts.

For example, in September 2014, the Chinese Bitcoin exchange Huobi announced that it had sent approximately 900 Bitcoins and 8,000 Litecoins (worth approximately \$400,000 at the prevailing market prices at the time) to the wrong customers. To the extent that the Trust is unable to seek a corrective transaction with such third party or is incapable of identifying the third party which has received the Trust's Bitcoins through error or theft, the Trust will be unable to revert or otherwise recover incorrectly transferred Trust Bitcoins. The Trust will also be unable to convert or recover Trust Bitcoins transferred to uncontrolled accounts. To the extent that the Trust is unable to seek redress for such error or theft, such loss could adversely affect an investment in the Shares.

***The Trust's Bitcoins may be subject to loss, damage, theft or restriction on access.***

There is a risk that some or all of the Trust's Bitcoins could be lost, stolen or destroyed. The Sponsor believes that the Trust's Bitcoins held in the Bitcoin Account will be an appealing target to hackers or malware distributors seeking to destroy damage or steal the Trust's Bitcoins. Although the Custodian uses security procedures with various elements such as redundancy, segregation and cold storage to minimize the risk of loss, damage and theft, neither the Custodian nor the Sponsor can guarantee the prevention of such loss, damage or theft, whether caused intentionally, accidentally or by an act of God. Access to the Trust's Bitcoins could also be restricted by natural events (such as an earthquake or flood) or human actions (such as a terrorist attack). Any of these events may adversely affect the operations of the Trust and, consequently, an investment in the Shares.

***The Shareholders' limited rights of legal recourse against the Trust, Trustee, Sponsor, Transfer Agent and Custodian expose the Trust and its Shareholders to the risk of loss of the Trust's Bitcoins for which no person is liable.***

Shareholders' recourse against the Trust, Trustee, Custodian and Sponsor under New York law governing their custody operations is limited. Similarly, the Shareholders' recourse against the Sponsor and the Transfer Agent for the services they provide to the Trust, including those relating to the provision of instructions relating to the movement of Bitcoins, is limited. Consequently, a loss may be suffered with respect to the Trust's Bitcoins for which no person is liable in damages. Further, there is no third-party insurance to cover any loss that may be suffered with respect to the Trust's Bitcoins. Bitcoins held by the Trust are not subject to FDIC or SIPC protections.

***The Trust does not insure its Bitcoins.***

The Trust does not insure the Bitcoins held by the Custodian on behalf of the Trust. If the Custodian fails to adequately insure the Bitcoins in its custody, any loss, theft or destruction of the Trust's Bitcoin could have an adverse effect on the Trust and on the price of the Shares.

***Bitcoins held by the Trust are not subject to FDIC or SIPC protections.***

The Trust is not a banking institution or otherwise a member of the Federal Deposit Insurance Corporation ("FDIC") or Securities Investor Protection Corporation ("SIPC") and, therefore, deposits held with or assets held by the Trust are not subject to the protections enjoyed by depositors with FDIC or SIPC member institutions. The undivided interests in the Trust's Bitcoins represented by Shares in the Trust are not insured directly by the Trustee or the Sponsor.

***The Custodian's limited liability under the Custodian Agreement may impair the ability of the Trust to recover losses relating to its Bitcoins and any recovery may be limited, even in the event of fraud, to the market value of the Bitcoins at the time the fraud is discovered.***

Under the Custodian Agreement, the Custodian's liability is limited to the greater of (i) the market value of the Custodial Coins at the time the events giving rise to the liability occurred and (ii) the fair market value of the Custodial Coins at the time that the Custodian notifies the Sponsor or Trustee in writing, or the Sponsor or the Trustee otherwise has actual knowledge of the events giving rise to the liability.

In addition, the Custodian will not be liable for any delay in performance or any non-performance of any of its custodial obligations under the Custodian Agreement by reason of any cause beyond its reasonable control, including acts of God, war or terrorism. The Custodian will also not be liable for any system failure or third-party penetration of the Bitcoin Account, unless such system failure or third-party penetration is the result of gross negligence, bad faith or willful misconduct on the part of the Custodian. As a result, the recourse of the Trust or the Shareholders, under New York law, is limited.

***The Trust may not have adequate sources of recovery if its Bitcoins are lost, stolen or destroyed.***

If the Trust's Bitcoins are lost, stolen or destroyed under circumstances rendering a party liable to the Trust, the responsible party may not have the financial resources sufficient to satisfy the Trust's claim. For example, as to a particular event of loss, the only source of recovery for the Trust might be limited to the Custodian or, to the extent identifiable, other responsible third parties (for example, a thief or terrorist), any of which may not have the financial resources (including liability insurance coverage) to satisfy a valid claim of the Trust.

***Redemption orders are subject to rejection by the Sponsor under certain circumstances.***

At this time, Shareholders are not permitted to redeem their Shares. If the Trust reintroduces a redemption program, redemptions will occur only upon the order of Authorized Participants and only in Baskets. The Sponsor will reject a redemption order if the order is not in proper form as described in the Participant Agreement or if the fulfillment of the order might be unlawful. Any such rejection could adversely affect a Shareholder seeking to redeem Shares through the Authorized Participant. For example, the resulting delay could adversely affect the value of the Shareholder's redemption distribution if the NAV were to decline during the delay. See "Description of Creation and Redemption of Shares—Redemption Procedures." The Sponsor disclaims any liability for any loss or damage that may result from any such rejection.

***The liquidity of the Shares may be affected if Authorized Participants cease to perform their obligations under the Participant Agreements.***

In the event that one or more Authorized Participants having substantial interests in Shares or otherwise responsible for a significant portion of the Shares' daily trading volume on the OTCQX terminates its Participant Agreement, the liquidity of the Shares would likely decrease, which could adversely affect the market price of, and an investment in, the Shares.

***The Trust may terminate and liquidate at a time that is disadvantageous to Shareholders.***

If the Trust is required to terminate and liquidate, or the Sponsor determines, in its sole discretion, that termination and liquidation is appropriate because the Trust is not an economically viable size, such termination and liquidation could occur at a time that is disadvantageous to Shareholders, such as when the

Bitcoin Index Price is lower than it was at the time when Shareholders purchased their Shares. In such a case, when the Trust's Bitcoins are sold as part of the Trust's liquidation, the resulting proceeds distributed to Shareholders will be less than if the Bitcoin Index Price were higher at the time of sale. See "Material Contracts. The Trust Agreement and the Custodian Agreement—Description of the Trust Agreement—The Trustee—Termination of the Trust" for more information about the termination of the Trust, including when the termination of the Trust may be triggered by events outside the direct control of the Sponsor, the Trustee or the Shareholders.

***The Trust Agreement includes provisions that limit Shareholders' voting rights and restrict Shareholders' right to bring a derivative action.***

Under the Trust Agreement, Shareholders have limited voting rights and the Trust will not have regular Shareholder meetings and take no part in the management or control of the Trust. Accordingly, Shareholders do not have the right to authorize actions, appoint service providers or take other actions as may be taken by shareholders of other trusts or companies where shares carry such rights. The Shareholders' limited voting rights give almost all control under the Trust Agreement to the Sponsor and the Trustee. The Sponsor may take actions in the operation of the Trust that may be adverse to the interests of Shareholders and may adversely affect an investment in the Shares.

Moreover, pursuant to the terms of the Trust Agreement, Shareholders' statutory right under Delaware law to bring a derivative action (i.e., to initiate a lawsuit in the name of the Trust in order to assert a claim belonging to the Trust against a fiduciary of the Trust or against a third-party when the Trust's management has refused to do so) is restricted. The Trust Agreement provides that in addition to any other requirements of applicable law, no Shareholder will have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of the Trust unless two or more Shareholders who (i) are not affiliates of one another and (ii) collectively hold at least 10.0% of the outstanding Shares join in the bringing or maintaining of such action, suit or other proceeding. Therefore, the Trust Agreement limits the likelihood that a Shareholder could successfully assert a derivative action.

***The Trust Agreement includes a provision that restricts the right of a beneficial owner of a statutory trust from bringing a derivative action.***

Under Delaware law, the right of a beneficial owner of a statutory trust (such as a Shareholder of the Trust) to bring a derivative action (i.e., to initiate a lawsuit in the name of a the statutory trust in order to assert a claim belonging to the statutory trust against a fiduciary of the statutory trust or against a third-party when the statutory trust's management has refused to do so) may be restricted by the terms of the governing instrument of the statutory trust. The Trust Agreement provides that in addition to any other requirements of applicable law, no Shareholder shall have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of the Trust unless two or more Shareholders who (i) are not affiliates of one another and (ii) collectively hold at least 10% of the outstanding Shares join in the bringing or maintaining of such action, suit or other proceeding. Therefore, the Trust Agreement limits the likelihood that a Shareholder could successfully assert a derivative action.

***The Sponsor is solely responsible for determining the value of the Bitcoins, and any errors, discontinuance or changes in such valuation calculations may have an adverse effect on the value of the Shares.***

The Sponsor will determine the Trust's Bitcoin Holdings and Bitcoin Holdings per Share on a daily basis as soon as practicable after 4:00 p.m., New York time on each business day. The Sponsor's determination is made utilizing data from the Custodian's operations and the Bitcoin Index Price, calculated at 4:00 p.m., New York time on such day. To the extent that the Bitcoin Holdings or Bitcoin Holdings per Share are incorrectly calculated, the Sponsor may not be liable for any error and such misreporting of valuation data could adversely affect an investment in the Shares. In addition, the Sponsor must take all actions to prepare and, to the extent required by the Trust Agreement or by law, mail to Shareholders any reports, press releases or statements, financial or otherwise, that the Sponsor determines are required to be provided to Shareholders by applicable law or governmental regulation or the requirements of any Secondary Market on which the Shares are listed, quoted or traded or, if any Shares are transferred in a transaction registered under the Securities Act or registered under the Exchange Act, the SEC, as applicable.

***Extraordinary expenses resulting from unanticipated events may become payable by the Trust, adversely affecting an investment in the Shares.***

In consideration for the Sponsor's Fee, the Sponsor has contractually assumed the Sponsor-paid Expenses, which are certain operational and periodic expenses of the Trust. See "Activities of the Trust—Trust Expenses." Extraordinary expenses incurred by the Trust, such as taxes and governmental charges or incurred in connection with any Incidental Rights or IR Virtual Currency, of the Trust are not assumed by the Sponsor and are instead borne by the Trust. The Sponsor will cause the Trust to either (i) sell Bitcoins, Incidental Rights and/or IR Virtual Currency held by the Trust or (ii) deliver Bitcoins, Incidental Rights and/or IR Virtual Currency in kind to pay Trust expenses not assumed by the Sponsor on an as-needed basis. Accordingly, the Trust may be required to sell or otherwise dispose of Bitcoins, Incidental Rights or IR Virtual Currency at a time when the trading prices for those assets are depressed. The sale or other disposition of assets of the Trust in order to pay extraordinary expenses could have a negative impact on the value of the Shares for several reasons. These include the following factors:

- The Trust is not actively managed and no attempt will be made to protect against or take advantage of fluctuations in the prices of Bitcoins, Incidental Rights or IR Virtual Currency when it sells Bitcoins, Incidental Rights or IR Virtual Currency to pay Additional Trust Expenses. Consequently, if the Trust incurs expenses in U.S. Dollars, the Trust's Bitcoins, Incidental Rights or IR Virtual Currency may be sold at a time when the value of the disposed assets are low, resulting in a negative impact on the value of the Shares.
- Because the Trust does not generate any income, every time that it pays expenses it will deliver Bitcoins, Incidental Rights or IR Virtual Currency to the Sponsor or sell Bitcoins, Incidental Rights or IR Virtual Currency. Any sales of the Trust's assets in connection with the payment of expenses will decrease the amount of the Trust's assets represented by each Share each time the Trust's assets are sold or transferred to the Sponsor.
- Assuming that the Trust is a grantor trust for U.S. federal income tax purposes, each delivery or sale of Bitcoins, Incidental Rights or IR Virtual Currency by the Trust to pay the Sponsor's Fee and/or Additional Trust Expenses will be a taxable event to beneficial owners of Shares. Thus, the Trust's payment of expenses could result in beneficial owners of Shares incurring tax

liability without an associated distribution from the Trust. Any such tax liability could adversely affect an investment in the Shares. See “Certain U.S. Federal Income Tax Consequences.”

***The Trust’s delivery or sale of Bitcoins to pay expenses or other operations of the Trust could result in Shareholders incurring tax liability without an associated distribution from the Trust.***

Assuming that the Trust is treated as a grantor trust for U.S. federal income tax purposes, each delivery of Bitcoins by the Trust to pay the Sponsor’s Fee or other expenses and each sale of Bitcoins by the Trust to pay Additional Trust Expenses will be a taxable event to beneficial owners of Shares. Thus, the Trust’s payment of expenses could result in beneficial owners of Shares incurring tax liability without an associated distribution from the Trust. Any such tax liability could adversely affect an investment in the Shares. See “Certain U.S. Federal Income Tax Consequences.”

***The value of the Shares will be adversely affected if the Trust is required to indemnify the Sponsor, the Trustee, the Transfer Agent, the Administrator or the Custodian under the Trust Documents.***

Under the Trust Documents, each of the Sponsor, the Trustee, the Transfer Agent, the Administrator and the Custodian has a right to be indemnified by the Trust for certain liabilities or expenses that it incurs without gross negligence, bad faith or willful misconduct on its part. Therefore, the Sponsor, Trustee, Transfer Agent, the Administrator or Custodian may require that the assets of the Trust be sold in order to cover losses or liability suffered by it. Any sale of that kind would reduce the Trust’s Bitcoin Holdings and the value of the Shares.

***Intellectual property rights claims may adversely affect the Trust and an investment in the Shares.***

The Sponsor is not aware of any intellectual property rights claims that may prevent the Trust from operating and holding Bitcoins, Incidental Rights or IR Virtual Currency; however, third parties may assert intellectual property rights claims relating to the operation of the Trust and the mechanics instituted for the investment in, holding of and transfer of Bitcoins, Incidental Rights or IR Virtual Currency. Regardless of the merit of an intellectual property or other legal action, any legal expenses to defend or payments to settle such claims would be extraordinary expenses and be borne by the Trust through the sale of the Trust’s Bitcoins, Incidental Rights or IR Virtual Currency. Additionally, a meritorious intellectual property rights claim could prevent the Trust from operating and force the Sponsor to terminate the Trust and liquidate the Trust’s Bitcoins, Incidental Rights or IR Virtual Currency. As a result, an intellectual property rights claim against the Trust could adversely affect an investment in the Shares.

## **Risk Factors Related to the Regulation of the Trust and the Shares**

***Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act, the protections associated with an investment adviser registered under the Investment Advisers Act or the protections afforded by the CEA.***

The Investment Company Act is designed to protect investors by preventing insiders from managing investment companies to their benefit and to the detriment of public investors, such as: the issuance of securities having inequitable or discriminatory provisions; the management of investment companies by irresponsible persons; the use of unsound or misleading methods of computing earnings and asset value; changes in the character of investment companies without the consent of investors; and investment companies from engaging in excessive leveraging. To accomplish these ends, the Investment Company Act

requires the safekeeping and proper valuation of fund assets, restricts greatly transactions with affiliates, limits leveraging, and imposes governance requirements as a check on fund management.

The Trust is not registered as an investment company under the Investment Company Act and the Sponsor believes that the Trust is not required to register under such act. Consequently, Shareholders do not have the regulatory protections provided to investors in investment companies.

The Trust does not invest in securities, so the Sponsor will not be acting as a registered investment adviser in providing services to the Trust. As such, neither the Trust nor an investor in the Trust will have the protections afforded by the Investment Advisers Act. For example, in managing the Trust, the Sponsor will not be subject to the Investment Advisers Act's requirements with respect to the custody of client assets or transactions with affiliates.

The Trust will not hold or trade in commodity futures contracts regulated by the CEA, as administered by the CFTC. Furthermore, the Sponsor believes that the Trust is not a commodity pool for purposes of the CEA, and that neither the Sponsor nor the Trustee is subject to regulation by the CFTC as a commodity pool operator or a commodity trading advisor in connection with the operation of the Trust. Consequently, Shareholders will not have the regulatory protections provided to investors in CEA-regulated instruments or commodity pools.

***The Trust and an affiliate of the Trust recently entered into a settlement agreement with the SEC concerning the operation of the Trust's former redemption program and the Trust does not currently operate a redemption program.***

On April 1, 2014, a program was launched pursuant to which Shareholders could request redemptions from Genesis, an affiliate of the Trust and the sole Authorized Participant at that time. On September 23, 2014, Genesis received a letter from the staff of the SEC's Office of Compliance Inspections and Examinations summarizing the staff's findings from an onsite review of Genesis's broker-dealer activities conducted in June 2014. In its exit report, the staff stated that it had concluded that the Trust's redemption program, in which Shareholders were permitted to request the redemption of their Shares through Genesis, appeared to violate Regulation M under the Exchange Act because such redemptions of Shares took place at the same time the Trust was in the process of creating Shares. On July 11, 2016, Genesis and the Trust entered into a settlement agreement with the SEC whereby they agreed to a cease-and-desist order against future violations of Rules 101 and 102 of Regulation M under the Exchange Act. Genesis also agreed to pay disgorgement of \$51,650.11 in redemption fees it collected, plus prejudgment interest of \$2,105.68, for a total of \$53,755.79. As a result, the Trust is no longer operating a redemption program for the Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program. Even if the Trust does seek an exemption, there can be no assurance that it will be successful in obtaining such regulatory relief.

***The restrictions on transfer and redemption may result in losses on an investment in the Shares.***

The Shares may not be resold except in transactions exempt from registration under the Securities Act and state securities laws, and any such transaction must be approved in advance by the Sponsor. Any attempt to sell Shares without the approval of the Sponsor in its sole discretion will be void *ab initio*. See "Description of the Shares—Transfer Restrictions" for more information.

At this time the Sponsor is not accepting redemption requests from Shareholders. Therefore, unless the Trust is permitted to, and does, establish a Share redemption program, investors will be unable to (or could be significantly impeded in attempting to) sell or otherwise liquidate investments in the Shares, which could have a material adverse impact on an investment in the Shares.

Investors should consider an investment in the Shares to be an illiquid investment and should invest only if prepared to hold the Shares indefinitely. Furthermore, because we do not have the ability to redeem Shares until given authorization by the SEC, the Shares could trade below the Trust's Bitcoin Holdings per Share due to the fact that investors cannot currently realize any increase in the value of the Trust's Bitcoin through redemption. Therefore, the Trust may not meet its objective for investment, which is to provide investors a cost-effective and convenient way to invest in Bitcoin while avoiding the complication of directly holding Bitcoin.

***Regulatory changes or actions may alter the nature of an investment in the Shares or restrict the use of Bitcoins or the operation of the Bitcoin Network or the Bitcoin Exchange Market in a manner that adversely affects an investment in the Shares.***

While regulation of digital currency is still nascent, as Bitcoin and other digital currencies have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies have been examining digital currency networks and exchange markets. Many of these state and federal agencies have issued consumer advisories regarding the risks posed by Bitcoin and other digital currencies to investors. In addition, U.S. federal and state agencies, and regulatory bodies in other countries have issued rules or guidance about the treatment of digital currency transactions or requirements for businesses engaged in digital currency activity.

In 2013 guidance, FinCEN took the position that any administrator or exchanger of convertible digital currencies, including Bitcoins, must register with FinCEN as a money transmitter and must comply with the anti-money laundering regulations applicable to money transmitters. In 2015, FinCEN assessed a \$700,000 fine against Ripple Labs for violating several requirements of the Bank Secrecy Act by acting as a money services business, or an MSB, and selling XRP without registering with FinCEN, and by failing to implement and maintain an adequate anti-money laundering program. In 2017, FinCEN assessed a \$110 million fine against BTC-E, a now defunct digital currency exchange, for similar violations. The requirement that exchangers that do business in the United States register with FinCEN and comply with anti-money laundering regulations may increase the cost of buying and selling Bitcoins and therefore may adversely affect their price.

The SEC and CFTC have also taken various actions to clarify their treatment of digital currencies, including tokens, or businesses involved in certain types of digital-currency business. The SEC has taken the view that some virtual currencies, especially those sold in ICOs, may be securities within the meaning of the U.S. securities laws. See "Risk Factors Related to the Regulation of the Trust and the Shares—Recently, the SEC determined that DAO tokens are to be treated as securities for purposes of the U.S. federal securities laws. This could increase the likelihood that the SEC determines that other digital currencies should be classified or treated as securities, and result in regulation of one or more digital currencies under the U.S. federal securities laws, which could adversely affect an investment in the Shares even though Bitcoins were not issued through an ICO." Additionally, the CFTC has taken the view that Bitcoins and other virtual currencies are commodities for purposes of the Commodity Exchange Act. Most of the CFTC's rules and requirements apply to commodity interests (i.e., commodity futures, options and swaps). For example, the CFTC has granted registrations as swap execution facilities and derivatives clearing organizations to certain

entities intending to facilitate trading in Bitcoin derivatives. Additionally, the CFTC has brought enforcement actions against unregistered futures exchange merchants and exchanges facilitating Bitcoin derivative transactions. However, the CFTC also has authority to take action against fraud and manipulation in the spot Bitcoin market, not just the derivatives markets.

Similarly, many countries outside the United States have enacted regulatory regimes or taken enforcement actions with respect to digital currencies. See “Risk Factors Related to the Regulation of the Trust and the Shares—It may be illegal now, or in the future, to acquire, own, hold, sell or use Bitcoins in one or more countries, and ownership of, holding or trading in Shares may also be considered illegal and subject to sanctions.”

In recent months, the SEC and U.S. Congress have focused their attention and brought increased scrutiny to these issues. The Sponsor and the Trust cannot be certain as to how future regulatory developments will impact the treatment of Bitcoin under the law. Ongoing and future regulatory actions, including future increases in the taxation rates on Bitcoin and other digital currencies, may alter, perhaps to a materially adverse extent, the nature of an investment in the Shares or the ability of the Trust to continue to operate.

***Recently, the SEC determined that DAO tokens are to be treated as securities for purposes of the U.S. federal securities laws. This could increase the likelihood that the SEC determines that other digital currencies should be classified or treated as securities, and result in regulation of one or more digital currencies under the U.S. federal securities laws, which could adversely affect an investment in the Shares even though Bitcoins were not issued through an ICO.***

In 2016, promoters of The DAO, an unincorporated virtual organization, commenced an ICO, selling tokens to investors in exchange for Ether, raising approximately \$150 million. The DAO was created by a German company called Slock.it, and was designed to allow holders of DAO tokens to vote on projects that The DAO would fund, with any profits flowing to token-holders. Slock.it marketed The DAO as the first instance of a decentralized autonomous organization, powered by smart contracts on a Blockchain platform. Ultimately, but unrelated to the issue examined by the SEC, a hacker siphoned off over \$50 million of The DAO’s value. The community’s decision to unwind the theft spawned a new virtual currency alongside Ethereum, called Ethereum Classic.

On July 25, 2017, the SEC published Release No. 81207 titled, “Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO” in which the SEC reasoned that The DAO tokens were unregistered securities. Though declining to take enforcement action against The DAO, the SEC used the opportunity to warn others engaged in similar ICO activities that an unregistered sale of Blockchain tokens can, depending on the circumstances, be an illegal public offering of securities. Simultaneously, the SEC issued a bulletin warning investors about such ICOs. The SEC could rely on the same logic to come to the conclusion that other digital currencies sold in ICOs should be classified as securities.

The SEC’s DAO report also indicated that exchanges that facilitate trading in digital currencies that are securities must generally be registered national securities exchanges. Should a digital currency exchange or other service provider determine that certain digital currencies are or may soon be determined by the SEC to be securities, the exchange may delist such digital currencies. Additionally, there may be enforcement actions against current U.S. and foreign digital currency exchanges doing business in the United States that facilitate trading in digital currencies that are securities, which could decrease the prices for all digital currencies and as a result impact the value of the Shares. If the SEC were to determine, or if there is an expectation that the SEC may determine, that a particular digital currency is a security, the price of that



digital currency could significantly decrease, which could also lead to decreases in the prices of other digital currencies as well. Although Bitcoins were not issued in an ICO, the SEC's determination or a market expectation of the SEC's determination that any digital currency is a security could adversely affect the market price of Bitcoins and thus an investment in the Shares.

***Regulatory limitations on ICOs may negatively impact digital currency ecosystems and adversely affect the value of the Shares.***

ICOs often accept Bitcoins or digital currencies as payment for coins, bolstering demand for Bitcoins and other digital currencies. The SEC's action with respect to The DAO could have a chilling effect on future ICOs. While the SEC has not taken enforcement action against The DAO, as noted above, the SEC published a bulletin warning investors about such ICOs. If the SEC clarifies or if market participants conclude that many ICOs violate federal or state securities, money transmitter, or digital currency business activity laws, the number of ICOs may decrease and coins already issued as part of ICOs may face uncertain regulatory futures. In addition, a number of foreign jurisdictions have, like the SEC, recently opined on the sale of digital currency tokens including through ICOs. China has banned ICOs entirely and other jurisdictions have opined that ICOs may constitute securities offerings subject to local securities regulations, which could similarly affect the number of ICOs and coins already issued as part of ICOs. Because Bitcoins are often one of the currencies accepted by ICO promoters for investment into an ICO, and because ICOs and interest in them may increase demand for all digital currencies, including Bitcoins, these developments may decrease demand for Bitcoins and could negatively impact digital currency ecosystems, which could adversely affect the performance of the Trust and could adversely affect the value of an investment in the Shares.

***It may be illegal now, or in the future, to acquire, own, hold, sell or use Bitcoins in one or more countries, and ownership of, holding or trading in Shares may also be considered illegal and subject to sanctions.***

Digital currencies currently face an uncertain regulatory landscape in many foreign jurisdictions such as China, the European Union, the United Kingdom, Australia, Japan, Russia, Israel, Poland, India, Hong Kong, Canada and Singapore.

In 2017, the largest China-based Bitcoin Exchanges introduced a 0.2% fixed rate transaction fee for all Bitcoin buy and sell orders. Chinese regulators have taken action to shut down China-based Bitcoin Exchanges, and a number of Bitcoin Exchanges have announced that they will be closing or moving operations. There remains significant uncertainty regarding the Chinese government's future actions with respect to the regulation of digital currency and digital currency exchanges, and the Sponsor believes that this uncertainty has had and will continue to have an adverse effect on the price of digital currencies and therefore the value of an investment in the Shares.

Since October 2015 in the European Union, Bitcoin transactions have been treated as traditional currency transactions and have not been subject to value added tax. In Russia, regulators announced plans to recognize Bitcoin and other digital currencies as legitimate financial instruments by 2018, but announced in September 2017 that they would not yet allow digital currencies to be traded on official exchanges or to be used in clearing and settlement infrastructure. In China, a government notice classified Bitcoins as "virtual commodities," and not legal tender in 2013. In April 2017, Japanese regulators recognized digital currencies as a legal method of payment and required market participants to meet certain compliance requirements and be subject to oversight by the Financial Services Agency. Israel applied capital gains tax to sales of Bitcoins and other digital currencies in 2017. Ecuador, Bolivia, and Bangladesh, on the other

hand, have banned the use of Bitcoins and other digital currencies. See “Overview of the Bitcoin Industry and Market – Government Oversight” below.

Most regulatory bodies have not yet issued official statements regarding determinations on regulation of digital currencies, users or networks. Various foreign jurisdictions may, in the near future, adopt laws, regulations or directives that affect the digital currencies. Such laws, regulations or directives may conflict with those of the United States and may negatively impact the acceptance of digital currencies by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the digital currency economy in these jurisdictions as well as in the United States and elsewhere, or otherwise negatively affect the value of digital currencies.

Additionally, U.S. state and federal, and foreign regulators and legislatures have taken action against digital currency businesses or enacted restrictive regimes in response to adverse publicity arising from hacks, consumer harm, or criminal activity stemming from digital currency activity. The value of digital currencies could thus be impacted by such adverse publicity.

***If regulatory changes or interpretations of an Authorized Participant’s activities require the regulation of an Authorized Participant as a money service business under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act or as a money transmitter or virtual currency business under state regimes for the licensing of such businesses, an Authorized Participant may be required to register and comply with such regulations, which could result in extraordinary, recurring and/or nonrecurring expenses to the Authorized Participant or increased commissions for the Authorized Participant’s clients, thereby reducing the liquidity of the Trust.***

To the extent that the activities of an Authorized Participant cause it to be deemed a “money services business” under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act, an Authorized Participant may be required to comply with FinCEN regulations, including those that would mandate the Authorized Participant to implement anti-money laundering programs, make certain reports to FinCEN and maintain certain records. Similarly, the activities of an Authorized Participant may require it to be licensed as a money transmitter or as a virtual currency business, such as under NYDFS’s BitLicense scheme.

Such additional regulatory obligations may cause the Authorized Participant to incur extraordinary expenses, possibly increasing the levels of the commissions that the Authorized Participant charges its clients in a material and adverse manner. If the Authorized Participant determines not to comply with such additional regulatory and registration requirements, the Authorized Participant will terminate its role as an Authorized Participant of the Trust. Such a termination may decrease the liquidity of the Trust.

Genesis, an Authorized Participant and affiliate of the Trust, applied for a license under the “BitLicense” scheme by the August 2015 deadline but has not yet had its application approved or denied by the NYDFS. If its license application is rejected or if the NYDFS attaches onerous conditions to the approval of the license, Genesis may not be able to continue to act as the Authorized Participant or may cause the Authorized Participant to incur extraordinary expenses, possibly increasing the levels of the commissions that the Authorized Participant charges its clients in a material and adverse manner.

***Banks may not provide banking services, or may cut off banking services, to businesses that provide digital currency-related services or that accept digital currencies as payment, which could damage the***

***public perception and the utility of digital currencies, including Bitcoin, as a payment system and could decrease the price of Bitcoins and adversely affect an investment in the Shares.***

A number of companies that provide digital currency-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to digital currency-related companies or companies that accept digital currencies for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses that provide digital currency-related services have and may continue to have in finding banks willing to provide them with bank accounts and other banking services may be currently decreasing the usefulness of digital currencies, including Bitcoin, as a payment system and harming public perception of digital currencies, including Bitcoin, or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of digital currencies as a payment system and the public perception of digital currencies, including Bitcoin, could be damaged if banks were to close the accounts of many or of a few key businesses providing digital currency-related services. This could decrease the price of Bitcoins and therefore adversely affect an investment in the Shares.

***Trading on digital currency exchanges outside the United States may not be subject to U.S. regulation, and may be less reliable than U.S. exchanges. Because of the lack of regulation, such non-U.S. exchanges may have a greater potential for manipulation which could adversely impact the value of the Shares.***

Some of the Trust's trading may be conducted on digital currency exchanges outside the United States. Such exchanges may not view themselves as being subject to regulation by any U.S. governmental agency. In addition, trading on such exchanges may involve certain risks not applicable to trading on U.S. exchanges. For instance, certain foreign markets may be more susceptible to disruption than U.S. exchanges. These factors could adversely affect the performance of the Trust.

Any potential manipulation of digital currency exchanges may affect the value of the Shares. Such manipulation may take various forms, including malicious actors successfully double spending digital currencies or employing other fraudulent schemes with a greater success rates than they would otherwise achieve on a U.S.-regulated exchange. See "Overview of the Bitcoin Industry and Market—Forms of Attack Against the Bitcoin Network" below.

***Regulatory changes or interpretations could cause the Trust and the Sponsor to register and comply with new regulations, resulting in potentially extraordinary, nonrecurring expenses to the Trust.***

Current and future legislation, CFTC and SEC rulemaking and other regulatory developments may impact the manner in which Bitcoins are treated for classification and clearing purposes. In particular, Bitcoins may be classified by the CFTC as "commodity interests" under the CEA or may be classified by the SEC as "securities" under U.S. federal securities laws. As of the date of this Annual Report, the Sponsor is not aware of any rules that have been proposed to regulate Bitcoins as a commodity interest or a security. Since 2015, the CFTC has repeatedly confirmed that it views Bitcoin and other virtual currencies as commodities under the Commodity Exchange Act and has not indicated that it views Bitcoin as a commodity interest. However, these rulings are not definitive, and the Sponsor and the Trust cannot be certain as to how future regulatory developments will impact the treatment of Bitcoins under the law. In the face of such developments, the required registrations and compliance steps may result in extraordinary, nonrecurring

expenses to the Trust. If the Sponsor decides to terminate the Trust in response to the changed regulatory circumstances, the Trust may be dissolved or liquidated at a time that is disadvantageous to Shareholders.

To the extent that Bitcoins are deemed to fall within the definition of a “commodity interest” under the CEA, the Trust and the Sponsor may be subject to additional regulation under the CEA and CFTC regulations. The Sponsor may be required to register as a commodity pool operator or commodity trading advisor with the CFTC and become a member of the National Futures Association and may be subject to additional regulatory requirements with respect to the Trust, including disclosure and reporting requirements. These additional requirements may result in extraordinary, recurring and/or nonrecurring expenses of the Trust, thereby materially and adversely impacting the Shares. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust’s Bitcoins at a time that is disadvantageous to Shareholders.

To the extent that Bitcoins are deemed to fall within the definition of a security under U.S. federal securities laws, the Trust and the Sponsor may be subject to additional requirements under the Investment Company Act and Investment Advisers Act. The Sponsor may be required to register as an investment adviser under the Investment Advisers Act. Such additional registration may result in extraordinary, recurring and/or non-recurring expenses of the Trust, thereby materially and adversely impacting the Shares. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust’s Bitcoins at a time that is disadvantageous to Shareholders.

***The treatment of the Trust for U.S. federal income tax purposes is uncertain.***

The Sponsor intends to take the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, each beneficial owner of Shares will be treated as directly owning its *pro rata* share of the Trust’s assets and a *pro rata* portion of the Trust’s income, gain, losses and deductions will “flow through” to each beneficial owner of Shares.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar events. Assuming that the Trust is a grantor trust for U.S. federal income tax purposes, certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for such purposes.

The Trust has informed the Custodian that it will adopt a policy to abandon, on a prospective basis, as of any date on which the Trust creates Shares, any Incidental Rights or IR Virtual Currency to which it would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. There can be no complete assurance that this prospective abandonment will be treated as effective for U.S. federal income tax purposes. If the Trust were treated as owning any asset other than Bitcoins as of any date on which it creates Shares, it would likely cease to qualify as a grantor trust for U.S. federal income tax purposes.

If the Trust is not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency for U.S. federal income tax purposes (as discussed below in “U.S. Federal Income Tax Consequences—Uncertainty

Regarding the U.S. Federal Income Tax Treatment of Digital Currency”), there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing. In addition, tax information reports provided to Shareholders would be made in a different form. If the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at a maximum rate of 21%) on its net taxable income and certain distributions made by the Trust to Shareholders would be treated as taxable dividends to the extent of the Trust’s current and accumulated earnings and profits.

***The treatment of Bitcoins for U.S. federal income tax purposes is uncertain.***

As discussed in the section entitled “U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency” below, assuming that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes, each beneficial owner of Shares will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the Bitcoins (and, if applicable, any Incidental Rights and/or IR Virtual Currency) held in the Trust. Due to the new and evolving nature of digital currencies and a general absence of clearly controlling authority with respect to digital currencies, many significant aspects of the U.S. federal income tax treatment of digital currency are uncertain. On March 25, 2014, the Internal Revenue Service (“IRS”) released a notice (the “Notice”) discussing certain aspects of the treatment of digital currencies for U.S. federal income tax purposes. In the Notice, the IRS stated that, for U.S. federal income tax purposes, (i) digital currency is “property” that is not currency and (ii) digital currency may be held as a capital asset. There can be no assurance, however, that the IRS will not alter its position with respect to digital currency in the future or that a court would uphold the treatment set forth in the Notice. In addition, legislation has been introduced that likely would, if enacted, cause digital currency to be treated as currency for U.S. federal income tax purposes. If digital currency were properly treated as currency for U.S. federal income tax purposes, gains recognized on the disposition of digital currency, and on a disposition of Shares, would constitute ordinary income, and losses recognized on the disposition of digital currency, and on a disposition of Shares, could be subject to special reporting requirements applicable to “reportable transactions.”

The Notice does not address other significant aspects of the U.S. federal income tax treatment of digital currency, including: (i) whether digital currency is properly treated as a “commodity” for U.S. federal income tax purposes and (ii) whether and how a holder of digital currency acquired at different times or at varying prices may designate, for U.S. federal income tax purposes, which units of the digital currency are transferred in a subsequent sale, exchange or other disposition. The Notice addressed only digital currency that is “convertible virtual currency,” defined as digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency. It is conceivable that certain IR Virtual Currency the Trust may receive in the future in connection with its ownership of Bitcoins would not be within the scope of the Notice. The Notice also does not address the U.S. federal income tax treatment of a fork or airdrop of digital currency or other similar occurrence, and it is possible that such an occurrence would be treated as a taxable event, even if the Trust does not claim the relevant IR Virtual Currency.

Prospective investors are urged to consult their tax advisers regarding the substantial uncertainty regarding the tax consequences of an investment in the Trust and in digital currencies in general.

***Future developments regarding the treatment of digital currency for U.S. federal income tax purposes could adversely affect an investment in the Shares.***

As discussed above, many significant aspects of the U.S. federal income tax treatment of digital currency, such as Bitcoins, are uncertain, and it is unclear what guidance on the treatment of digital currency for U.S. federal income tax purposes may be issued in the future. It is possible that any such guidance would have a negative effect on the prices of digital currency, including on the price of Bitcoins in the Bitcoin Exchange Market, and therefore may have an adverse effect on the value of the Shares.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar events. Such developments may result in uncertain tax consequences and may increase the uncertainty with respect to the treatment of digital currencies more generally. Certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for U.S. federal income tax purposes.

***Future developments in tax treatment of digital currencies for tax purposes other than U.S. federal income tax purposes could adversely affect an investment in the Shares.***

The NYDTF has issued guidance regarding the application of New York State tax law to digital currencies such as Bitcoin. The NYDTF determined that New York State would follow the Notice with respect to the treatment of digital currencies for state income tax purposes. Furthermore, the NYDTF took the position that digital currencies such as Bitcoin are a form of “intangible property,” with the result that the purchase and sale of Bitcoins for fiat currency is not subject to New York state sales tax (although exchanges of Bitcoins for other goods and services may be subject to sales tax under barter transaction treatment). The New Jersey Division of Taxation has issued similar guidance, while the taxing authorities of various states other than New York and New Jersey have issued guidance exempting the acquisition and/or disposition of digital currencies from sales tax.

It is unclear what further guidance on the treatment of digital currencies for state tax purposes may be issued in the future. If a state does not follow the Notice, or issues other guidance with respect to digital currency, such state’s treatment of digital currency may have negative consequences, including the imposition of a greater tax burden on investors in digital currency or the imposition of a greater cost on the acquisition and disposition of digital currency generally. Any such treatment may have a negative effect on prices of digital currency, including on the price of Bitcoins in the Bitcoin Exchange Market, and therefore may adversely affect the value of the Shares.

The treatment of digital currencies for tax purposes by non-U.S. jurisdictions may differ from the treatment of digital currencies by the IRS or any state. If a foreign jurisdiction imposes onerous tax burdens on Bitcoin users, or imposes sales or value-added tax on purchases and sales of Bitcoins for fiat currency, such actions could result in decreased demand for Bitcoins in such jurisdiction, which could adversely affect the price of Bitcoins and the value of the Shares.

**Risk Factors Related to Potential Conflicts of Interest**

***Potential conflicts of interest may arise among the Sponsor or its affiliates and the Trust. The Sponsor and its affiliates have no fiduciary duties to the Trust and its Shareholders other than as provided in the***

***Trust Agreement, which may permit them to favor their own interests to the detriment of the Trust and its Shareholders.***

The Sponsor will manage the affairs of the Trust. Conflicts of interest may arise among the Sponsor and its affiliates, including the Index Provider and the Authorized Participants, on the one hand, and the Trust and its Shareholders, on the other hand. As a result of these conflicts, the Sponsor may favor its own interests and the interests of its affiliates over the Trust and its Shareholders. These potential conflicts include, among others, the following:

- The Sponsor has no fiduciary duties to, and is allowed to take into account the interests of parties other than, the Trust and its Shareholders in resolving conflicts of interest;
- The Trust has agreed to indemnify the Sponsor and its affiliates pursuant to the Trust Agreement;
- The Sponsor is responsible for allocating its own limited resources among different clients and potential future business ventures, to each of which it owes fiduciary duties;
- The Sponsor's staff also services affiliates of the Sponsor and their respective clients and cannot devote all of its, or their, respective time or resources to the management of the affairs of the Trust;
- The Sponsor, its affiliates and their officers and employees are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with the Trust;
- There is an absence of arm's-length negotiation with respect to certain terms of the Trust, and, where applicable, there has been no independent due diligence conducted with respect to this Annual Report;
- Barry E. Silbert, the Chief Executive Officer of the Sponsor, acts as an advisor to the Index Provider and owns approximately 0.5% of the Index Provider's voting equity;
- Digital Currency Group, Inc. is (i) the sole member and parent company of the Sponsor and Genesis, which as of the date of this Annual Report, is the only acting Authorized Participant, (ii) the owner of approximately 1.9% of the Index Provider's voting equity and owns warrants representing approximately 1.1% of the Index Provider's voting equity, (iii) a minority interest holder in the Custodian, representing less than 1.0% of the Custodian's outstanding shares, (iv) a minority interest holder in Coinbase, which operates the GDAX, representing less than 1.0% of its equity and (v) a minority interest holder in Paxos, which operates itBit, representing less than 1.0% of its equity;
- Digital Currency Group, Inc. has investments in a large number of digital currencies and companies involved in the digital currency ecosystem, including exchanges and custodians. Digital Currency Group, Inc.'s positions on changes that should be adopted in the Bitcoin Network could be adverse to positions that would benefit the Trust or its Shareholders. Additionally, before or after a hard fork, Digital Currency Group, Inc.'s position regarding which fork, among incompatible forks of Bitcoin, should be considered the "true" Bitcoin, could be adverse to positions that would most benefit the Trust;
- The Sponsor decides whether to retain separate counsel, accountants or others to perform services for the Trust;

- The Sponsor and the Authorized Participant, Distributor and Marketer are affiliated parties that share a common parents company, Digital Currency Group, Inc.;
- While the Index does not currently utilize data from over-the-counter markets or derivatives platforms, it may decide to include pricing data from such markets or platforms in the future, which could include the affiliated Authorized Participant or Distributor and Marketer;
- The Sponsor or an affiliate of the Sponsor may enter into contracts with the Trust, which are not required to be negotiated at arm's length; and
- The Sponsor may appoint an agent to act on behalf of the Shareholders, including in connection with the distribution of any Incidental Rights and/or IR Virtual Currency, which agent may be the Sponsor or an affiliate of the Sponsor.

By investing in the Shares, investors agree and consent to the provisions set forth in the Trust Agreement. See "Material Contract. The Trust Agreement and the Custodian Agreement—Description of the Trust Agreement." For a further discussion of the conflicts of interest among the Sponsor, Authorized Participant, Index Provider, Custodian, Trust and others, see "Conflicts of Interest."

***Affiliates of the Sponsor may invest in or trade Bitcoin without regard to the interests of the Trust or its Shareholders.***

Affiliates of the Sponsor have substantial direct investments in Bitcoins. Such affiliates of the Sponsor are permitted to manage such investments, taking into account their own interests, without regard to the interests of the Trust or its Shareholders. Affiliates of the Sponsor may obtain exposure to Bitcoin through investment in the Shares. To the extent that any substantial investment in Bitcoins is initiated, materially increased or materially reduced, such investment can affect the Bitcoin Index Price. The initiation of, or material increases in, a substantial investment in Bitcoin may result in an increase in the Bitcoin Index Price. A material reduction in a substantial investment may result in a decrease in the Bitcoin Index Price, having a negative impact on the value of Shares. See "Conflicts of Interest—Proprietary Trading/Other Clients."

***Shareholders cannot be assured of the Sponsor's continued services, the discontinuance of which may be detrimental to the Trust.***

Shareholders cannot be assured that the Sponsor will be willing or able to continue to serve as sponsor to the Trust for any length of time. If the Sponsor discontinues its activities on behalf of the Trust and a substitute sponsor is not appointed, the Trust will terminate and liquidate the Bitcoins held by the Trust. Appointment of a substitute sponsor will not guarantee the Trust's continued operation, successful or otherwise. Because a substitute sponsor may have no experience managing a digital currency financial vehicle, a substitute sponsor may not have the experience, knowledge or expertise required to ensure that the Trust will operate successfully or to continue to operate at all. Therefore, the appointment of a substitute sponsor may not necessarily be beneficial to the Trust or an investment in the Shares and the Trust may terminate. See "Conflicts of Interest—The Sponsor."



***The Custodian owes no fiduciary duties to the Trust or the Shareholders, is not required to act in their best interest and could resign or be removed by the Sponsor, which could trigger early termination of the Trust.***

The Custodian is not a trustee for, and owes no fiduciary duties to, the Trust or the Shareholders. In addition, the Custodian has no duty to continue to act as the custodian of the Trust. The Custodian can terminate its role as custodian for any reason whatsoever upon the notice period provided under the Custodian Agreement. The Custodian may also be terminated. If the Custodian resigns or is removed without replacement, the Trust will dissolve in accordance with the terms of the Trust Agreement.

***Shareholders may be adversely affected by the lack of independent advisers representing investors in the Trust.***

The Sponsor has consulted with counsel, accountants and other advisers regarding the formation and operation of the Trust. No counsel has been appointed to represent an investor in connection with the offering of the Shares. Accordingly, an investor should consult his, her or its own legal, tax and financial advisers regarding the desirability of an investment in the Shares. Lack of such consultation may lead to an undesirable investment decision with respect to investment in the Shares.

***Shareholders may be adversely affected by lack of regular shareholder meetings and no voting rights.***

Under the Trust Agreement, Shareholders have limited voting rights and the Trust will not have regular Shareholder meetings and take no part in the management or control of the Trust. Accordingly, Shareholders do not have the right to authorize actions, appoint service providers or take other actions as may be taken by shareholders of other trusts or companies where shares carry such rights. Shareholders, may, however, remove and replace the Sponsor by the affirmative vote of a majority of the outstanding Shares. The Shareholders' limited voting rights, however, give almost all control under the Trust Agreement to the Sponsor and the Trustee. The Sponsor may take actions in the operation of the Trust that may be adverse to the interests of Shareholders. The Sponsor's operation of the Trust could adversely affect an investment in the Shares.

## TRADEBLOCK XBX INDEX

In the ordinary course of operation, the Trust primarily values its Bitcoins by reference to the “Bitcoin Index Price”, which is the U.S. Dollar value of a Bitcoin derived from the selected trading venues (“Bitcoin Exchanges”) included in the TradeBlock XBX Index (the “Index”). The Bitcoin Index Price is calculated by applying a weighting algorithm to the price and volume of all Bitcoin data from the Bitcoin Exchanges for the immediately preceding 24-hour period as of 4:00 p.m., New York time, on each business day. The Bitcoin Index Price is calculated using non-GAAP methodology and is not used in the Trust’s financial statements.

### *Description of the Index*

The Index is a U.S. Dollar-denominated composite reference rate for the price of Bitcoins based on the volume-weighted price at trading venues selected by TradeBlock, Inc. (the “Index Provider”). Trading venues used to calculate the Index may include Bitcoin Exchanges, over-the-counter markets or derivatives platforms. The Index Provider includes trading venues on the Index using standardized eligibility criteria such as depth of liquidity, compliance with applicable legal and regulatory requirements and data availability, and gives priority to U.S.-domiciled Bitcoin Exchanges. See “Risk Factors—Risk Factors Related to the Bitcoin Exchange Market—The Index is an average composite reference rate calculated using volume-weighted trading price data from various Bitcoin Exchanges chosen by the Index Provider. Pricing on any Bitcoin Exchange in the Bitcoin Exchange Market can be volatile and can adversely affect an investment in the Shares.”

To calculate the Bitcoin Index Price, trade data is cleansed and compiled in such a manner as to algorithmically reduce the impact of anomalous or manipulative trading. This is accomplished by adjusting the weight of each data input based on price deviation relative to the observable set of data for the relevant trading venue, as well as recent and long-term trading volume at each venue relative to the observable set for the relevant trading venues. The Index Provider formally reevaluates the weighting algorithm quarterly, but maintains discretion to change it in extreme circumstances which could necessitate immediate updates to the algorithm or included exchanges.

Index rate data and the description of the Index are based on information publicly available at the Index Provider’s website at <https://tradeblock.com/markets/indices/>. ***None of the information on the Index Provider’s website is incorporated by reference into this Annual Report.***

The Index Provider may change the trading venues that are used to calculate the Index or otherwise change the way in which the Index is calculated based on its periodic review of trading venues and its discretion described above.

If the Index becomes unavailable, or if the Sponsor determines in good faith that the Index does not reflect an accurate Bitcoin price, then the Sponsor will, on a best efforts basis, contact the Index Provider to obtain the Bitcoin Index Price directly from the Index Provider. If after such contact the Index remains unavailable or the Sponsor continues to believe in good faith that the Index does not reflect an accurate Bitcoin price, then the Sponsor will employ a cascading set of rules to determine the Bitcoin Index Price, as discussed above under “Description of the Trust — Bitcoin Index Price”.

### *Certain Relationships*

The Index Provider and the Sponsor have entered into an index license agreement (the “Index License Agreement”) governing the Sponsor’s use of the Index for calculation of the Bitcoin Index Price. The Index Provider may adjust the calculation methodology for the Index without notice to or consent of the Trust or its Shareholders. Under the Index License Agreement, the Sponsor pays a monthly fee and a fee based on the Bitcoin Holdings of the Trust to the Index Provider in consideration of its license to the Sponsor of Index-related intellectual property.

Barry E. Silbert, the founder of Digital Currency Group, Inc. and an officer of the Sponsor, acts as an advisor to the Index Provider and owns approximately 0.5% of the Index Provider’s voting equity.

Digital Currency Group, Inc., the sole member and parent company of the Sponsor owns approximately 1.9% of the Index Provider’s voting equity and owns warrants representing approximately 1.1% of the Index Provider’s voting equity.

## **CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES**

The following discussion addresses the material U.S. federal income tax consequences of the ownership of Shares. This discussion does not describe all of the tax consequences that may be relevant to a beneficial owner of Shares in light of the beneficial owner's particular circumstances, including tax consequences applicable to beneficial owners subject to special rules, such as:

- financial institutions;
- dealers in securities or commodities;
- traders in securities or commodities that have elected to apply a mark-to-market method of tax accounting in respect thereof;
- persons holding Shares as part of a hedge, "straddle," integrated transaction or similar transaction;
- Authorized Participants (as defined below);
- U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;
- entities or arrangements classified as partnerships for U.S. federal income tax purposes;
- real estate investment trusts;
- regulated investment companies; and
- tax-exempt entities, including individual retirement accounts.

This discussion applies only to Shares that are held as capital assets and does not address alternative minimum tax consequences or consequences of the Medicare contribution tax on net investment income.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Shares and partners in those partnerships are urged to consult their tax advisers about the particular U.S. federal income tax consequences of owning Shares.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations as of the date hereof, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. For the avoidance of doubt, this summary does not discuss any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Prospective investors are urged to consult their tax advisers about the application of the U.S. federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

### **Tax Treatment of the Trust**

The Sponsor intends to take the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial owner of Shares will be treated as directly

owning its *pro rata* share of the Trust's assets and a *pro rata* portion of the Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar events. Assuming that the Trust is a grantor trust for U.S. federal income tax purposes, certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for such purposes.

The Trust has informed the Custodian that it will adopt a policy to abandon, on a prospective basis, as of any date on which the Trust creates Shares, any Incidental Rights or IR Virtual Currency to which it would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. There can be no complete assurance that this prospective abandonment will be treated as effective for U.S. federal income tax purposes. If the Trust were treated as owning any asset other than Bitcoins as of any date on which it creates Shares, it would likely cease to qualify as a grantor trust for U.S. federal income tax purposes.

If the Trust were not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency for U.S. federal income tax purposes, there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing. In addition, tax information reports provided to beneficial owners of Shares would be made in a different form. If the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at a maximum rate of 21%) on its net taxable income and certain distributions made by the Trust to Shareholders would be treated as taxable dividends to the extent of the Trust's current and accumulated earnings and profits.

The remainder of this discussion is based on the assumption that the Trust will be treated as a grantor trust for U.S. federal income tax purposes.

### **Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency**

Each beneficial owner of Shares will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the Bitcoins (and any Incidental Rights and/or IR Virtual Currency) held in the Trust. Due to the new and evolving nature of digital currencies and a general absence of clearly controlling authority with respect to digital currencies, many significant aspects of the U.S. federal income tax treatment of digital currency are uncertain. On March 25, 2014, the Internal Revenue Service ("IRS") released a notice (the "Notice") discussing certain aspects of the treatment of digital currencies, such as Bitcoins, for U.S. federal income tax purposes. In the Notice, the IRS stated that, for U.S. federal income tax purposes, (i) digital currency is property that is not currency and (ii) digital currency may be held as a capital asset. There can be no assurance, however, that the IRS will not alter its position with respect to digital currency in the future or that a court would uphold the treatment set forth in the Notice. In addition, legislation has been introduced that likely could, if enacted, cause digital currency to be treated as currency for U.S. federal income tax purposes. If digital currency were properly treated as currency for U.S. federal income tax purposes, gains recognized on the disposition of digital currency, and on a disposition of Shares,

would constitute ordinary income, and losses recognized on the disposition of digital currency, and on a disposition of Shares, could be subject to special reporting requirements applicable to “reportable transactions.” The remainder of this discussion is based on the assumption that digital currency is properly treated for U.S. federal income tax purposes as property that is not currency.

The Notice does not address other significant aspects of the U.S. federal income tax treatment of digital currency, including: (i) whether digital currency is properly treated as a “commodity” for U.S. federal income tax purposes and (ii) whether and how a holder of digital currency acquired at different times or at varying prices may designate, for U.S. federal income tax purposes, which of the units of digital currency are transferred in a subsequent sale, exchange or other disposition. It is unclear what guidance on the treatment of digital currency for U.S. federal income tax purposes may be issued in the future.

Prospective investors are urged to consult their tax advisers regarding the substantial uncertainty regarding the tax consequences of an investment in the Trust and Bitcoins.

### **Incidental Rights and IR Virtual Currency**

It is possible that, in the future, the Trust will hold Incidental Rights and/or IR Virtual Currency that it receives in connection with its investment in Bitcoins. The uncertainties with respect to the treatment of digital currency for U.S. federal income tax purposes, described above, apply to Incidental Rights and IR Virtual Currency, as well as to Bitcoins. Moreover, the Notice addressed only digital currency that is “convertible virtual currency,” defined as digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency. It is conceivable that certain IR Virtual Currency the Trust may receive in the future would not be within the scope of the Notice. The discussion that follows assumes that any Incidental Right or IR Virtual Currency is properly treated for U.S. federal income tax purposes as property that may be held as a capital asset.

In general, it is expected that the Trust would receive Incidental Rights and IR Virtual Currency as a consequence of a fork, an airdrop or a similar event related to its ownership of Bitcoins. The Notice does not address the U.S. federal income tax treatment of a fork, airdrop or similar event. It is possible that the Trust’s receipt of Incidental Rights or IR Virtual Currency in connection with a fork, airdrop or similar event would be a taxable event, giving rise to taxable income for the Shareholders, even if the Trust does not claim the relevant IR Virtual Currency. It is also not clear whether any portion of the tax basis of the Bitcoins held in the Trust would be apportioned to any Incidental Right or IR Virtual Currency received by the Trust and, if so, how that apportionment would be done. Moreover, the Trust’s receipt of Incidental Rights or IR Virtual Currency may give rise to other tax issues. The possibility that the Trust will receive Incidental Rights and/or IR Virtual Currency thus increases the uncertainties and risks with respect to the U.S. federal income tax consequences of an investment in Shares.

The Trust may distribute Incidental Rights or IR Virtual Currency, or cash from the sale of Incidental Rights or IR Virtual Currency, to the Shareholders. Alternatively, the Trust may form a liquidating trust to which it contributes Incidental Rights or IR Virtual Currency and distribute interests in the liquidating trust to the Shareholders. Any such distribution will not be a taxable event for a U.S. Holder (as defined below). A U.S. Holder’s tax basis in the Incidental Rights or IR Virtual Currency distributed, whether directly or through the medium of a liquidating trust, will be the same as the U.S. Holder’s tax basis in the distributed assets immediately prior to the distribution, and the U.S. Holder’s tax basis in its *pro rata* share of the Trust’s remaining assets will not include the amount of such basis. As noted above, if a U.S. Holder holds Shares at the time the Trust acquires any Incidental Rights or IR Virtual Currency, it is not clear how the U.S.

Holder's basis in its *pro rata* share of any Incidental Rights or IR Virtual Currency will be determined. Immediately after any such distribution, the U.S. Holder's holding period with respect to the distributed Incidental Rights or IR Virtual Currency will be the same as the U.S. Holder's holding period with respect to the distributed assets immediately prior to the distribution. A subsequent sale of the distributed Incidental Rights or IR Virtual Currency will generally be a taxable event for a U.S. Holder.

For simplicity of presentation, the remainder of this discussion assumes that the Trust will hold only Bitcoins. However, the principles set forth in the discussion below apply to all of the assets that the Trust may hold at any time, including Incidental Rights and IR Virtual Currency, as well as Bitcoins. Without limiting the generality of the foregoing, each beneficial owner of Shares generally will be treated for U.S. federal income tax purposes as owning an undivided interest in any Incidental Rights and/or IR Virtual Currency held in the Trust, and any transfers or sales of Incidental Rights and/or IR Virtual Currency by the Trust (other than distributions by the Trust, as described in the preceding paragraph) will be taxable events to Shareholders with respect to which Shareholders will generally recognize gain or loss in a manner similar to the recognition of gain or loss on a taxable disposition of Bitcoins, as described below.

### **Tax Consequences to U.S. Holders**

As used herein, the term "U.S. Holder" means a beneficial owner of a Share for U.S. federal income tax purposes that is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

For U.S. federal income tax purposes, each U.S. Holder will be treated as owning an undivided interest in the Bitcoins held in the Trust and will be treated as directly realizing its *pro rata* share of the Trust's income, gains, losses and deductions. When a U.S. Holder purchases Shares for cash, the U.S. Holder's initial tax basis in its *pro rata* share of the Bitcoins held in the Trust will be equal to the amount paid for the Shares. **This discussion assumes that each U.S. Holder will acquire all of its Shares for cash on the same date and at the same price per Share. U.S. Holders that acquire, or contemplate acquiring, multiple lots of Shares at different times or prices are urged to consult their tax advisers regarding their tax bases and holding periods in their *pro rata* shares of the Bitcoins held in the Trust.**

When the Trust transfers Bitcoins to the Sponsor as payment of the Sponsor's Fee, or sells Bitcoins to fund payment of any Additional Trust Expenses, each U.S. Holder will be treated as having sold its *pro rata* share of those Bitcoins for their fair market value at that time (which, in the case of Bitcoins sold by the Trust, generally will be equal to the cash proceeds received by the Trust in respect thereof). As a result, each U.S. Holder will recognize gain or loss in an amount equal to the difference between (i) the fair market value of the U.S. Holder's *pro rata* share of the Bitcoins transferred and (ii) the U.S. Holder's tax basis for its *pro rata* share of the Bitcoins transferred. Assuming that Bitcoins are not treated as currency for U.S. federal income tax purposes, any such gain or loss will be short-term capital gain or loss if the U.S. Holder has held its Shares for one year or less and long-term capital gain or loss if the U.S. Holder has held its Shares for more than one year. A U.S. Holder's tax basis in its *pro rata* share of any Bitcoins transferred by

the Trust generally will be determined by multiplying the tax basis of the U.S. Holder's pro rata share of all of the Bitcoins held in the Trust immediately prior to the transfer by a fraction the numerator of which is the amount of Bitcoins transferred and the denominator of which is the total amount of Bitcoins held in the Trust immediately prior to the transfer. Immediately after the transfer, the U.S. Holder's tax basis in its pro rata share of the Bitcoins remaining in the Trust will be equal to the tax basis of its pro rata share of the Bitcoins held in the Trust immediately prior to the transfer, less the portion of that tax basis allocable to its pro rata share of the Bitcoins transferred.

U.S. Holders' *pro rata* shares of the expenses incurred by the Trust will be treated as "miscellaneous itemized deductions" for U.S. federal income tax purposes. As a result, for taxable years beginning after December 31, 2017 and before January 1, 2026, a non-corporate U.S. Holder's share of these expenses will not be deductible for U.S. federal income tax purposes. For taxable years beginning on or after January 1, 2026, a non-corporate U.S. Holder's share of these expenses will be deductible for regular U.S. federal income tax purposes only to the extent that the U.S. Holder's share of the expenses, when combined with other "miscellaneous itemized deductions," exceeds 2% of the U.S. Holder's adjusted gross income for the particular year, will not be deductible for U.S. federal alternative minimum tax purposes and will be subject to certain other limitations on deductibility.

On a sale or other disposition of Shares, a U.S. Holder will be treated as having sold the Bitcoins underlying such Shares. Accordingly, the U.S. Holder generally will recognize gain or loss in an amount equal to the difference between (i) the amount realized on the sale of the Shares and (ii) the portion of the U.S. Holder's tax basis in its pro rata share of the Bitcoins held in the Trust that is attributable to the Shares disposed of. Such tax basis generally will be determined by multiplying the tax basis of the U.S. Holder's pro rata share of all of the Bitcoins held in the Trust immediately prior to such sale or other disposition by a fraction the numerator of which is the number of Shares disposed of and the denominator of which is the total number of Shares held by such U.S. Holder immediately prior to such sale or other disposition. Assuming that digital currency is not treated as currency for U.S. federal income tax purposes, gain or loss recognized by a U.S. Holder on a sale or other disposition of Shares will generally be short-term capital gain or loss if the U.S. Holder has held its Shares for one year or less and long-term capital gain or loss if the U.S. Holder has held its Shares for more than one year. The deductibility of capital losses is subject to significant limitations.

As explained above in "Description of the Trust," the Trust has not obtained authorization from the SEC to operate a redemption program. If such authorization is obtained and the Trust redeems all or portion of a U.S. Holder's Shares in exchange for the underlying Bitcoins represented by the redeemed Shares, such redemption will not be a taxable event to the U.S. Holder. The U.S. Holder's tax basis in the Bitcoins received in the redemption will be the same as the U.S. Holder's tax basis for the portion of its pro rata share of the Bitcoins held in the Trust immediately prior to the redemption that is attributable to the Shares redeemed, determined as described above. The U.S. Holder's holding period with respect to the Bitcoins received will include the period during which the U.S. Holder held the Shares so redeemed. A subsequent sale of the Bitcoins received in such redemption will generally be a taxable event.

After any sale, redemption or other disposition of fewer than all of a U.S. Holder's Shares, the U.S. Holder's tax basis in its *pro rata* share of the Bitcoins held in the Trust immediately after the disposition will equal the tax basis in its *pro rata* share of the total amount of the Bitcoins held in the Trust immediately prior to the disposition, less the portion of that tax basis that is taken into account in determining the amount of gain or loss recognized by the U.S. Holder on the disposition (or, in the case of a redemption, that is treated as the tax basis of the Bitcoins received by the U.S. Holder in the redemption).



Any brokerage or other transaction fee incurred by a U.S. Holder in purchasing Shares generally will be added to the U.S. Holder's tax basis in the underlying assets of the Trust. Similarly, any brokerage fee or other transaction fee incurred by a U.S. Holder in selling Shares generally will reduce the amount realized by the U.S. Holder with respect to the sale.

### **Tax Consequences to Non-U.S. Holders**

As used herein, the term "non-U.S. Holder" means a beneficial owner of a Share for U.S. federal income tax purposes that is not a U.S. Holder.

The term "non-U.S. Holder" does not include (i) a nonresident alien individual who is present in the United States for 183 days or more in a taxable year, (ii) a former U.S. citizen or U.S. resident or an entity that has expatriated from the United States; (iii) a person whose income in respect of Shares is effectively connected with the conduct of a trade or business in the United States; or (iv) an entity that is treated as a partnership for U.S. federal income tax purposes. Prospective investors described in the preceding sentence should consult their tax advisers regarding the U.S. federal income tax consequences of owning Shares.

A non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to its share of any gain recognized on the Trust's transfer of Bitcoins in payment of the Sponsor's Fee or any Additional Trust Expenses or on the Trust's sale of Bitcoins. In addition, assuming that the Trust holds no asset other than Bitcoins, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to any gain it recognizes on a sale of Shares. A non-U.S. Holder also will generally not be subject to U.S. federal income or withholding tax with respect to any distribution received from the Trust, whether in cash or in kind. However, there is uncertainty with respect to the proper treatment of forks, airdrops and similar events for U.S. federal income tax purposes, and it is possible that a non-U.S. Holder would be subject to U.S. federal income or withholding tax if such an event were treated as a taxable event for U.S. federal income tax purposes. Moreover, given the evolving nature of digital currency, it is conceivable that a non-U.S. Holder's pro rata share of income derived from an IR Virtual Currency that the Trust may hold in the future, and any gain or proceeds received by a non-U.S. Holder upon a sale of Shares to the extent attributable to such IR Virtual Currency, would be subject to U.S. federal income or withholding tax.

### **U.S. Information Reporting and Backup Withholding**

The Trust or the appropriate broker will file certain information returns with the IRS and provide Shareholders with information regarding their annual income (if any) and expenses with respect to the Trust in accordance with applicable Treasury regulations.

A U.S. Holder will generally be subject to information reporting requirements and backup withholding unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. In order to avoid the information reporting and backup withholding requirements, a non-U.S. Holder may have to comply with certification procedures to establish that it is not a U.S. person. The amount of any backup withholding will be allowed as a credit against the Shareholder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

**1. The issuer's primary and secondary SIC Codes.**

The Trust's primary SIC Code is 6221. The Trust's secondary SIC code is 6199.

**2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations.**

The Trust is a passive entity with no operations, and the Sponsor administers and manages the Trust as described in "Description of the Trust."

**3. Whether the issuer has at any time been a "shell company."**

The Trust has not at any time been a "shell company."

**4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this Annual Report.**

The Sponsor of the Trust is Grayscale Investments, LLC. Genesis Global Trading, Inc., a wholly owned subsidiary of Digital Currency Group, Inc. and a registered broker-dealer, is the Marketer and Distributor of the Trust. Genesis Global Trading, Inc. was also the Initial Purchaser and is currently an Authorized Participant. The financial results of these entities are not included in the Trust's financial statements.

**The Sponsor**

The Trust's Sponsor is Grayscale Investments, LLC, a Delaware limited liability company formed on May 29, 2013 and a wholly owned subsidiary of Digital Currency Group, Inc. The Sponsor's principal place of business is 636 Avenue of the Americas, New York, New York 10011 and its telephone number is (212) 668-1427. Under the Delaware Limited Liability Company Act and the governing documents of the Sponsor, Digital Currency Group, Inc., the sole member of the Sponsor, is not responsible for the debts, obligations and liabilities of the Sponsor solely by reason of being the sole member of the Sponsor.

The Sponsor is neither an investment adviser registered with the SEC nor a commodity pool operator registered with the CFTC, and will not be acting in either such capacity with respect to the Trust, and the Sponsor's provision of services to the Trust will not be governed by the Investment Advisers Act or the CEA.

**The Sponsor's Role**

The Sponsor arranged for the creation of the Trust and quotation of the Shares on the OTCQX. As consideration for its receipt of the Sponsor's Fee from the Trust, the Sponsor is obligated to pay the Sponsor-paid Expenses. The Sponsor also paid the costs of the Trust's organization and the costs of the initial sale of the Shares.

The Sponsor is generally responsible for the day-to-day administration of the Trust under the provisions of the Trust Agreement. This includes (i) preparing and providing periodic reports and financial statements on behalf of the Trust for investors, (ii) processing orders to create (and, should the Trust commence a redemption program, redeem) Baskets and coordinating the processing of such orders with the Custodian and the Transfer Agent, (iii) calculating and publishing the Bitcoin Holdings of the Trust and the Bitcoin Holdings per Share each business day as of 4:00 p.m., New York time, or as soon thereafter as practicable,

(iv) selecting and monitoring the Trust's Service Providers and from time to time engaging additional, successor or replacement Service Providers, (v) instructing the Custodian to withdraw the Trust's Bitcoin as needed to pay the Sponsor's Fee and any Additional Trust Expenses, (vi) upon dissolution of the Trust, distributing the Trust's remaining Bitcoin, Incidental Rights and IR Virtual Currency or the cash proceeds of the sale thereof to the owners of record of the Shares and (vii) establishing the principal market for GAAP valuation. In addition, if there is a fork in the Bitcoin Network after which there is a dispute as to which network resulting from the fork is the Bitcoin Network, the Sponsor has the authority to select the network that it believes in good faith is the Bitcoin Network, unless such selection or authority would otherwise conflict with the Trust Agreement.

The Sponsor does not store, hold, or maintain custody or control of the Trust's Bitcoin but instead has entered into the Custodian Agreement with the Custodian to facilitate the security of the Trust's Bitcoin.

The Sponsor may transfer all or substantially all of its assets to an entity that carries on the business of the Sponsor if at the time of the transfer the successor assumes all of the obligations of the Sponsor under the Trust Agreement. In such an event, the Sponsor will be relieved of all further liability under the Trust Agreement.

The Sponsor's Fee is paid by the Trust to the Sponsor as compensation for services performed under the Trust Agreement and as consideration for the Sponsor's agreement to pay the Sponsor-paid Expenses. See "Description of the Trust—Trust Expenses."

### **Initial Purchaser**

On September 24, 2013, DCG (formerly known as SecondMarket Holdings, Inc.), subject to certain conditions, contributed 17,800 Bitcoins to the Trust in exchange for 16,198,000 Shares (as adjusted for the Share Split). Genesis, acting on behalf of DCG, was the Initial Purchaser. The ratio of Shares to Bitcoins was determined arbitrarily in as much as the Shares had no inherent value prior to the commencement of the Trust's operations.

### **Authorized Participants**

An Authorized Participant must enter into a "Participant Agreement" with the Sponsor and the Trust to govern its placement of orders to create (and, should the Trust commence a redemption program, redeem) Baskets. The Participant Agreement sets forth the procedures for the creation and redemption of Baskets and for the delivery of Bitcoins required for creations and redemptions. A copy of the form of Participant Agreement is available for inspection at the Sponsor's principal office identified herein.

Each Authorized Participant must (i) be a registered broker-dealer, (ii) enter into a Participant Agreement with the Sponsor and (iii) own an Authorized Participant Self-Administered Account. A list of the current Authorized Participants can be obtained from the Sponsor. As of the date of this Annual Report, Genesis is the only acting Authorized Participant. The Sponsor intends to engage additional Authorized Participants who are unaffiliated with the Trust in the future.

No Authorized Participant has any obligation or responsibility to the Sponsor or the Trust to effect any sale or resale of Shares.

## **The Distributor and Marketer**

Genesis Global Trading, Inc., a Delaware corporation, is the Distributor and Marketer of the Shares. The Distributor and Marketer is a registered broker-dealer with the SEC and is a member of FINRA.

The Distributor and Marketer assists the Sponsor in developing an ongoing marketing plan for the Trust; preparing marketing materials regarding the Shares, including the content on the Trust's website, <https://grayscale.co/bitcoin-investment-trust/>; executing the marketing plan for the Trust; and providing strategic and tactical research to the Trust on the global Bitcoin market. The Distributor and Marketer and the Sponsor are affiliates of one another.

The Sponsor has entered into a Distribution and Marketing Agreement with the Distributor and Marketer. The Sponsor may engage additional or successor Distributors and Marketers in the future.

## **Conflicts of Interest**

### *General*

The Sponsor has not established formal procedures to resolve all potential conflicts of interest. Consequently, investors may be dependent on the good faith of the respective parties subject to such conflicts to resolve them equitably. Although the Sponsor attempts to monitor these conflicts, it is extremely difficult, if not impossible, for the Sponsor to ensure that these conflicts do not, in fact, result in adverse consequences to the Trust.

Prospective investors should be aware that the Sponsor presently intends to assert that Shareholders have, by subscribing for Shares of the Trust, consented to the following conflicts of interest in the event of any proceeding alleging that such conflicts violated any duty owed by the Sponsor to investors.

### *Digital Currency Group, Inc.*

Digital Currency Group, Inc., the sole member and parent company of the Sponsor, is also the sole shareholder and parent company of Genesis, which is currently the only acting Authorized Participant. Digital Currency Group, Inc. also owns approximately 1.9% of the Index Provider's voting equity, warrants representing approximately 1.1% of the Index Provider's voting equity and a minority interest in the Custodian that represents less than 1.0% of the Custodian's equity. Digital Currency Group, Inc. owns a minority interest holder in Coinbase, which operates the GDAX, representing less than 1.0% of its equity, and a minority interest holder in Paxos, which operates itBit, representing less than 1.0% of its equity.

Digital Currency Group, Inc. has investments in a large number of digital currencies and companies involved in the digital currency ecosystem, including exchanges and custodians. Digital Currency Group, Inc.'s positions on changes that should be adopted in the Bitcoin Network could be adverse to positions that would benefit the Trust or its Shareholders. Additionally, before or after a hard fork, Digital Currency Group, Inc.'s position regarding which fork among a group of incompatible forks of the Bitcoin Network should be considered the "true" Bitcoin, could be adverse to positions that would most benefit the Trust.

### *The Sponsor*

The Sponsor has a conflict of interest in allocating its own limited resources among, when applicable, different clients and potential future business ventures, to each of which it owes fiduciary duties. Additionally, the professional staff of the Sponsor also services other affiliates of the Sponsor and their

respective clients. Although the Sponsor and its professional staff cannot and will not devote all of its or their respective time or resources to the management of the affairs of the Trust, the Sponsor intends to devote, and to cause its professional staff to devote, sufficient time and resources to manage properly the affairs of the Trust consistent with its or their respective fiduciary duties to the Trust and others.

The Sponsor and the Distributor and Marketer are affiliates of each other, and the Sponsor may engage other affiliated service providers in the future. Because of the Sponsor's affiliated status, it may be disincentivized from replacing affiliated service providers. In connection with this conflict of interest, Shareholders should understand that affiliated service providers will receive fees for providing services to the Trust. Clients of the affiliated service providers may pay commissions at negotiated rates which are greater or less than the rate paid by the Trust.

The Sponsor and any affiliated service provider may, from time to time, have conflicting demands in respect of their obligations to the Trust and, in the future, to other clients. It is possible that future business ventures of the Sponsor and affiliated service providers may generate larger fees, resulting in increased payments to employees, and therefore, incentivizing the Sponsor and/or the affiliated service providers to allocate it/their limited resources accordingly to the potential detriment of the Trust.

#### *The Authorized Participant*

As of the date of this Annual Report, the only Authorized Participant is Genesis, an affiliate of the Trust and the Sponsor. As a result of this affiliation, the Sponsor has an incentive to resolve questions between Genesis, on the one hand, and the Trust and Shareholders, on the other hand, in favor of Genesis (including, but not limited to, questions as to the calculation of the Basket Bitcoin Amount).

In addition, Genesis may engage in Bitcoin trading with the Trust's affiliated entities. For example, when the Sponsor receives the Sponsor's Fee in Bitcoins, it sells the Bitcoins through Genesis. For this service, Genesis charges the Sponsor a transaction fee, which is not borne by the Trust. Additionally, the Sponsor's parent company, Digital Currency Group, Inc., is the sole shareholder and parent company of Genesis, and the Custodian, Xapo, Inc., are customers of Genesis and may buy or sell Bitcoins through Genesis from time to time, independent of the Trust. Lastly, several employees of the Sponsor and Digital Currency Group, Inc. are FINRA-registered representatives who maintain their licenses through Genesis.

#### *Proprietary Trading/Other Clients*

Because the officers of the Sponsor may trade Bitcoins for their own personal trading accounts (subject to certain internal trading policies and procedures) at the same time as they are managing the account of the Trust, prospective investors should be aware that the activities of the officers of the Sponsor, subject to their fiduciary duties, may, from time-to-time, result in their taking positions in their personal trading accounts which are opposite of the positions taken for the Trust. Records of the Sponsor's officers' personal trading accounts will not be available for inspection by Shareholders.

#### *Relationships of the Index Provider with the Sponsor and management of the Sponsor*

The Sponsor and its affiliates rely on services provided by the Index Provider (in addition to the calculation of the Index), and may otherwise be interested in the success of the Index Provider. These relationships include:

- Barry E. Silbert, the Chief Executive Officer of the Sponsor, acts as an advisor to the Index Provider and owns approximately 0.5% of the Index Provider's voting equity;
- Digital Currency Group, Inc., the sole member and parent company of the Sponsor owns approximately 1.9% of the Index Provider's voting equity and owns warrants representing approximately 1.1% of the Index Provider's voting equity; and
- Genesis licenses and uses a trading software platform provided by the Index Provider to operate its Bitcoin trading desk and facilitate Genesis's actions as an Authorized Participant.

Under the rules governing the calculation of the Bitcoin Index Price, if the Sponsor determines in good faith that the Index does not reflect an accurate Bitcoin price, then the Sponsor will employ an alternative method to determine the Bitcoin Index Price. Because such a determination could reflect negatively upon the Index Provider, lead to a decrease in the Index Provider's revenue or otherwise adversely affect the Index Provider, and because of the relationships listed above, the Sponsor has a conflict of interest with respect to the Index Provider.

**5. The effect of existing or probable governmental regulations on the business.**

Please refer to "Risk Factors – Risk Factors Related to the Regulation of the Trust and the Shares" for a discussion of the effect of existing or probable governmental regulations on the Trust's operations.

**6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities are borne directly by customers.**

Not applicable.

**7. Costs and effects of compliance with environmental laws (federal, state and local).**

Not applicable.

**8. The number of total employees and number of full-time employees.**

The Trust has no employees. The Sponsor had five employees as of December 31, 2017.

**Item 9. The nature of products and services offered.**

**A. Principal products or services, and their markets.**

Not applicable.

**B. Distribution methods of the products or services.**

Not applicable.

**C. Status of any publicly announced new product or service.**

Not applicable.

**D. Competitive business conditions, the issuer's competitive position in the industries, and methods of competition.**

The Trust is a passive investment vehicle and is not engaged in any business activities. Bitcoins are not the only type of digital currencies founded on cryptography, although as of the date of this Annual Report, Bitcoin is considered the most prominent digital currency. Other cryptographic digital currencies have developed since the Bitcoin Network's inception: Litecoin, Ripple, Ethereum and Dash are just a few examples of Bitcoin alternatives. The Bitcoin Network, however, possesses the "first-to-market" advantage and has captured the majority of the industry's market share. See "Risk Factors Related to the Bitcoin Exchange Market and the Index - Demand for Bitcoins is driven, in part, by its status as the most prominent and secure digital asset. Competition from the emergence or growth of other digital assets or methods of investing in Bitcoin could have a negative impact on the price of Bitcoins and adversely affect an investment in the Shares."

**E. Sources and availability of raw materials and the names of principal suppliers.**

Not applicable.

**F. Dependence on one or a few major customers.**

Not applicable.

**G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration.**

Not applicable.

**H. The need for any government approval of principal products or services and the status of any requested government approvals.**

See the discussion set forth under the heading "The effect of existing or probable governmental regulations on the business" above.

**Item 10. The nature and extent of the issuer's facilities.**

The Trust is a passive entity with no operations, and the Sponsor administers and manages the Trust as described in the "Description of the Trust." The principal office of the Sponsor is located at 636 Avenue of the Americas, New York, New York 10011. The Sponsor utilizes a portion of approximately 6,105 square feet leased by DCG. The lease expires on June 30, 2022.

## **PART D. MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION**

**Item 11. The name of the chief executive officer, members of the board of directors, as well as control persons.**

### **Management of the Sponsor**

Under the Trust Agreement, all management functions of the Trust have been delegated to and are conducted by the Sponsor, its agents and its affiliates, including without limitation, the Custodian and its agents. As officers of the Sponsor, Barry E. Silbert, the principal executive officer of the Sponsor, Simcha Wurtzel, the principal financial officer of the Sponsor, and Michael Sonnenshein, as Managing Director, may take certain actions and execute certain agreements and certifications for the Trust, in their capacity as the principal officers of the Sponsor.

The following individuals are the officers of the Sponsor responsible for overseeing the business and operations of the Trust:

#### ***Barry E. Silbert, Chief Executive Officer***

Barry E. Silbert is the Chief Executive Officer of the Sponsor and the founder of Digital Currency Group, Inc. (“DCG”), which builds and supports digital currency and blockchain companies through its insights, network and access to capital. Starting in 2012, Mr. Silbert became one of the first and most active investors in the digital currency space, providing seed funding for Coinbase, Ripple, BitPay and a number of other companies that have gone on to define the industry. Prior to founding DCG, Mr. Silbert founded SecondMarket, an online platform and registered broker-dealer that enabled private companies to customize, control and execute secondary transactions for the benefit of their employees and investors. SecondMarket was acquired by NASDAQ in 2015. Before becoming an entrepreneur, Mr. Silbert was an investment banker at Houlihan Lokey and graduated with honors from the Goizueta Business School at Emory University. Mr. Silbert has received several honors including being named Entrepreneur of the Year by Ernst & Young and Crain’s and being selected to Fortune’s prestigious “40 under 40” list.

#### ***Simcha Wurtzel, Vice President, Finance and Controller***

Simcha Wurtzel is Vice President, Finance and Controller of the Sponsor and the Vice President of Finance and Controller of Digital Currency Group, Inc. From 2007 to 2015, Mr. Wurtzel served as the Financial and Operations Principal for DCG. (formerly known as SecondMarket Holdings, Inc.). Prior to working at DCG, Mr. Wurtzel was a Senior Accountant at Liberty Media’s Starz! Entertainment division where he held specific responsibilities for studios producing series television and theatrical feature films. Mr. Wurtzel holds a B.S. degree in accounting from Touro College, New York.

#### ***Michael Sonnenshein, Managing Director***

Michael Sonnenshein is Managing Director of the Sponsor. From 2015 to 2017, Mr. Sonnenshein was Director of Sales & Business Development for the Sponsor. From 2014 to 2015, Mr. Sonnenshein served as an Account Executive for the Sponsor (formerly known as Alternative Currency Asset Management LLC). Prior to working at Grayscale, Mr. Sonnenshein was an Associate at J.P. Morgan Securities, covering high net worth individuals and institutions. Mr. Sonnenshein worked in a similar capacity at Barclays Wealth, providing coverage to middle-market hedge funds and institutions. Mr. Sonnenshein holds an MBA



from the Leonard N. Stern School of Business at New York University and a BBA from the Goizueta School of Business at Emory University.

### **Executive Compensation**

The Trust has no employees or directors and is managed by the Sponsor. None of the officers or members of the Sponsor receive compensation from the Trust. The Sponsor's Fee, which accrues daily at an annual rate of 2% of the Trust's Bitcoin Holdings and is payable monthly in arrears. For the years ended December 31, 2017 and 2016, the Sponsor earned \$13,829,467 and \$1,818,656, respectively, in Sponsor fees from the Trust. In addition, the Sponsor may pay Additional Trust Expenses, on behalf of the Trust and be reimbursed by the Trust. For the years ended December 31, 2017 and 2016, the Trust incurred \$358,185 and \$0 of Additional Trust Expenses, respectively.

### **Compensation of Directors**

Not applicable.

### **Business Address**

The business address for each of the Sponsor's officers is c/o Grayscale Investments, LLC, 636 Avenue of the Americas, New York, New York 10011.

### **B. Legal/Disciplinary History**

None.

### **C. Disclosure of Family Relationships**

None.

### **D. Disclosure of Related Party Transactions**

See "Conflicts of Interest" above.

**Item 12. Financial information for the issuer's most recent fiscal period.**

The Trust's audited financial statements as of and for the periods ended December 31, 2017 and December 31, 2016 are attached as exhibits to this Annual Report. The historical results presented herein are not necessarily indicative of financial results to be achieved in future periods. The Trust's audited financial statements attached as exhibits to this Annual Report are incorporated herein by reference and are considered as part of this Annual Report.

**Item 13. Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.**

See "Financial information for the issuer's most recent fiscal period" above.

**Item 14. Beneficial Owners.**

As of March 29, 2018, DCG beneficially owned 6.11% of the Trust's Shares. The address of the aforementioned are c/o Grayscale Investments, LLC, 636 Avenue of the Americas, New York, New York 10011.

**Item 15. The name, address, telephone number, and email address of each of the following outside providers that provide services to the issuer on matters relating to operations, business development and disclosure.**

**1. Counsel**

Joseph A. Hall, Esq.  
Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, NY 10017  
Telephone: (212)-450-4565  
Facsimile: (212)-450-6860  
Email: joseph.hall@davispolk.com

Andrew D. Thorpe, Esq.  
Orrick, Herrington & Sutcliffe LLP  
The Orrick Building  
405 Howard Street  
San Francisco, California 94105  
Telephone: (415) 773-5970  
Facsimile: (415) 773-5759  
Email: athorpe@orrick.com

**2. Independent Auditor**

Friedman LLP  
100 Eagle Rock Ave. Suite 200  
East Hanover, NJ 07936  
Telephone: 973-929-3500

**3. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this Annual Report - the information shall include the telephone number and email address of each advisor.**

Not applicable.

**Item 16. Management's Discussion and Analysis.**

*The following discussion and analysis of our financial condition and results of operations should be read together with, and is qualified in its entirety by reference to, our audited financial statements and related notes included elsewhere in this Annual Report, which have been prepared in accordance with GAAP. The following discussion may contain forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements" or in other sections of this Annual Report.*

**Trust Overview**

The investment objective of the Trust is for the Shares to reflect the value of the Bitcoins held by the Trust, determined by reference to the Bitcoin Index Price, less the Trust's expenses and other liabilities. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to Bitcoin. A substantial direct investment in Bitcoins may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of the Bitcoins and may involve the payment of substantial fees to acquire such Bitcoins from third-party facilitators through cash payments of U.S. Dollars. Although the Shares will not be the exact equivalent of a direct investment in Bitcoins, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in Bitcoin markets through the securities market. Because the value of the Shares is tied to the value of the Bitcoins held by the Trust, it is important to understand the investment attributes of, and the market for, Bitcoins.

The activities of the Trust will be limited to (i) issuing Baskets in exchange for Bitcoins transferred to the Trust as consideration in connection with the creations, (ii) transferring or selling Bitcoins, Incidental Rights and IR Virtual Currency as necessary to cover the Sponsor's Fee and/or any Additional Trust Expenses, (iii) transferring Bitcoins in exchange for Baskets surrendered for redemption (subject to obtaining regulatory approval from the SEC and approval from the Sponsor), (iv) causing the Sponsor to sell Bitcoins, Incidental Rights and IR Virtual Currency on the termination of the Trust, (v) making distributions of Incidental Rights and/or IR Virtual Currency or cash from the sale thereof, and (vi) engaging in all administrative and security procedures necessary to accomplish such activities in accordance with the provisions of the Trust Agreement the Custodian Agreement, the Index License Agreement and the Participant Agreements.

In addition, the Trust may engage in any lawful activity necessary or desirable in order to facilitate Shareholders' access to Incidental Rights or IR Virtual Currency, provided that such activities do not conflict with the terms of the Trust Agreement. The Trust will not be actively managed. It will not engage in any activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the market prices of Bitcoins.

***Incidental Rights and IR Virtual Currency***

From time to time, the Trust may come into possession of Incidental Rights and/or IR Virtual Currency by virtue of its ownership of Bitcoins, generally through a fork in the Blockchain, an airdrop offered to holders of Bitcoins or other similar event. Pursuant to the terms of the Trust Agreement, the Trust may take any lawful action necessary or desirable in connection with the Trust's ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the Trust Agreement. These actions include selling Incidental Rights and/or IR Virtual Currency and distributing the cash proceeds to Shareholders or distributing Incidental Rights and/or IR Virtual Currency in kind to Shareholders, or to an agent acting on behalf of the Shareholders if such distribution would otherwise be infeasible. The Trust may also use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee and Additional Trust Expenses, if any, as discussed below under "—Trust Expenses." However, the Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust's Bitcoin Holdings, the Bitcoin Holdings per Share, or the NAV.

### ***Trust Expenses***

The Trust's only ordinary recurring expense is expected to be the Sponsor's Fee. The Sponsor's Fee will be determined by applying a 2% annual rate to the Trust's Bitcoin Holdings, as calculated and published by the Sponsor or its delegates, and converting the resulting U.S. Dollar amount into Bitcoins at the Bitcoin Index Price. Payments of the Sponsor's Fee will occur monthly in arrears. To cause the Trust to pay the Sponsor's Fee, the Custodian will, when directed by the Sponsor, (i) withdraw from the Bitcoin Account the number of Bitcoins equal to the accrued but unpaid Sponsor's Fee and (ii) transfer such Bitcoins to the Sponsor's account monthly in arrears. If the Trust holds any Incidental Rights or IR Virtual Currency at any time, the Trust may also pay the Sponsor's Fee, in whole or in part, with such Incidental Rights and/or IR Virtual Currency by entering into an agreement with the Sponsor and transferring such Incidental Rights to the Sponsor at a value to be determined pursuant to such agreement. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee only if such agreement and transfer does not conflict with the terms of the Trust Agreement. The Sponsor, from time to time, may temporarily waive all or a portion of the Sponsor's Fee in its discretion for stated periods of time. Presently, the Sponsor does not intend to waive any of the Sponsor's Fee.

As consideration for its receipt of the Sponsor's Fee, the Sponsor has assumed the obligation to pay the Sponsor-paid Expenses. The Sponsor has not assumed the obligation to pay Additional Trust Expenses. If Additional Trust Expenses are incurred, the Sponsor (i) will withdraw from the Bitcoin Account (or other applicable account) Bitcoins, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such Bitcoins, Incidental Rights and/or IR Virtual Currency into U.S. Dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver such Bitcoins, Incidental Rights and/or IR Virtual Currency in kind, at a value to be determined pursuant to an agreement with the relevant payee, in satisfaction of such Additional Trust Expenses. The Trust may use Incidental Rights or IR Virtual Currency to pay Additional Trust Expenses only if doing so does not conflict with the terms of the Trust Agreement. The number of Bitcoins represented by a Share will decline each time the Trust pays the Sponsor's Fee or any Additional Trust Expenses by transferring or selling Bitcoins.

### ***Withdrawal of Registration Statement on Form S-1***

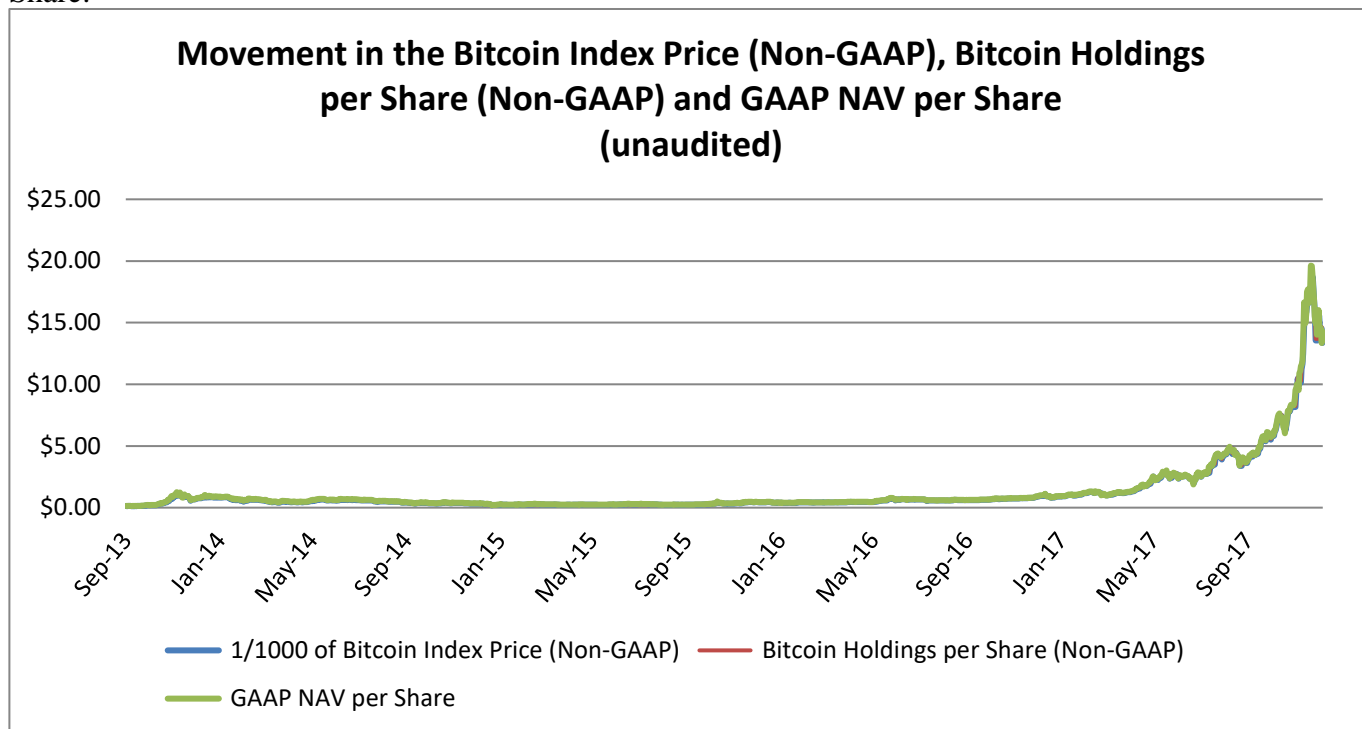
On January 19, 2017, prior to the initial public filing of the Trust's registration statement on Form S-1 with the SEC, the Trust suspended the creation of new Shares, which had been taking place through private

placement transactions exempt from the registration requirements of the Securities Act. On January 20, 2017, the Trust made an initial public filing of the registration statement on Form S-1 with the SEC, relating to the proposed registration of Trust's Shares.

On October 25, 2017, the Sponsor announced that it had requested withdrawal of its registration statement on Form S-1 (File No. 333-215627) that was initially filed on January 20, 2017 with the SEC for a proposed public offering of its Shares. Earlier this year, the SEC rejected two "Rule 19b-4" applications for the exchange listing of digital currency products. In light of those rejections and the Sponsor's belief there had not been enough regulatory developments to prompt the SEC to approve a similar Rule 19b-4 application, the NYSE Arca, Inc. withdrew the Rule 19b-4 application seeking approval to list Shares of the Trust on the NYSE Arca on September 27, 2017. Because an exchange listing of the Trust's Shares is not currently feasible, the Sponsor has determined that it was in the best interests of the Trust to withdraw the Registration Statement. The Sponsor intends to continue its dialogue with the SEC and to closely monitor regulatory developments in order to be prepared to proceed with a public offering and exchange listing of the Trust's Shares when conditions permit, although the Sponsor cannot predict if or when this may occur. Withdrawal of the Registration Statement does not impact quotation of the Trust's Shares on the OTCQX.

## Bitcoin

Investing in the Shares does not insulate the investor from certain risks, including price volatility. The following table illustrates the movement in the Bitcoin Holdings per Share (Non-GAAP), which equals the Bitcoin Holdings of the Trust divided by the number of outstanding Shares since September 25, 2013 through December 31, 2017, as well as the Bitcoin Index Price (Non-GAAP) and the GAAP NAV per Share:



For more information about how we determine the Bitcoin Holdings per Share, see “Bitcoin Investment Trust—Valuation of Bitcoin and Determination of the Trust’s Bitcoin Holdings.”

### **Fork(s)**

There is no official developer or group of developers that formally controls the Bitcoin Network. As a result, any individual can download the Bitcoin Network software and make any desired modifications, which are proposed to users and miners on the Bitcoin Network through software downloads and upgrades, typically posted to the Bitcoin development forum on GitHub.com. A substantial majority of miners and Bitcoin users must consent to such software modifications by downloading the altered software or upgrade; otherwise, the modifications do not become a part of the Bitcoin Network. Since the Bitcoin Network’s inception, modifications to the Bitcoin Network have been accepted by the vast majority of users and miners, ensuring that the Bitcoin Network remains a coherent system.

However, over the last few years, the Bitcoin Network has experienced significant scalability problems. The scalability problems are a consequence of the fact that blocks in the blockchain are limited to one-megabyte in size. The one-megabyte limit created a bottleneck in Bitcoin, resulting in increased transaction fees and delayed processing of transactions that cannot be fit into a block. Since these problems first surfaced, various proposals have been put forth by developers, miners, and business operators on how to scale Bitcoin effectively. This has led to a contentious and heated debate about which scalability solution would preserve network security whilst increasing transaction throughput in a cost-effective way, and consequently a number of forks.

When a proposed modification to the Bitcoin Network is not accepted by the vast majority of miners and users but is nonetheless accepted by a substantial population of participants in the network, a “fork” in the blockchain occurs, resulting in two separate networks. A “hard fork” is a software upgrade that introduces a new rule to the network that is not compatible with the older software, while a “soft fork” is any change that is backward compatible. Holders of Bitcoins on the original Bitcoin Network, at the time the block is mined and the fork occurs, can then also receive an identical amount of new tokens on the new network.

### **Bitcoin Fork on August 1, 2017 (Bitcoin Cash)**

#### ***Background and Initial Measurement***

In the case of the Bitcoin-Bitcoin Cash hard fork on August 1, 2017, a quorum of network participants accepted a modification to increase the Bitcoin Network block size to 8 megabytes to resolve the scalability problem. At the same time, many network participants still did not believe that this was a superior scaling solution. Therefore, they continued to support another version of the Bitcoin Network without the block size increase but with a different scaling solution known as Segregated Witness. The version of the Bitcoin Network with the block size increase was rebranded as Bitcoin Cash.

Immediately following the hard fork on August 1, 2017, holders of Bitcoin passively received an Incidental Right to obtain an equal number of Bitcoin Cash tokens. At that time, the Trust held approximately 173,014 Bitcoin and the newly created Bitcoin Cash was inaccessible to the Trust until the Custodian was able to develop processes to safely and securely obtain access to and permit withdrawal of Bitcoin Cash. On the date of the hard fork, the Incidental Rights to Bitcoin Cash were determined to have no value as there were insufficient observable market inputs to determine the fair value of Bitcoin Cash. The Custodian subsequently exercised the Trust’s Incidental Rights to obtain Bitcoin Cash tokens without first notifying

the Trust that it intended to do so. As a result, and until the distribution of Bitcoin Cash tokens described below, the Trust held Bitcoin Cash tokens rather than Incidental Rights thereto.

### ***Distribution of Bitcoin Cash***

On October 25, 2017, the Trust declared a distribution and established a record date for the distribution of Bitcoin Cash held by the Trust to Shareholders of record ("Bitcoin Cash Record Date Shareholders") as of the close of business on November 6, 2017 (the "Bitcoin Cash Record Date" and such distribution the "Bitcoin Cash Distribution").

On the Bitcoin Cash Record Date, the Trust, acting on behalf of the Bitcoin Cash Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin Cash Record Date Shareholders and distributed all of the Bitcoin Cash tokens then held by the Trust to the Bitcoin Cash Record Date Shareholders by transferring such tokens to the Agent. The Trust has no ownership interest in the distributed Bitcoin Cash, no ability to control the actions of the Agent and no right to receive any information about the distributed Bitcoin Cash or the disposition thereof from the Bitcoin Cash Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that it liquidated the Bitcoin Cash tokens, on behalf of the Bitcoin Cash Record Date Shareholders, using a related party registered broker-dealer (Genesis), over a period of 32 days and remitted the cash proceeds from such sale, net of the administrative and other expenses incurred by the Agent in connection with the liquidation to the Bitcoin Cash Record Date Shareholders on December 12, 2017.

In connection with the Bitcoin Cash fork, the Trust incurred Additional Trust Expenses. These Additional Trust Expenses primarily related to consultations with the Trust's professional advisors and third-party service providers to determine an appropriate approach to handling the Bitcoin Cash that would preserve value for the Shareholders in a manner consistent with the Trust's continued treatment as a grantor trust for U.S. federal income tax purposes. Pursuant to the terms of the Trust Agreement, the Additional Trusts Expenses are borne by the Trust.

(All Bitcoin Cash balances are rounded to the nearest whole Bitcoin Cash)	For the year ended December 31, 2017
<b>IR Virtual Currency (Bitcoin Cash):</b>	
Opening Balance	-
IR Virtual Currency of Bitcoin Cash received	173,014
Additional Trust Expense – Bitcoin Cash	(513)
In-kind Bitcoin Cash distribution	(172,501)
Net closing balance	-
Price of Bitcoin Cash on principal market at the Bitcoin Cash Record Date <sup>1</sup>	\$ 605.90
Realized gain on Bitcoin Cash	\$ 104,857,600
Additional Trust Expense, related party - Bitcoin Cash <sup>2</sup>	(339,381)
Fair market value of the in-kind Bitcoin Cash Distribution <sup>3</sup>	\$ 104,518,219
Outstanding Shares of Bitcoin Cash Record Date Shareholders on the Bitcoin Cash Record Date <sup>4</sup>	170,051,700
Fair market value of in-kind Bitcoin Cash Distribution per Outstanding Share of Bitcoin Cash Record Date Shareholders	\$ 0.61

<sup>1</sup> The Trust determined the fair value per Bitcoin Cash token to be \$605.90 on the Bitcoin Cash Record Date, using the price provided at 4:00 p.m., New York time, by the Bitcoin Cash principal market, Bitfinex. The Trust evaluates exchanges to determine the principal market for Incidental Rights or IR Virtual Currency in the same manner as investments in Bitcoin discussed in Note 3. Based on the Trust's evaluation, the Trust determined there were no exchanges that met the applicable regulatory requirements. The Trust then identified the exchange with the highest U.S. Dollar-denominated trading volume that had an online platform, published transaction price and volume data publicly.

<sup>2</sup> On November 3, 2017, the Trust reimbursed the Sponsor of the Trust for Additional Trust Expenses of approximately \$339,381 that the Sponsor had incurred on the Trust's behalf. The Trust determined the fair value per Bitcoin Cash token to be \$660.96 on November 3, 2017, using the price provided at 4:00 p.m., New York time, by Bitfinex.

<sup>3</sup> The Trust has no ownership interest in the distributed Bitcoin Cash, no ability to control the actions of the Agent and no right to receive any information about the distributed Bitcoin Cash or the disposition thereof from the Bitcoin Cash Record Date Shareholders, their Agent or any other person. However, Grayscale, in its role as the Agent of the Bitcoin Cash Record Date Shareholders voluntarily informed the Trust that it completed the liquidation of the Bitcoin Cash tokens distributed to the Bitcoin Cash Record Date Shareholders (by means of transfer to the Agent) and remitted cash proceeds from the liquidation, net of the administrative and other expense incurred by the Agent in connection with the liquidation, to the Bitcoin Cash Record Date Shareholders on December 12, 2017 of \$211,527,575.

<sup>4</sup> Outstanding Shares of Bitcoin Cash Record Date Shareholders of 1,868,700 has been retroactively adjusted to reflect the 91-for-1 Share Split of the Trust's issued and outstanding Shares. Shareholders of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held



## **Bitcoin Fork on October 24, 2017 (Bitcoin Gold)**

### ***Background and Initial Measurement***

In the case of the Bitcoin-Bitcoin Gold hard fork on October 24, 2017, a quorum of network participants accepted a modification to restore graphics processing unit mining functionality, as opposed to specialized application-specific integrated circuit mining functionality. This version of the Bitcoin Network was rebranded as Bitcoin Gold.

Immediately following the hard fork on October 24, 2017, holders of Bitcoin passively received an Incidental Right to obtain an equal number of Bitcoin Gold tokens. At that time, the Trust held approximately 172,324 Bitcoin and the newly created Bitcoin Gold was inaccessible to the Trust until the Custodian was able to develop processes to safely and securely obtain access to and permit withdrawal of Bitcoin Gold. On the date of the hard fork, the Incidental Rights to Bitcoin Gold were determined to have no value as there were insufficient observable market inputs to determine the fair value of Bitcoin Gold.

### ***Distribution of Incidental Rights to Bitcoin Gold***

On November 22, 2017, the Trust declared a distribution and established a record date for the distribution of the Incidental Rights to Bitcoin Gold held by the Trust to the Shareholders of record ("Bitcoin Gold Record Date Shareholders") as of the close of business on December 4, 2017 (the "Bitcoin Gold Record Date" and such distribution the "Incidental Rights to Bitcoin Gold Distribution").

On the Bitcoin Gold Record Date, the Trust, acting on behalf of the Bitcoin Gold Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin Gold Record Date Shareholders and distributed the Incidental Rights to Bitcoin Gold tokens then held by the Trust to the Bitcoin Gold Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no ownership interest in the distributed Incidental Rights to Bitcoin Gold, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Bitcoin Gold or the disposition thereof or of the underlying Bitcoin Gold from the Bitcoin Gold Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that it had claimed the Bitcoin Gold tokens on behalf of the Bitcoin Gold Record Date Shareholders and began liquidating the Bitcoin Gold tokens. As of the date of this Annual Report, the Agent has voluntarily informed the Trust that it has not remitted net cash proceeds to the Bitcoin Gold Record Date Shareholders but has net proceeds from liquidation of \$9,604,206 that are to be remitted on April 3, 2018.

In connection with the Bitcoin Gold hard fork, the Trust incurred Additional Trust Expenses. These Additional Trust Expenses primarily related to consultations with the Trust's professional advisors and third-party service providers to determine an appropriate approach to handling the Bitcoin Gold that would preserve value for the Shareholders in a manner consistent with the Trust's continued treatment as a grantor trust for U.S. federal income tax purposes. Pursuant to the terms of the Trust Agreement, Additional Trust Expenses are borne by the Trust.

(All Bitcoin Gold balances are rounded to the nearest whole Bitcoin Gold)

For the year ended  
December 31,  
2017

**Incidental Right (Bitcoin Gold):**

Opening Balance	-
Incidental Right of Bitcoin Gold received	172,324
Additional Trust Expense – Bitcoin Gold	(80)
In-kind Incidental Right Bitcoin Gold Distribution	(172,244)
Net closing balance	-

Price of Bitcoin Gold on principal market at the Bitcoin Gold Record Date <sup>1</sup>	\$ 308.41
--	-----------

Realized gain on Bitcoin Gold	\$ 53,140,430
Additional Trust Expense, related party - Bitcoin Gold <sup>2</sup>	(18,804)
Fair market value of the in-kind Incidental Right Bitcoin Gold Distribution <sup>3</sup>	\$ 53,121,626

Outstanding Shares of Bitcoin Gold Record Date Shareholders on the Bitcoin Gold Record Date <sup>4</sup>	170,051,700
--	-------------

<sup>1</sup> The Trust determined the fair value per Bitcoin Gold token to be \$308.41 on the Bitcoin Gold Record Date, using the price provided at 4:00 p.m., New York time, by the Bitcoin Gold principal market, Bitfinex. The Trust evaluates exchanges to determine the principal market for Incidental Rights or IR Virtual Currency in the same manner as investments in Bitcoin discussed in Note 3. Based on the Trust's evaluation, it was determined there were no exchanges that met the applicable regulatory requirements. The Trust then identified the exchange with the highest U.S. Dollar-denominated trading volume that had an online platform, published transaction price and volume data publicly.

<sup>2</sup> On November 21, 2017, the Trust reimbursed the Sponsor of the Trust for Additional Trust Expenses of approximately \$18,804 that the Sponsor had incurred on the Trust's behalf. The Trust determined the fair value of the Incidental Rights to Bitcoin Gold per token to be \$235.00 on November 21, 2017, using the price of Bitcoin Gold tokens provided at 4:00 p.m., New York time, by Bitfinex, as noted above.

<sup>3</sup> The Trust has no ownership interest in the distributed Incidental Rights to Bitcoin Gold, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Bitcoin Gold or the disposition thereof or of the underlying Bitcoin Gold from the Bitcoin Gold Record Date Shareholders, their Agent or any other person. However, Grayscale, in its role as the Agent of the Bitcoin Gold Record Date Shareholders voluntarily informed the Trust that it had claimed the Bitcoin Gold tokens on behalf of the Bitcoin Gold Record Date Shareholders and began liquidating the Bitcoin Gold tokens. As of the date of this Annual Report, the Agent has voluntarily informed the Trust that it has not remitted net cash proceeds to the Bitcoin Gold Record Date Shareholders but has net proceeds from liquidation of \$9,604,206 that are to be remitted on April 3, 2018.

<sup>4</sup> Outstanding Shares of the Bitcoin Gold Record Date Shareholders of 1,868,700 has been retroactively adjusted to reflect the 91-for-1 Share Split of the Trust's issued and outstanding Shares. Shareholders of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held.

Fair market value of in-kind Incidental Right Bitcoin Gold Distribution per Outstanding Share of Bitcoin Gold Record Date Shareholders	\$ 0.31
--	---------

## **Bitcoin Fork on December 28, 2017 (Bitcoin SegWit2X)**

### ***Background and Measurement***

In the case of the Bitcoin SegWit2X hard fork on December 28, 2017, a quorum of network participants accepted a modification to activate Segregated Witness and then trigger a hard fork for a 2-megabyte block size. This version of the Bitcoin Network was rebranded as Bitcoin SegWit2X.

Immediately following the hard fork on December 28, 2017, holders of Bitcoin passively received an Incidental Right to obtain an equal number of Bitcoin SegWit2X. At that time, the Trust held approximately 175,878 Bitcoin and the newly created Bitcoin SegWit2X was and is inaccessible to the Trust. As of the date of this Annual Report, Bitcoin SegWit2X remains inaccessible and will continue to be inaccessible until the Custodian is able to develop processes to safely and securely obtain access to and permit withdrawal of Bitcoin SegWit2X. On the date of the hard fork, the Incidental Rights to Bitcoin SegWit2X was determined to have no value as there were insufficient observable market inputs to determine the fair value of Bitcoin SegWit2X.

Furthermore, on December 29, 2017, the Sponsor of the Trust announced that it has declared a distribution and established a record date for the distribution of the Incidental Right to the Bitcoin SegWit2X to Shareholders of record as of the close of business on January 8, 2018.

### ***Subsequent Measurement and Distribution of Incidental Rights to Bitcoin SegWit2X***

Subsequent to the date of the fork, active trading markets for Bitcoin SegWit2X have not yet developed. Bitcoin SegWit2X currently trades on limited exchanges as well as over the counter markets. As of December 31, 2017 and January 8, 2018, respectively, the exchanges trading Bitcoin SegWit2X did not have sufficient trading volumes to be considered to have active markets. The Trust determined the fair value per Incidental Right of Bitcoin SegWit2X to be \$0 as of December 31, 2017.

On January 8, 2018, the Trust declared a distribution and established a record date for the distribution of the Incidental Rights to obtain 175,878 Bitcoin SegWit2X tokens held by the Trust to the Shareholders of record (“Bitcoin SegWit2X Shareholders”) as of the close of business on January 8, 2018 (the “Bitcoin SegWit2X Record Date” and such distribution, “Incidental Rights to Bitcoin SegWit2X Distribution”) The Trust determined such Incidental Rights to have a fair value of \$0 and no gain or loss was recognized as part of the in-kind Incidental Right distribution.

On the Bitcoin SegWit2X Record Date, the Trust, acting on behalf of the Bitcoin SegWit2X Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin SegWit2X Record Date Shareholders and distributed the Incidental Rights to Bitcoin SegWit2X tokens held by the Trust to the Bitcoin SegWit2X Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no ownership interest in the distributed Incidental Rights to Bitcoin SegWit2X, no ability to control

the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Bitcoin SegWit2X or the disposition thereof or of the underlying Bitcoin SegWit2X from the Bitcoin SegWit2X Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that, on behalf of the Bitcoin SegWit2X Record Date Shareholders, it irrevocably abandoned all of the rights to Bitcoin SegWit2X tokens because it was determined that the costs incurred by the Agent in connection with selling the Bitcoin SegWit2X tokens would exceed the gross proceeds from such sales.

## **Critical Accounting Policies**

### *Investment Transactions and Revenue Recognition*

The Trust considers investment transactions to be the receipt of Bitcoins for Share creations and the payment of Bitcoin for Share redemptions (if a redemption program were to be established) or payment of expenses in Bitcoin. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation (depreciation) on investments. Realized gains and losses are calculated using an average cost method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor's Fee in Bitcoin.

### *Valuation of Bitcoin*

Bitcoins are held by the Custodian on behalf of the Trust and are carried at fair value. As of December 31, 2017 and 2016 the Trust held 175,839.08652196 and 172,094.67544221 Bitcoins, respectively.

The Trust determined the fair value per Bitcoin token to be \$14,168.54 on December 31, 2017, and \$966.02 on December 31, 2016 using the price provided at 4:00 p.m., New York time, by the Bitcoin Exchange considered to be the Trust's principal market (Global Digital Asset Exchange ("GDAX") (formerly known as Coinbase Exchange)). To determine which exchange is the Trust's principal market for purposes of calculating the Trust's NAV, the Trust considers only Bitcoin markets that are U.S. Dollar-denominated, have an online platform and publish transaction price and volume data publicly. Based on these requirements, the Trust prepares a list of eligible Bitcoin markets and considers the following criteria to select its principal market: (i) the volume of Bitcoin traded on a Bitcoin market in the prior twelve months, (ii) a Bitcoin market's regulatory compliance with applicable federal and state licensing requirements and practices regarding anti-money laundering procedures and (iii) the degree of intra-day price fluctuations a Bitcoin market experiences as well as the degree of variance in prices across Bitcoin exchanges.

In determining which of the eligible Bitcoin markets is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust sorts the list of eligible Bitcoin markets from high to low by volume of Bitcoin traded on each Bitcoin market in the prior twelve months. The Trust moves down the list until it reaches a Bitcoin market that has a volume of Bitcoin traded for the prior twelve months that is less than 10% of the next largest Bitcoin market and excludes this and all smaller Bitcoin exchanges from the list. However, the list will always contain a minimum of three Bitcoin markets, even if the percentage of volume drops to less than 10% of the next largest Bitcoin market.

Second, the Trust reviews the remaining Bitcoin markets and excludes any Bitcoin markets that do not comply with the federal and state licensing requirements that are applicable to the Trust and the Authorized Participant(s). The Trust or an Authorized Participant can only do business with those Bitcoin markets that meet the regulatory requirements of the jurisdiction in which the Trust or an Authorized Participant is registered to do business. The Trust also assesses each Bitcoin market's practices regarding anti-money laundering procedures.

Third, the Trust then reviews intra-day pricing fluctuations and the degree of variances in price on Bitcoin markets to identify any material notable variances that may impact the volume or price information of a particular Bitcoin market. The Trust then selects a Bitcoin market as its principal market based on highest trade volume and price stability in comparison to the other Bitcoin markets on the list.

The Trust determines its principal market annually and conducts a quarterly analysis to determine if (i) there have been recent changes to each Bitcoin market's transaction volume in the prior twelve months, (ii) if any Bitcoin markets have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make Bitcoin markets previously inaccessible to the Trust now accessible or (iv) if recent changes to each Bitcoin markets' price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market.

Historically, the Trust considered Bitstamp to be its principal market. The Trust performed an assessment of the principal market at December 31, 2016 and identified a change in the principal market from Bitstamp to GDAX. The Trust has applied this change in principal market effective December 31, 2016. As of December 31, 2017, GDAX remained the principal market and the Trust valued its Bitcoin at December 31, 2017 using the GDAX exchange. The cost basis of the investment in Bitcoin recorded by the Trust for financial reporting purposes is the fair value of Bitcoin at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of corresponding Shares to investors.

The Trust performs a principal market assessment upon the receipt and through subsequent distribution of an Incidental Right or IR Virtual Currency as a result of a fork or airdrop. In the case of Bitcoin Cash and Bitcoin Gold, the Trust determined there were no exchanges that met the applicable regulatory requirements, as outlined above. The Trust identified the principal market that had the highest U.S. Dollar-denominated trading volume with an online platform and that published transaction price and volume data publicly.

#### *Investment Company Considerations*

The Trust is an investment company for GAAP purposes and follows accounting and reporting guidance in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 946. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and the difference could be material.

### *In-kind IR Virtual Currency and Incidental Rights Distributions*

The Trust accounts for in-kind distributions of IR Virtual Currency and Incidental Rights in accordance with FASB ASC Topic 845, *Nonmonetary Transactions*, pursuant to which a transfer of a nonmonetary asset to a Shareholder or to another entity in a nonreciprocal transfer is recorded at the fair value of the asset transferred and a gain or loss is recognized on the disposition of the asset by the Trust.

### **Review of Financial Results**

#### *Financial Highlights for the Years Ended December 31, 2017 and 2016*

<b>(All amounts in the following table and the subsequent paragraphs, except per Share, are in 000s of US\$)</b>	<b>For the year ended December 31, 2017</b>	<b>For the year ended December 31, 2016</b>
Net realized and change in unrealized gains	<u>\$ 2,426,043</u>	<u>\$ 86,983</u>
Net increase in net assets resulting from operations	<u>\$ 2,411,855</u>	<u>\$ 85,165</u>
Net assets	<u>\$ 2,491,383</u>	<u>\$ 166,247</u>

Net realized gain and change in unrealized appreciation for the year ended December 31, 2017 was \$2,426,043, which includes a realized gain of \$12,150 on the transfer of Bitcoins to pay the Sponsor's Fee and realized gains of \$157,998 on the distribution of IR Virtual Currencies and Incidental Rights to Shareholders and the transfer of IR Virtual Currencies to the Sponsor to reimburse the Sponsor for Additional Trust Expenses incurred on behalf of the Trust. Net assets increased to \$2,491,383 at December 31, 2017, a 1,399% increase for the period. The increase in net assets resulted from Bitcoin price appreciation and Creations.

Net realized gain and change in unrealized appreciation for the year ended December 31, 2016 was \$86,983, which includes a realized loss of \$429 on the transfer of Bitcoins to pay the Sponsor's Fee. Net assets increased to \$166,247 at December 31, 2016, a 173% increase for the period. The increase in net assets resulted primarily from Bitcoin price appreciation.

### *Off-Balance Sheet Arrangements*

The Trust is not a party to any off-balance sheet arrangements.

### *Cash Resources and Liquidity*

The Trust has not had a cash balance at any time since inception. When selling Bitcoins, Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses, the Sponsor endeavors to sell the exact number of Bitcoins, Incidental Rights and/or IR Virtual Currency needed to pay

expenses in order to minimize the Trust's holdings of assets other than Bitcoin. As a consequence, the Sponsor expects that the Trust will not record any cash flow from its operations and that its cash balance will be zero at the end of each reporting period.

In exchange for the Sponsor's Fee, the Sponsor has agreed to assume most of the expenses incurred by the Trust. As a result, the only ordinary expense of the Trust during the periods covered by this Annual Report was the Sponsor's Fee. The Trust is not aware of any trends, demands, conditions or events that are reasonably likely to result in material changes to its liquidity needs.

### Quantitative and Qualitative Disclosures about Market Risk

The Trust Agreement does not authorize the Trustee to borrow for payment of the Trust's ordinary expenses. The Trust does not engage in transactions in foreign currencies which could expose the Trust or holders of Shares to any foreign currency related market risk. The Trust does not invest in any derivative financial instruments and has no foreign operations or long-term debt instruments.

### Selected Supplemental Data

<b>(All Bitcoin balances are rounded to the nearest whole Bitcoin)</b>	<b>For the year ended December 31, 2017</b>	<b>For the year ended December 31, 2016</b>
<b>Bitcoins:</b>		
Opening Balance	172,095	141,101
Creations	7,213	34,155
Redemptions	-	-
Expense payouts	(3,469)	(3,161)
Closing balance	175,839	172,095
Accrued but unpaid expenses	-	-
Net closing balance	175,839	172,095
<b>Number of Shares:</b>		
Opening balance	167,194,300	134,361,500
Creations	7,088,900	32,832,800
Redemptions	-	-
Closing balance	174,283,200	167,194,300
	<b>As of December 31, 2017</b>	<b>As of December 31, 2016</b>

Price of Bitcoin on principal market <sup>1</sup>	\$ 14,168.54	\$ 966.02
NAV per Share <sup>2</sup>	\$ 14.30	\$ 0.99
Bitcoin Index Price	\$ 13,340.23	\$ 954.21
Bitcoin Holdings per Share <sup>3</sup>	\$ 13.46	\$ 0.98

In the year ended December 31, 2017, an additional 7,088,900 Shares (70,889 Baskets), were created in exchange for 7,213 Bitcoins, no redemptions occurred, and 3,469 Bitcoins were deducted from the Trust's holdings and used by the Sponsor to settle expenses. In the year ended December 31, 2016, 32,832,800 Shares (328,328 Baskets) were created in exchange for 34,155 Bitcoins, no redemptions occurred, and 3,161 Bitcoins were deducted from the Trust's Bitcoin Holdings and used by the Sponsor to settle expenses. For accounting purposes, the Trust reflects creations and the Bitcoin receivable with respect to such creations on the date of receipt of a notification of a creation, but does not issue Shares until the requisite number of Bitcoins is received. In connection with Share redemptions, if permitted, the Trust would deliver Bitcoins upon receipt of Shares.

As of December 29, 2017, (the last business day in 2017 on which a Creation Basket could have been originated), the Trust had a net closing balance of approximately 175,858 Bitcoins, with a value of \$2,553,053,610, based on the Bitcoin Index Price of \$14,517.67 on December 29, 2017 (non-GAAP methodology). As of December 31, 2017, the Trust had a net closing balance of approximately 175,839 Bitcoins, with a value of \$2,345,733,857, based on the Bitcoin Index Price of \$13,340.23 on December 31, 2017 (non-GAAP methodology). As of December 31, 2017, the Trust had a net closing balance of approximately 175,839 Bitcoins, with a market value of \$14,168.54, based on the principal market (GDAX) of \$2,491,383,131 on December 31, 2017.

## Historical Bitcoin Prices

As movements in the price of Bitcoins will directly affect the price of the Shares, investors should understand recent movements in the price of Bitcoin. Investors, however, should also be aware that past movements in the Bitcoin price are not indicators of future movements. Movements may be influenced by various factors, including, but not limited to, government regulation, security breaches experienced by service providers, as well as political and economic uncertainties around the world.

<sup>1</sup> The Trust performed an assessment of the principal market at December 31, 2016 and identified a change in the principal market from Bitstamp to GDAX (see (2) below).

<sup>2</sup> As of December 31, 2017, the NAV per Share was calculated using the fair value of Bitcoins based on the price provided by GDAX, the Bitcoin Exchange that the Trust currently considers its principal market, as of 4:00 p.m., New York time on the valuation date.

<sup>3</sup> The Trust's Bitcoin Holdings per Share is derived from the Bitcoin Index Price as represented by the Index as of 4:00 p.m., New York time on the valuation date. The Trust's Bitcoin Holdings per Share is calculated using a non-GAAP methodology where the volume-weighted average price is derived from multiple Bitcoin Exchanges. See "Bitcoin Investment Trust — Valuation of Bitcoin and Determination of the Trust's Bitcoin Holdings" for a description of the Trust's Bitcoin Holdings per Share. The Bitcoin Exchanges used to calculate the Bitcoin Index Price as of December 31, 2017 and 2016 were GDAX, itBit and Bitstamp. As of December 29, 2017 (the last business day a Creation Basket could have been originated), the Bitcoin Index Price was \$14,517.67, which would derive a Bitcoin Holdings per Share of \$14.65.



During the period between inception and December 31, 2017, the Bitcoin price, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, traded between \$110.83 per Bitcoin (October 2, 2013) and \$19,433.21 (December 16, 2017), the average was \$1,274.16 and the median was \$542.50. The quarterly and annual average, high, low and end-of-period Bitcoin prices for the five years ended December 31, 2017, 2016, 2015, 2014 and 2013, and for the period from the inception of the Trust until December 31, 2017, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, on the applicable date were:

<b>Period</b>	<b>Average</b>	<b>High</b>	<b>Date</b>	<b>Low</b>	<b>Date</b>	<b>End of period</b>	<b>Last business day</b>
Twelve months ended December 31, 2013.....	\$187.78	\$1,138.29	11/30/2013	\$12.83	1/1/2013	\$733.98	\$733.98
Twelve months ended December 31, 2014.....	\$525.53	\$932.82	1/6/2014	\$310.00	12/30/2014	\$317.53	\$317.53
Twelve months ended December 31, 2015.....	\$272.68	\$469.00	11/4/2015	\$184.84	1/14/2015	\$431.88	\$431.88
Twelve months ended December 31, 2016.....	\$566.31	\$968.08	12/28/2016	\$369.18	2/3/2016	\$966.02	\$959.92
Twelve months ended December 31, 2017.....	\$3,987.48	\$19,433.21	12/16/2017	\$793.04	1/11/2017	\$14,168.54	\$14,440.01
September 13, 2013 (the inception of the Trust) to December 31, 2017.....	\$1,274.16	\$19,433.21	12/16/2017	\$110.83	10/2/2013	\$14,168.54	\$14,440.01

## **PART E. ISSUANCE HISTORY**

### **Item 17. List of securities offerings and shares issued for services in the past two years.**

From January 1, 2016 to December 31, 2017 and from December 31, 2017 to the date hereof, the Trust has offered the Shares pursuant to Rule 506 of the Regulation D under the Securities Act. The Shares offered by the Trust have not been registered under the Securities Act, or any state or other securities laws, and were offered and sold only to “accredited investors” within the meaning of Rule 501(a) of Regulation D under the Securities Act, and in compliance with any applicable state or other securities laws.

The table below describes the Shares offered, the Shares sold and the average and range of prices at which the Shares were offered and sold by the Issuer. All Shares initially offered and sold by the Trust are restricted securities pursuant to Rule 144 under the Securities Act. Until the Shares sold by the Issuer become unrestricted in accordance with Rule 144, the certificates or other documents evidencing the Shares will contain legends stating that the Shares have not been registered under the Securities Act and referring to the restrictions on transferability and sale of the Shares under the Securities Act. Such legends are removed upon Shares becoming unrestricted in accordance with Rule 144. From January 1, 2016 to December 31, 2017, no Shares, other securities of the Trust, or options to acquire such other securities were issued in exchange for services provided by any person or entity.

<u>Period</u>	<u>Shares Offered</u>	<u>Shares Sold</u>	<u>No. of Purchasers</u>	<u>Avg.</u>	<u>High</u>	<u>Date</u>	<u>Low</u>	<u>Date</u>
Twelve months ended December 31, 2016	Unlimited	32,832,800	99	\$0.59	\$1.00	12/29/16	\$0.39	2/3/16
Twelve months ended December 31, 2017	Unlimited	7,088,900	44	\$4.00	\$18.94	12/18/17	\$0.80	1/12/17
January 1, 2018 to March 31, 2018	Unlimited	8,397,100	46	\$10.21	\$15.87	1/5/18	\$-	3/28/18

## **PART F. EXHIBITS**

### **Item 18. Material Contracts.**

#### **Description of the Trust Agreement**

The following is a description of the material terms of the Trust Agreement. The Trust Agreement establishes the roles, rights and duties of the Sponsor and the Trustee.

#### **The Sponsor**

##### *Liability of the Sponsor and Indemnification*

The Sponsor and its affiliates (each a “Covered Person”) will not be liable to the Trust or any Shareholder for any loss suffered by the Trust which arises out of any action or inaction of such Covered Person if such Covered Person determined in good faith that such course of conduct was in the best interests of the Trust. However, the preceding liability exclusion will not protect any Covered Person against any liability resulting from its own willful misconduct, bad faith or gross negligence in the performance of its duties.

Each Covered Person will be indemnified by the Trust against any loss, judgment, liability, expense incurred or amount paid in settlement of any claim sustained by it in connection with the Covered Person’s activities for the Trust, provided that (i) the Covered Person was acting on behalf of, or performing services for, the Trust and had determined, in good faith, that such course of conduct was in the best interests of the Trusts and such liability or loss was not the result of fraud, gross negligence, bad faith, willful misconduct or a material breach of the Trust Agreement on the part of such Covered Person and (ii) any such indemnification will be recoverable only from the property of the Trust. Any amounts payable to an indemnified party will be payable in advance under certain circumstances.

##### *Fiduciary and Regulatory Duties of the Sponsor*

The Sponsor is not effectively subject to the duties and restrictions imposed on “fiduciaries” under both statutory and common law. Rather, the general fiduciary duties that would apply to the Sponsor are defined and limited in scope by the Trust Agreement.

The Trust Agreement provides that in addition to any other requirements of applicable law, no Shareholder will have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of the Trust unless two or more Shareholders who (i) are not affiliates of one another and (ii) collectively hold at least 10% of the outstanding Shares join in the bringing or maintaining of such action, suit or other proceeding.

Beneficial owners may have the right, subject to certain legal requirements, to bring class actions in federal court to enforce their rights under the federal securities laws and the rules and regulations promulgated thereunder by the SEC. Beneficial owners who have suffered losses in connection with the purchase or sale of their beneficial interests may be able to recover such losses from the Sponsor where the losses result from a violation by the Sponsor of the anti-fraud provisions of the federal securities laws.

### *Actions Taken to Protect the Trust*

The Sponsor may, in its sole discretion, prosecute, defend, settle or compromise actions or claims at law or in equity that it considers necessary or proper to protect the Trust or the interests of the Shareholders. The expenses incurred by the Sponsor in connection therewith (including the fees and disbursements of legal counsel) will be expenses of the Trust and are deemed to be Additional Trust Expenses. The Sponsor will be entitled to be reimbursed for the Additional Trust Expenses.

### *Successor Sponsors*

If the Sponsor is adjudged bankrupt or insolvent, the Trustee may terminate and liquidate the Trust and distribute its remaining assets. The Trustee will have no obligation to appoint a successor sponsor or to assume the duties of the Sponsor, and will have no liability to any person because the Trust is or is not terminated. However, if a certificate of dissolution or revocation of the Sponsor's charter is filed (and ninety (90) days have passed after the date of notice to the Sponsor of revocation without a reinstatement of the Sponsor's charter) or the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor has occurred, Limited Owners holding at least a majority (over 50%) of the Shares (not including Shares held by the Sponsor and its affiliates) may agree in writing to continue the Trust and to select, effective as of the date of such event, one or more successor Sponsors within ninety (90) days of any such event.

### **The Trustee**

The Trustee is a fiduciary under the Trust Agreement and must satisfy the requirements of Section 3807 of the Delaware Trust Statute. However, the fiduciary duties, responsibilities and liabilities of the Trustee are limited by, and are only those specifically set forth in, the Trust Agreement.

### *Limitation on Trustee's Liability*

Under the Trust Agreement, the Sponsor has exclusive control of the management of all aspects of the activities of the Trust and the Trustee has only nominal duties and liabilities to the Trust. The Trustee is appointed to serve as the trustee for the sole purpose of satisfying Section 3807(a) of the DSTA which requires that the Trust have at least one trustee with a principal place of business in the State of Delaware. The duties of the Trustee are limited to (i) accepting legal process served on the Trust in the State of Delaware and (ii) the execution of any certificates required to be filed with the Delaware Secretary of State which the Trustee is required to execute under the DSTA.

To the extent the Trustee has duties (including fiduciary duties) and liabilities to the Trust or the Shareholders under the DSTA, such duties and liabilities will be replaced by the duties and liabilities of the Trustee expressly set forth in the Trust Agreement. The Trustee will have no obligation to supervise, nor will it be liable for, the acts or omissions of the Sponsor, Transfer Agent, Custodian or any other person. Neither the Trustee, either in its capacity as trustee or in its individual capacity, nor any director, officer or controlling person of the Trustee is, or has any liability as, the issuer, director, officer or controlling person of the issuer of Shares. The Trustee's liability is limited solely to the express obligations of the Trustee as set forth in the Trust Agreement.

Under the Trust Agreement, the Sponsor has the exclusive management, authority and control of all aspects of the activities of the Trust. The Trustee has no duty or liability to supervise or monitor

the performance of the Sponsor, nor does the Trustee have any liability for the acts or omissions of the Sponsor. The existence of a trustee should not be taken as an indication of any additional level of management or supervision over the Trust. The Trust Agreement provides that the management authority with respect to the Trust is vested directly in the Sponsor. The Trust Agreement provides that the Trustee is not responsible or liable for the genuineness, enforceability, collectability, value, sufficiency, location or existence of any of the Bitcoins or other assets of the Trust.

#### *Possible Repayment of Distributions Received by Shareholders; Indemnification by Shareholders*

The Shares are limited liability investments. Investors may not lose more than the amount that they invest plus any profits recognized on their investment. Although it is unlikely, the Sponsor may, from time to time, make distributions to the Shareholders. However, Shareholders could be required, as a matter of bankruptcy law, to return to the estate of the Trust any distribution they received at a time when the Trust was in fact insolvent or in violation of its Trust Agreement. In addition, the Trust Agreement provides that Shareholders will indemnify the Trust for any harm suffered by it as a result of Shareholders' actions unrelated to the activities of the Trust.

The foregoing repayment of distributions and indemnity provisions (other than the provision for Shareholders indemnifying the Trust for taxes imposed upon it by a state, local or foreign taxing authority, which is included only as a formality due to the fact that many states do not have statutory trust statutes therefore the tax status of the Trust in such states might, theoretically, be challenged) are commonplace in statutory trusts and limited partnerships.

#### *Indemnification of the Trustee*

The Trustee and any of the officers, directors, employees and agents of the Trustee will be indemnified by the Trust as primary obligor and DCG as secondary obligor and held harmless against any loss, damage, liability, claim, action, suit, cost, expense, disbursement (including the reasonable fees and expenses of counsel), tax or penalty of any kind and nature whatsoever, arising out of, imposed upon or asserted at any time against such indemnified person in connection with the performance of its obligations under the Trust Agreement, the creation, operation or termination of the Trust or the transactions contemplated therein; provided, however, that neither the Trust nor DCG will be required to indemnify any such indemnified person for any such expenses which are a result of the willful misconduct, bad faith or gross negligence of such indemnified person. If the Trust has insufficient assets or improperly refuses to pay such an indemnified person within 60 days of a request for payment owed under the Trust Agreement, DCG will, as secondary obligor, compensate or reimburse the Trustee or indemnify, defend and hold harmless such an indemnified person as if it were the primary obligor under the Trust Agreement. Any amount payable to such an indemnified person under the Trust Agreement may be payable in advance under certain circumstances and will be secured by a lien on the Trust property. The obligations of DCG and the Trust to indemnify such indemnified persons under the Trust Agreement will survive the termination of the Trust Agreement.

#### *Holding of Trust Property*

The Trust will hold and record the ownership of the Trust's assets in a manner such that it will be owned for the benefit of the Shareholders for the purposes of, and subject to and limited by the terms and conditions set forth in, the Trust Agreement. The Trust will not create, incur or assume

any indebtedness or borrow money from or loan money to any person. The Trustee may not commingle its assets with those of any other person.

The Trustee may employ agents, attorneys, accountants, auditors and nominees and will not be answerable for the conduct or misconduct of any such custodians, agents, attorneys or nominees if such custodians, agents, attorneys and nominees have been selected with reasonable care.

#### *Resignation, Discharge or Removal of Trustee; Successor Trustees*

The Trustee may resign as Trustee by written notice of its election so to do, delivered to the Sponsor with at least 180 days' notice. The Sponsor may remove the Trustee in its discretion. If the Trustee resigns or is removed, the Sponsor, acting on behalf of the Shareholders, will appoint a successor trustee. The successor Trustee will become fully vested with all of the rights, powers, duties and obligations of the outgoing Trustee.

If the Trustee resigns and no successor trustee is appointed within 180 days after the Trustee notifies the Sponsor of its resignation, the Trustee will terminate and liquidate the Trust and distribute its remaining assets.

#### *Amendments to the Trust Agreement*

In general, the Sponsor may amend the Trust Agreement without the consent of any Shareholder. In particular, the Sponsor may, without the approval of the Shareholders, amend the Trust Agreement if the Trust is advised at any time by the Trust's accountants or legal counsel that the amendments are necessary to permit the Trust to take the position that it is a grantor trust for U.S. federal income tax purposes. However, the Sponsor may not make an amendment, or otherwise supplement the Trust Agreement, if such amendment or supplement would permit the Sponsor, the Trustee or any other person to vary the investment of the Shareholders (within the meaning of applicable Treasury Regulations) or would otherwise adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes. In addition, no amendments to the Trust Agreement that materially adversely affect the interests of Shareholders may be made without the written approval or affirmative vote of at least a majority (over 50%) of the Shares (not including any Shares held by the Sponsor or its affiliates). A Shareholder will be deemed to have consented to a modification or amendment of the Trust Agreement if the Sponsor has notified the Shareholders in writing of the proposed modification or amendment and the Shareholder has not, within 20 calendar days of such notice, notified the Sponsor in writing the Shareholder objects to such modification or amendment.

#### *Termination of the Trust*

The Trust will dissolve if any of the following events occur:

- a U.S. federal or state regulator requires the Trust to shut down or forces the Trust to liquidate its Bitcoins or seizes, impounds or otherwise restricts access to Trust assets;
- any ongoing event exists that either prevents the Trust from making or makes impractical the Trust's reasonable efforts to make a fair determination of the Bitcoin Index Price;
- any ongoing event exists that either prevents the Trust from converting or makes impractical the Trust's reasonable efforts to convert Bitcoins to U.S. Dollars;

- the filing of a certificate of dissolution or revocation of the Sponsor’s charter (and the expiration of 90 days after the date of notice to the Sponsor of revocation without a reinstatement of its charter) or the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor has occurred, unless (i) at the time there is at least one remaining Sponsor and that remaining Sponsor carries on the Trust or (ii) within 90 days of such event Shareholders holding at least a majority (over 50%) of Shares, not including Shares held by the Sponsor and its Affiliates, agree in writing to continue the activities of the Trust and to select, effective as of the date of such event, one or more successor Sponsors;
- 75% of the Shareholders (not including Shares held by the Sponsor and its affiliates) notify the Sponsor that they elect to dissolve the Trust and such notice is sent to the Sponsor not less than 90 days prior to the effective date of dissolution; or
- the Custodian resigns or is removed without replacement.

The Sponsor may, in its sole discretion, dissolve the Trust if any of the following events occur:

- the SEC determines that the Trust is an investment company required to be registered under the Investment Company Act of 1940;
- the CFTC determines that the Trust is a commodity pool under the CEA;
- the Trust is determined to be a “money service business” under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act and is required to comply with certain FinCEN regulations thereunder;
- the Trust is required to obtain a license or make a registration under any state law regulating money transmitters, money services businesses, providers of prepaid or stored value or similar entities, or virtual currency businesses;
- the Trust becomes insolvent or bankrupt;
- all of the Trust’s assets are sold;
- the determination of the Sponsor that the aggregate net assets of the Trust in relation to the expenses of the Trust make it unreasonable or imprudent to continue the Trust;
- the Sponsor receives notice from the IRS or from counsel for the Trust or the Sponsor that the Trust fails to qualify for treatment, or will not be treated, as a grantor trust under the Code;
- if the Trustee notifies the Sponsor of the Trustee’s election to resign and the Sponsor does not appoint a successor trustee within 180 days; or
- the Sponsor determines, in its sole discretion, that it is desirable or advisable for any reason to discontinue the affairs of the Trust.

The death, legal disability, bankruptcy, insolvency, dissolution, or withdrawal of any Shareholder (as long as such Shareholder is not the sole Shareholder of the Trust) will not result in the

termination of the Trust, and such Shareholder, his or her estate, custodian or personal representative will have no right to a redemption or value such Shareholder's Shares. Each Shareholder (and any assignee thereof) expressly agrees that in the event of his or her death, he or she waives on behalf of himself or herself and his or her estate, and he or she directs the legal representative of his or her estate and any person interested therein to waive the furnishing of any inventory, accounting or appraisal of the assets of the Trust and any right to an audit or examination of the books of account for the Trust, except for such rights as are set forth in Article VIII of the Trust Agreement relating to the books of account and reports of the Trust.

Upon dissolution of the Trust and surrender of Shares by the Shareholders, Shareholders will receive a distribution in U.S. Dollars or Bitcoin, Incidental Rights and/or IR Virtual Currency, at the sole discretion of the Sponsor, after the Sponsor has sold the Trust's Bitcoin, Incidental Rights and IR Virtual Currency, if applicable, and has paid or made provision for the Trust's claims and obligations.

If the Trust is forced to liquidate, the Trust will be liquidated under the Sponsor's direction. The Sponsor, on behalf of the Trust, will engage directly with either accessible Bitcoin Exchanges or over-the-counter Bitcoin markets to liquidate the Trust's Bitcoin as promptly as possible while obtaining the best fair value possible. The proceeds therefrom will be applied and distributed in the following order of priority: (a) to the expenses of liquidation and termination and to creditors, including Shareholders who are creditors, to the extent otherwise permitted by law, in satisfaction of liabilities of the Trust other than liabilities for distributions to Shareholders and (b) to the holders of Shares pro rata in accordance with the respective percentage of percentages of Shares that they hold. It is expected that the Sponsor would be subject to the same regulatory requirements as the Trust, and therefore, the markets available to the Sponsor will be the same markets available to the Trust.

#### *Governing Law; Consent to New York Jurisdiction*

The Trust Agreement and the rights of the Sponsor, Trustee and Shareholders under the Trust Agreement are governed by the laws of the State of Delaware. Each Participant Agreement is also governed by the laws of the State of Delaware. The Sponsor, the Trustee and each Shareholder, consent to the jurisdiction of the courts of the State of New York and any federal courts located in the borough of Manhattan in New York City.

#### **Description of the Custodian Agreement**

The Custodian Agreement establishes the rights and responsibilities of the Custodian, Sponsor, Trust and Authorized Participants with respect to the Custodial Coins in the Wallet Account and Vault Account, which together with any associated subaccounts, constitute the Trust's Bitcoin Account, which is maintained and operated by the Custodian on behalf of the Trust.

#### *Location of Bitcoins; Accounts*

The Trust's Bitcoins are stored on multi-signature addresses on the Blockchain. The private keys required to transfer the Trust's Bitcoins are stored in Vaults located around the world with physical, cryptographic and jurisdictional security layers.

Vaults are located deep underground in geographically dispersed locations across the world, including but not limited to the United States, Europe, including Switzerland, and South America.



Confidential information such as the private keys and cryptographic materials are physically stored on offline devices that never have and never will have access to the internet or any other kind of network. Vault locations are protected by extraordinary security measures, including human, biometric and automated systems, 24 hours a day, 7 days a week. Vaults incorporate multiple layers of the most advanced forms of cryptographic security, multi-factor authentication and private key segmentation. The geographic dispersion of vaults is designed to protect Bitcoins from being seized by any government entity. Even if a government were to determine a way to bypass the physical and cryptographic layers of security in one jurisdiction, the other vault locations would remain uncompromised and the Bitcoins would remain safe. For more information, see “Custody of the Trust’s Bitcoins.”

#### *Access to the Bitcoin Account; Deposits, Withdrawals and Storage*

The Custodian will use its best efforts to keep in safe custody of the Custodial Coins. The Bitcoin Account will be controlled at all times by or on behalf of the Custodian by an affiliate of the Custodian. The Custodian Agreement provides that all Custodial Coins credited to the Bitcoin Account must be appropriately identified as being held for the Sponsor or Trust and held in the Bitcoin Account on a non-fungible basis. The Custodial Coins cannot be commingled with other Bitcoins held by the Custodian and cannot be deposited or held with any third-party depository, custodian, clearance system or wallet without prior written consent of the Sponsor or Trust.

The Sponsor or Trust will be able to transfer Bitcoins from the Bitcoin Account to another Bitcoin account that is not maintained or controlled by the Custodian. Except in the case of certain prohibited activities of the Trust and the Sponsor, the Custodian will not suspend the Trust or Sponsor’s access to the Bitcoin Account unless the Trust or Sponsor engages in certain prohibited activities, and any suspension of access to the Bitcoin Account that is not permitted will constitute a breach of the Custodian Agreement. The Custodian may restrict access or use of the Bitcoin Account by any Authorized Participants if, in the Custodian’s good faith belief, it is reasonably necessary to comply with the Custodian’s anti-money laundering programs and policies or any requirements under applicable law, and would, except with respect to the Trust or Sponsor’s actions that caused or contributed to such restriction, constitute a Loss as defined in the Custodian Agreement.

The Custodian will provide the Sponsor and the Administrator with the information that is necessary for Authorized Participants to make deposits to the Bitcoin Account. To support the Trust’s ordinary course deposits and withdrawals, which involve deposits from and withdrawals to Bitcoin accounts owned by Authorized Participants, the Custodian’s services will allow the Sponsor and the Trust to receive a Bitcoin address for deposits by Authorized Participants, and to initiate withdrawals to Bitcoin addresses controlled by Authorized Participants. The Custodian will use its best efforts to design and put in place a secure procedure to allow the Sponsor and the Administrator to receive such addresses, and to facilitate such withdrawals.

The Custodian Agreement provides that the Trust, the Sponsor and certain designated officers and employees of the Trust and Sponsor will be able to access the Bitcoin Account via the Custodian’s services at all times, in order to check information about the Bitcoin Account, add Bitcoins to the Bitcoin Account, withdraw Bitcoins from the Wallet Account and initiate withdrawal of Bitcoins from the Vault Account. The Custodian Agreement further provides that the Trust’s and Sponsor’s auditors or third-party accountants upon reasonable notice, have inspection rights to visit and

inspect the Bitcoin Account. The Sponsor has exercised its inspection rights of two of the vault locations that comprise the Bitcoin Account.

Under the Custodian Agreement, the Custodian will credit all Bitcoins properly sent to the Custodian via the Custodian's services by authorized persons. The Custodian will notify the Trust or Sponsor and the relevant authorized persons of the receipt and credit of Custodial Coins to the Bitcoin Account. Such credit will be made on the same business day as the transaction is finalized by the Bitcoin Network, except that transactions finalized after 5:00 p.m., New York time, may be processed on the next business day.

The Custodian will only allow withdrawals of Bitcoins from the Bitcoin Account by authorized persons. Such withdrawals will be made on the same business day as the transaction is finalized by the Bitcoin Network, except that transactions finalized after 5:00 p.m., New York time, may be processed on the next business day.

#### *Security of the Account*

Under the Custodian Agreement, the Custodian must use its best efforts to keep private and public keys secure, and may not disclose such keys to the Sponsor, Trust or any other individual or entity.

The Trust, Sponsor and Custodian will comply with certain security procedures with respect to the delivery or authentication of instructions and will use its best efforts to reasonably safeguard any codes, passwords or similar devices. Under the Custodian Agreement, the Custodian must exercise best efforts in all Bitcoin Network transactions executed in connection with its services.

#### *Right to Refuse Transfers or Amend Transfer Procedures*

The Sponsor will reject a redemption order if the order is not in proper form as described in the Participant Agreement or if the fulfillment of the order, in the opinion of its counsel, might be unlawful. The Sponsor may suspend redemption orders if it determines, in its sole discretion, that a suspension is necessary or desirable. Suspension of redemption orders at any time and for any reason may have adverse effects on the Bitcoin Index Price and the Trust's Bitcoin Holdings of the Shares.

#### *Record Keeping*

The Custodian will keep appropriate records of its services pursuant to the Custodian Agreement, and such records must be retained by the Custodian for no less than seven years. The Custodian Agreement also provides that the Custodian will permit, to the extent it may legally do so, the Trust or Sponsor's auditors or third-party accountants, upon reasonable notice, to inspect, take extracts from and audit the records that it maintains. The Custodian is obligated to provide a copy of any audit report prepared by its internal or independent auditors to the Trust or Sponsor.

Once each calendar year, the Sponsor or Trust may request that the Custodian deliver a certificate signed by a duly authorized officer to certify that the Custodian has complied and is currently in compliance with the Custodian Agreement and that all representations and warranties made by that Custodian in the Custodian Agreement are true and correct as of the certificate date and have been true and correct throughout the preceding year. The Sponsor and Trust are further entitled to request, not more than once per calendar year, that the Custodian produce or commission a new

Services Organization Controls 1 report and promptly deliver it to the Sponsor and Trust within a reasonable term that shall not be less than 30 days.

#### *Standard of Care; Limitations of Liability*

The Custodian will use best efforts in performing its obligations under the Custodian Agreement. The Custodian is liable to the Sponsor and the Trust for the loss of any Custodial Coins to the extent that the Custodian caused such loss, even if the Custodian meets its duty of exercising best efforts.

The Sponsor, Trust or Custodian's total liability under the Custodian Agreement will never exceed the greater of the fair market value of the amount of Custodial Coins either at the time in which events giving rise to the liability occurred or at the time the Custodian notifies the Sponsor or Trust in writing or the Sponsor or Trust otherwise has actual knowledge of the events giving rise to the liability. The Custodian, Sponsor and Trust are not liable to each other for any indirect, incidental, special or consequential damages whether or not such losses were foreseeable or within contemplation of the parties. Furthermore, the Custodian is not responsible or liable to the Trust and the Sponsor for a failure or inability to perform under the Custodian Agreement or for loss of Custodial Coins due to circumstances beyond its reasonable control when exercising best efforts, including acts of God, terrorist activities, war, rebellion or military or usurped power or confiscation. A cybersecurity attack, hack or other intrusion by a third party or by someone associated with Custodian is not a circumstance that is beyond Custodian's reasonable control when exercising best efforts.

Pursuant to the Custodian Agreement, the Custodian does not guarantee the value of the Custodial Coins. The Custodian is not responsible for the services provided by the Bitcoin Network, such as verifying and confirming transactions that are submitted to the Bitcoin Network. Furthermore, the Custodian cannot cancel or reverse a transaction that has been submitted to the Bitcoin Network. To the extent the Custodian does not cause or contribute to a loss that the Trust or Sponsor suffers in connection with any Bitcoin transaction initiated pursuant to the Custodian's services, the Custodian will have no liability for such loss.

#### *Indemnity*

Each of the Custodian and the Sponsor and the Trust has agreed to indemnify and hold harmless the other such parties from and against any and all damages arising out of or caused by (whether directly or indirectly) a third-party claim relating to the nonperformance or misperformance by the Custodian, Sponsor or Trust, as the case may be, of its duties and obligations under the Custodian Agreement as well as a party's reasonable reliance on any representations or warranties made by the Custodian, the Sponsor or Trust, as the case may be, under the Custodian Agreement that were or are in fact untrue. The Custodian has further agreed to indemnify and hold harmless the Sponsor and Trust from and against any and all damages arising out of or caused by a third-party claim relating to the holding of the Trust's Bitcoins by the Custodian, including any loss or damage caused by any act or omission of any employee of the Custodian or any agent, representative or independent contractor engaged by the Custodian, whether or not such act or omission occurred within the scope of his employment or engagement.

### *Fees and Expenses*

The Custodian is entitled to fees for services, which may be increased upon 60 days written notice to the Sponsor or Trust. The Custodian must receive its fees within 30 days of the Custodian's invoice. The Sponsor and the Trust will be liable for all taxes with respect to any Bitcoins held on its behalf or any transaction related to these Bitcoins. The Trust, as primary obligor, and the Sponsor as secondary obligor, will indemnify the Custodian for any damages related to any such tax, other than a tax arising out of the Custodian's negligence or willful misconduct.

### *Termination*

The Custodian Agreement provides for annual, automatically renewable terms. Generally, the Custodian, Trust or Sponsor may terminate the Custodian Agreement for any reason upon 60 days' written prior notice. In certain situations, including a material breach or failure to perform obligations of the Custodian Agreement, the Custodian, Sponsor and Trust may terminate the Custodian Agreement immediately after providing written notice. Upon termination of the Custodian Agreement, the Custodian must promptly deliver all the Trust's Bitcoins to the Sponsor or Trust as of the effective date of termination, together with copies of the records maintained pursuant to the Custodian Agreement.

### *Governing Law*

The Custodian Agreement is governed by New York law.

### **Item 19. Articles of Incorporation and Bylaws.**

Attached as an exhibit hereto is a copy of the Fourth Amended and Restated Declaration of Trust and Trust Agreement of Bitcoin Investment Trust dated as of October 24, 2017.

### **Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

Not applicable.

**Item 21. Issuer's Certifications.**

I, Barry E. Silbert, certify that:

**Certification**

1. I have reviewed this Annual Report, exhibits, and all notes thereto of Bitcoin Investment Trust;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

Dated: April 2, 2018

/s/ Barry E. Silbert

By: Barry E. Silbert

Title: Chief Executive Officer of  
Grayscale Investments, LLC

### **Certification**

I, Simcha Wurtzel, certify that:

1. I have reviewed the Annual Report, exhibits, and all notes thereto of Bitcoin Investment Trust;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

Dated: April 2, 2018

/s/ Simcha Wurtzel

By: Simcha Wurtzel

Title: Vice President, Finance (Principal Financial Officer) of  
Grayscale Investments, LLC

Exhibit 1

Audited Financial Statements for the years ended December 31, 2017 and December 31, 2016

**FINANCIAL STATEMENTS**

**Bitcoin Investment Trust**

**For the Years Ended December 31, 2017 and 2016**

**With Report of Independent Registered Public Accounting Firm**

Bitcoin Investment Trust™



**Bitcoin Investment Trust**  
**Index to Financial Statements**

Report of Independent Registered Public Accounting Firm	2
Statements of Assets and Liabilities at December 31, 2017 and 2016	3
Schedules of Investment at December 31, 2017 and 2016	4
Statements of Operations for the years ended December 31, 2017 and 2016	5
Statements of Changes in Net Assets for the years ended December 31, 2017 and 2016	6
Notes to Financial Statements	7

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Sponsor  
of Bitcoin Investment Trust

#### Opinion on the Financial Statements

We have audited the accompanying statements of assets and liabilities, including the schedules of investment, of the Bitcoin Investment Trust (the “Trust”) as of December 31, 2017 and 2016, and the related statements of operations and changes in net assets for each of the years in the two-year period ended December 31, 2017, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as of December 31, 2017 and 2016, and the results of its operations for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

These financial statements are the responsibility of the management of the Trust’s Sponsor. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### Emphasis of Matter - Investments in Bitcoin

In forming our opinion we have considered the adequacy of the disclosures included in Note 8 to the financial statements concerning among other things the risks and uncertainties related to the Trust’s investment in Bitcoin and Incidental Rights or IR Virtual Currency that arise as a result of the Trust’s investment in Bitcoin. The risks and rewards to be recognized by the Trust associated with its investment in Bitcoin will be dependent on many factors outside of the Trust’s control. The currently unregulated and immature nature of the Bitcoin market including clearing, settlement, custody and trading mechanisms, the dependency on information technology to sustain Bitcoin continuity, as well as valuation and volume volatility all subject Bitcoin to unique risks of theft, loss, or other misappropriation as well as valuation uncertainty. Furthermore, these factors also contribute to the significant uncertainty with respect to the future viability and value of Bitcoin. Our opinion is not qualified in respect to this matter.



We have served as the Trust’s auditor since 2015.

East Hanover, New Jersey

April 2, 2018

**Bitcoin Investment Trust**  
**Statements of Assets and Liabilities**

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
(Amounts in U.S. Dollars, except Share amounts)		
<b>Assets:</b>		
Investment in Bitcoin, at fair value (cost \$147,737,920 and \$78,496,406 as of December 31, 2017, and 2016, respectively)	\$ 2,491,383,131	\$ 166,246,898
<b>Total assets</b>	<u>\$ 2,491,383,131</u>	<u>\$ 166,246,898</u>
<b>Liabilities:</b>		
Sponsor fee payable, related party	\$ -	\$ -
<b>Total liabilities</b>	<u>-</u>	<u>-</u>
<b>Net assets</b>	<u>\$ 2,491,383,131</u>	<u>\$ 166,246,898</u>
<b>Net Assets consists of:</b>		
Paid-in-capital	152,427,989	81,506,820
In-kind distribution of Bitcoin Cash	(104,518,219)	-
In-kind distribution of Bitcoin Gold	(53,121,626)	-
Accumulated net investment loss	(17,938,908)	(3,751,256)
Accumulated net realized gain on investment in Bitcoin	12,890,654	740,842
Accumulated net realized gain on Bitcoin Cash	104,857,600	-
Accumulated net realized gain on Bitcoin Gold	53,140,430	-
Accumulated net change in unrealized appreciation on investment in Bitcoin	2,343,645,211	87,750,492
	<u>\$ 2,491,383,131</u>	<u>\$ 166,246,898</u>
Shares issued and outstanding, no par value (unlimited Shares authorized)	<u>174,283,200</u>	<u>167,194,300</u>
Net asset value per Share	<u>\$ 14.30</u>	<u>\$ 0.99</u>

*See accompanying notes to financial statements*

**Bitcoin Investment Trust**  
**Schedules of Investment**

**December 31, 2017**

	Number of Bitcoin	Cost	Fair Value	% of Net Assets
Investment in Bitcoin	175,839.08652196	\$ 147,737,920	\$ 2,491,383,131	100%
Net assets		<u>\$ 147,737,920</u>	<u>\$ 2,491,383,131</u>	<u>100%</u>

**December 31, 2016**

	Number of Bitcoin	Cost	Fair Value	% of Net Assets
Investment in Bitcoin	172,094.67544221	\$ 78,496,406	\$ 166,246,898	100%
Net assets		<u>\$ 78,496,406</u>	<u>\$ 166,246,898</u>	<u>100%</u>

*See accompanying notes to financial statements*

**Bitcoin Investment Trust**  
**Statements of Operations**

(Amounts in U.S. Dollars)	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Investment income:</b>		
Investment income	\$ -	\$ -
<b>Expenses:</b>		
Sponsor fee, related party	13,829,467	1,818,656
Additional Trust Expenses, related party	358,185	-
<b>Net investment loss</b>	<b>(14,187,652)</b>	<b>(1,818,656)</b>
<b>Net realized and unrealized gains from:</b>		
Net realized gain on investment in Bitcoin	12,149,812	429,313
Net realized gain on Bitcoin Cash	104,857,600	-
Net realized gain on Bitcoin Gold	53,140,430	-
Net change in unrealized appreciation on investment in Bitcoin	2,255,894,719	86,553,919
<b>Net realized and unrealized gain</b>	<b>2,426,042,561</b>	<b>86,983,232</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 2,411,854,909</b>	<b>\$ 85,164,576</b>

*See accompanying notes to financial statements*

**Bitcoin Investment Trust**  
**Statements of Changes in Net Assets**

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
(Amounts in U.S. Dollars, except change in Shares outstanding)		
<b>Increase (decrease) in net assets from operations:</b>		
Net investment loss	\$ (14,187,652)	\$ (1,818,656)
Net realized gain on investment in Bitcoin	12,149,812	429,313
Net realized gain on Bitcoin Cash	104,857,600	-
Net realized gain on Bitcoin Gold	53,140,430	-
Net change in unrealized appreciation on investment in Bitcoin	2,255,894,719	86,553,919
Net increase in net assets resulting from operations	<u>2,411,854,909</u>	<u>85,164,576</u>
<b>Increase in net assets from capital share transactions:</b>		
Shares issued	70,921,169	20,143,532
Net increase in net assets from capital share transactions	<u>70,921,169</u>	<u>20,143,532</u>
<b>Decrease in net assets from in-kind distributions:</b>		
Bitcoin Cash	(104,518,219)	-
Bitcoin Gold	(53,121,626)	-
Net decrease in net assets from in-kind distributions	<u>(157,639,845)</u>	<u>-</u>
Total increase in net assets	<u>2,325,136,233</u>	<u>105,308,108</u>
<b>Net assets:</b>		
Beginning of year	166,246,898	60,938,790
End of year	<u><u>\$2,491,383,131</u></u>	<u><u>\$ 166,246,898</u></u>
<b>Change in Shares outstanding:</b>		
Shares outstanding at beginning of year	<u>167,194,300</u>	<u>134,361,500</u>
Shares issued	7,088,900	32,832,800
Net increase in Shares	<u>7,088,900</u>	<u>32,832,800</u>
Shares outstanding at end of year	<u><u>174,283,200</u></u>	<u><u>167,194,300</u></u>

*See accompanying notes to financial statements*

# **Bitcoin Investment Trust**

## **Notes to Financial Statements**

### **1. Organization**

The Bitcoin Investment Trust (the “Trust”), a Delaware Trust that commenced operations on September 25, 2013, is an investment trust that is invested in Bitcoin. The Trust holds Bitcoin and, from time to time, issues common units of fractional undivided beneficial interest (“Shares”) (in minimum denominations of 100, referred to as “Baskets”) in exchange for deposits of Bitcoin. At this time, the Trust is not operating a redemption program and is not accepting redemption requests. Subject to receipt of regulatory approval and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program. Shares of the Trust represent common units of fractional undivided beneficial interests in the Trust. The investment objective of the Trust is for the Shares to reflect the value of Bitcoin, less the Trust’s expenses and other liabilities. The Trust may also receive Incidental Rights and/or IR Virtual Currency as a result of the Trust’s investment in Bitcoin, in accordance with the terms of the Trust Agreement.

Incidental Rights are rights to claim, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to the Trust’s ownership of Bitcoin and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust; while IR Virtual Currency is any virtual currency tokens, or other asset or right, received by the Trust through the exercise (subject to the applicable provisions of the Trust Agreement) of any Incidental Right.

Grayscale Investments LLC (“Grayscale” or the “Sponsor”) acts as the sponsor of the Trust and is a wholly owned subsidiary of Digital Currency Group, Inc. (“DCG”). The Sponsor monitors the overall performance of the Trust. Grayscale is responsible for preparing and providing annual and quarterly reports on behalf of the Trust to investors. Grayscale is also responsible for selecting and monitoring the Trust’s service providers. As payment for its services, Grayscale charges the Trust a Sponsor fee as discussed in Note 7.

Authorized Participants of the Trust are the only entities who may place orders to create or redeem Baskets. Genesis Global Trading, Inc. (“Genesis” or the “Authorized Participant”), a registered broker-dealer and wholly owned subsidiary of DCG, continues to be the only Authorized Participant and is party to a participant agreement with the Sponsor and the Trust. Additional Authorized Participants may be added at any time, subject to the discretion of the Sponsor.

The custodian of the Trust (the “Custodian”) is responsible for safeguarding the Bitcoin, Incidental Rights, and IR Virtual Currency held by the Trust. Since August 9, 2015, the Custodian has been Xapo, Inc. (“Xapo”), a third-party provider.

The transfer agent for the Trust (the “Transfer Agent”) is Continental Stock Transfer Corporation. The responsibilities of the transfer agent are to maintain creations, redemptions, transfers, and distributions of the Trust’s Shares in book form.

On March 25, 2015 the Trust received notice that its Shares were qualified for public trading on the OTCQX U.S. Premier Marketplace of the OTC Markets Group Inc. (“OTCQX”). The Trust’s trading symbol on OTCQX is “GBTC” and the CUSIP number for its Shares is 09173T108.

On October 25, 2017 the Trust withdrew its Registration Statement on Form S-1 (File No. 333-215627) that was initially filed on January 20, 2017 with the U.S. Securities and Exchange Commission (the “SEC”) for a proposed public offering of its Shares. The Trust resumed offering Shares in private placement transactions exempt from the registration requirements of the SEC on December 4, 2017.

## **Bitcoin Investment Trust**

### **Notes to Financial Statements**

#### **1. Organization (continued)**

On January 26, 2018, the Trust completed a 91-for-1 Share Split of the Trust's issued and outstanding Shares. Each beneficial owner of a Share (a "Shareholder") of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held. The number of outstanding Shares and per-Share amounts disclosed for all periods presented have been retroactively adjusted to reflect the effects of the Share Split.

#### **2. Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies followed by the Trust:

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The Trust qualifies as an investment company for accounting purposes pursuant to the accounting and reporting guidance under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust is not registered under the Investment Company Act of 1940. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Trust conducts its transactions in Bitcoin, including receiving Bitcoin for the creation of Shares, payment of Bitcoin for the redemption of Shares (if a redemption program were to be established), as well as paying its Sponsor fees. Since its inception, the Trust has not held cash or cash equivalents.

On March 6, 2018, a United States District Court of New York ruled that the Commodity Futures Trading Commission's ("CFTC") has standing to exercise its enforcement power over fraud related to virtual currencies sold in interstate commerce. This ruling affirmed the CFTC's position that digital currencies are subject to the anti-fraud and anti-manipulation enforcement authority, thereby asserting jurisdiction over futures, swaps, and other CFTC-regulated derivatives that reference digital currencies. Consistent with the recent ruling, the Trust classifies its investment in Bitcoin as a commodity.

#### **Investment Transactions and Revenue Recognition**

The Trust considers investment transactions to be the receipt of Bitcoin for Share creations and the payment of Bitcoin for Share redemptions (if a redemption program were to be established) or payment of expenses in Bitcoin. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation (depreciation) on investments. Realized gains and losses are calculated using an average cost method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor's fees in Bitcoin.

#### **In-kind IR Virtual Currency and Incidental Rights Distributions**

The Trust accounts for in-kind distributions of IR Virtual Currency and Incidental Rights in accordance with FASB ASC Topic 845, *Nonmonetary Transactions*, pursuant to which a transfer of a nonmonetary asset to a Shareholder or to another entity in a nonreciprocal transfer is recorded at the fair value of the asset transferred and a gain or loss is recognized on the disposition of the asset by the Trust.



**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

**Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the ‘exit price’) in an orderly transaction between market participants at the measurement date.

GAAP utilizes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Trust. Unobservable inputs reflect the Trust’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, these valuations do not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in markets that are not active or for which significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary by investment. To the extent that valuations are based on sources that are less observable or unobservable in the market, the determination of fair value requires more judgment. Fair value estimates do not necessarily represent the amounts that may be ultimately realized by the Trust.

	<b>Amount at Fair Value</b>	<b>Fair Value Measurement Using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>December 31, 2017</b>				
<b>Assets</b>				
Investment in Bitcoin	<u>\$ 2,491,383,131</u>	<u>\$ -</u>	<u>\$2,491,383,131</u>	<u>\$ -</u>
<b>December 31, 2016</b>				
<b>Assets</b>				
Investment in Bitcoin	<u>\$ 166,246,898</u>	<u>\$ -</u>	<u>\$ 166,246,898</u>	<u>\$ -</u>

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**3. Fair Value of Bitcoin**

Bitcoin is held by the Custodian on behalf of the Trust and are carried at fair value. As of December 31, 2017 and 2016, the Trust held 175,839.08652196 and 172,094.67544221 Bitcoin, respectively.

The Trust determined the fair value per Bitcoin token to be \$14,168.54 on December 31, 2017, and \$966.02 on December 31, 2016 using the price provided at 4:00 p.m., New York time, by the Bitcoin exchange considered to be the Trust's principal market (Global Digital Asset Exchange ("GDAX") (formerly known as Coinbase Exchange)). To determine which exchange is the Trust's principal market for purposes of calculating the Trust's NAV, the Trust considers only Bitcoin markets that are U.S. Dollar-denominated, have an online platform and publish transaction price and volume data publicly. Based on these requirements, the Trust prepares a list of eligible Bitcoin markets and considers the following criteria to select its principal market: (i) the volume of Bitcoin traded on a Bitcoin market in the prior twelve months, (ii) a Bitcoin market's regulatory compliance with applicable federal and state licensing requirements and practices regarding anti-money laundering procedures and (iii) the degree of intra-day price fluctuations a Bitcoin market experiences as well as the degree of variance in prices across Bitcoin exchanges.

In determining which of the eligible Bitcoin markets is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust sorts the list of eligible Bitcoin markets from high to low by volume of Bitcoin traded on each Bitcoin market in the prior twelve months. The Trust moves down the list until it reaches a Bitcoin market that has a volume of Bitcoin traded for the prior twelve months that is less than 10% of the next largest Bitcoin market and excludes this and all smaller Bitcoin exchanges from the list. However, the list will always contain a minimum of three Bitcoin markets, even if the percentage of volume drops to less than 10% of the next largest Bitcoin market.

Second, the Trust reviews the remaining Bitcoin markets and excludes any Bitcoin markets that do not comply with the federal and state licensing requirements that are applicable to the Trust and the Authorized Participant(s). The Trust or an Authorized Participant can only do business with those Bitcoin markets that meet the regulatory requirements of the jurisdiction in which the Trust or an Authorized Participant is registered to do business. The Trust also assesses each Bitcoin market's practices regarding anti-money laundering procedures.

Third, the Trust then reviews intra-day pricing fluctuations and the degree of variances in price on Bitcoin markets to identify any material notable variances that may impact the volume or price information of a particular Bitcoin market. The Trust then selects a Bitcoin market as its principal market based on highest trade volume and price stability in comparison to the other Bitcoin markets on the list.

The Trust determines its principal market annually and conducts a quarterly analysis to determine if (i) there have been recent changes to each Bitcoin market's transaction volume in the prior twelve months, (ii) if any Bitcoin markets have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make Bitcoin markets previously inaccessible to the Trust now accessible or (iv) if recent changes to each Bitcoin markets' price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**3. Fair Value of Bitcoin (continued)**

Historically, the Trust considered Bitstamp to be its principal market. The Trust performed an assessment of the principal market at December 31, 2016 and identified a change in the principal market from Bitstamp to GDAX. The Trust has applied this change in principal market effective December 31, 2016. As of December 31, 2017, GDAX remained the principal market, and the Trust valued its Bitcoin at December 31, 2017 using the GDAX exchange. The cost basis of the investment in Bitcoin recorded by the Trust for financial reporting purposes is the fair value of Bitcoin at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of corresponding Shares to investors.

The following represents the changes in quantity of Bitcoin and the respective fair value:

	<b>Years ended December 31,</b>			
	<b>2017</b>		<b>2016</b>	
	Bitcoin	Fair Value	Bitcoin	Fair Value
Beginning balance	172,094.67544221	\$ 166,246,898	141,101.20906271	\$ 60,938,790
Bitcoin contributed	7,213.17369100	70,921,169	34,155.29569721	20,143,532
Bitcoin distributed for Sponsor fee, related party	(3,468.76261125)	(13,829,467)	(3,161.82931771)	(1,818,656)
Net change in unrealized appreciation on investment in Bitcoin	-	2,255,894,719	-	86,553,919
Net realized gain on investment in Bitcoin	-	12,149,812	-	429,313
Ending balance	<u>175,839.08652196</u>	<u>\$2,491,383,131</u>	<u>172,094.67544221</u>	<u>\$166,246,898</u>

**4. Distributions**

When a proposed modification to the Bitcoin Network is not accepted by the vast majority of miners and users but is nonetheless accepted by a substantial population of participants in the network, a “fork” in the blockchain occurs, resulting in two separate Bitcoin Networks. A “hard fork” is a software upgrade that introduces a new rule to the network that is not compatible with the older software, while a “soft fork” is any change that is backward compatible. Holders of Bitcoin on the original Bitcoin Network, at the time the block is mined and the fork occurs, can then also receive an identical amount of new tokens on the new network.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**4. Distributions (continued)**

**Bitcoin Fork on August 1, 2017 (Bitcoin Cash)**

*Background and Initial Measurement*

In the case of the Bitcoin-Bitcoin Cash hard fork on August 1, 2017, a quorum of network participants accepted a modification to increase the Bitcoin Network block size to 8 megabytes to resolve the scalability problem. At the same time, many network participants still did not believe that this was a superior scaling solution. Therefore, they continued to support another version of the Bitcoin Network without the block size increase but with a different scaling solution known as Segregated Witness. The version of the Bitcoin Network with the block size increase was rebranded as Bitcoin Cash. The Custodian subsequently exercised the Trust's Incidental Rights to obtain Bitcoin Cash tokens.

Immediately following the hard fork on August 1, 2017, holders of Bitcoin passively received an Incidental Right to obtain an equal number of Bitcoin Cash tokens. At that time, the Trust held approximately 173,014 Bitcoin and the newly created Bitcoin Cash was inaccessible to the Trust until the Custodian was able to develop processes to safely and securely obtain access to and permit withdrawal of Bitcoin Cash. On the date of the hard fork, the Incidental Rights to Bitcoin Cash were determined to have no value as there were insufficient observable market inputs to determine the fair value of Bitcoin Cash.

*Distribution of Bitcoin Cash*

On October 25, 2017, the Trust declared a distribution and established a record date for the distribution of Bitcoin Cash held by the Trust to Shareholders of record ("Bitcoin Cash Record Date Shareholders") as of the close of business on November 6, 2017 (the "Bitcoin Cash Record Date" and such distribution the "Bitcoin Cash Distribution").

On the Bitcoin Cash Record Date, the Trust, acting on behalf of the Bitcoin Cash Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin Cash Record Date Shareholders and distributed all of the Bitcoin Cash tokens then held by the Trust to the Bitcoin Cash Record Date Shareholders by transferring such tokens to the Agent. The Trust has no ownership interest in the distributed Bitcoin Cash, no ability to control the actions of the Agent and no right to receive any information about the distributed Bitcoin Cash or the disposition thereof from the Bitcoin Cash Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that it liquidated the Bitcoin Cash tokens, on behalf of the Bitcoin Cash Record Date Shareholders, using a related party registered broker-dealer (Genesis), over a period of 32 days and remitted the cash proceeds from such sale, net of the administrative and other expenses incurred by the Agent in connection with the liquidation to the Bitcoin Cash Record Date Shareholders on December 12, 2017.

In connection with the Bitcoin Cash fork, the Trust incurred Additional Trust Expenses. These Additional Trust Expenses primarily related to consultations with the Trust's professional advisors and third-party service providers to determine an appropriate approach to handling the Bitcoin Cash that would preserve value for the Shareholders in a manner consistent with the Trust's continued treatment as a grantor trust for U.S. federal income tax purposes. Pursuant to the terms of the Trust Agreement, the Additional Trusts Expenses are borne by the Trust.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**4. Distributions (continued)**

	<b>For the year ended December 31, 2017</b>
<b>(All Bitcoin Cash balances are rounded to the nearest whole Bitcoin Cash)</b>	
<b>IR Virtual Currency (Bitcoin Cash):</b>	
Opening Balance	-
IR Virtual Currency of Bitcoin Cash received	173,014
Additional Trust Expense – Bitcoin Cash	(513)
In-kind Bitcoin Cash distribution	(172,501)
Net closing balance	-
Price of Bitcoin Cash on principal market at the Bitcoin Cash Record Date <sup>(1)</sup>	\$ 605.90
Realized gain on Bitcoin Cash	\$ 104,857,600
Additional Trust Expense, related party - Bitcoin Cash <sup>(2)</sup>	(339,381)
Fair market value of the in-kind Bitcoin Cash Distribution <sup>(3)</sup>	\$ 104,518,219
Outstanding Shares of Bitcoin Cash Record Date Shareholders on the Bitcoin Cash Record Date <sup>(4)</sup>	170,051,700
Fair market value of in-kind Bitcoin Cash Distribution per Outstanding Share of Record Date Shareholders of the Bitcoin Cash Distribution	\$ 0.61

(1) The Trust determined the fair value per Bitcoin Cash token to be \$605.90 on the Bitcoin Cash Record Date, using the price provided at 4:00 p.m., New York time, by the Bitcoin Cash principal market, Bitfinex. The Trust evaluates exchanges to determine the principal market for Incidental Rights or IR Virtual Currency in the same manner as investments in Bitcoin discussed in Note 3. Based on the Trust's evaluation, the Trust determined there were no exchanges that met the applicable regulatory requirements. The Trust then identified the exchange with the highest U.S. Dollar-denominated trading volume that had an online platform, published transaction price and volume data publicly.

(2) On November 3, 2017, the Trust reimbursed the Sponsor of the Trust for Additional Trust Expenses of approximately \$339,381 that the Sponsor had incurred on the Trust's behalf. The Trust determined the fair value per Bitcoin Cash token to be \$660.96 on November 3, 2017, using the price provided at 4:00 p.m., New York time, by Bitfinex.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**4. Distributions (continued)**

- (3) The Trust has no ownership interest in the distributed Bitcoin Cash, no ability to control the actions of the Agent and no right to receive any information about the distributed Bitcoin Cash or the disposition thereof from the Bitcoin Cash Record Date Shareholders, their Agent or any other person. However, Grayscale, in its role as the Agent of the Bitcoin Cash Record Date Shareholders voluntarily informed the Trust that it completed the liquidation of the Bitcoin Cash tokens distributed to the Bitcoin Cash Record Date Shareholders (by means of transfer to the Agent) and remitted cash proceeds from the liquidation, net of the administrative and other expense incurred by the Agent in connection with the liquidation, to the Bitcoin Cash Record Date Shareholders on December 12, 2017 of \$211,527,575.
- (4) Outstanding Shares of Bitcoin Cash Record Date Shareholders of 1,868,700 has been retroactively adjusted to reflect the 91-for-1 Share Split of the Trust's issued and outstanding Shares. Shareholders of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held.

**Bitcoin Fork on October 24, 2017 (Bitcoin Gold)**

*Background and Initial Measurement*

In the case of the Bitcoin-Bitcoin Gold hard fork on October 24, 2017, a quorum of network participants accepted a modification to restore graphics processing unit mining functionality, as opposed to specialized application-specific integrated circuit mining functionality. This version of the Bitcoin Network was rebranded as Bitcoin Gold.

Immediately following the hard fork on October 24, 2017, holders of Bitcoin passively received an Incidental Right to obtain an equal number of Bitcoin Gold tokens. At that time, the Trust held approximately 172,324 Bitcoin and the newly created Bitcoin Gold was inaccessible to the Trust until the Custodian was able to develop processes to safely and securely obtain access to and permit withdrawal of Bitcoin Gold. On the date of the hard fork, the Incidental Rights to Bitcoin Gold were determined to have no value as there were insufficient observable market inputs to determine the fair value of Bitcoin Gold.

*Distribution of Incidental Rights to Bitcoin Gold*

On November 22, 2017, the Trust declared a distribution and established a record date for the distribution of the Incidental Rights to Bitcoin Gold held by the Trust to the Shareholders of record ("Bitcoin Gold Record Date Shareholders") as of the close of business on December 4, 2017 (the "Bitcoin Gold Record Date" and such distribution the "Incidental Rights to Bitcoin Gold Distribution").

On the Bitcoin Gold Record Date, the Trust, acting on behalf of the Bitcoin Gold Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin Gold Record Date Shareholders and distributed the Incidental Rights to Bitcoin Gold tokens then held by the Trust to the Bitcoin Gold Record Date Shareholders by transferring such Incidental Rights to the Agent.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**4. Distributions (continued)**

The Trust has no ownership interest in the distributed Incidental Rights to Bitcoin Gold, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Bitcoin Gold or the disposition thereof from the Bitcoin Gold Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that it had claimed the Bitcoin Gold tokens on behalf of the Bitcoin Gold Record Date Shareholders and began liquidating the Bitcoin Gold tokens. As of the date of this Annual Report, the Agent has voluntarily informed the Trust that it has not remitted net cash proceeds to the Bitcoin Gold Record Date Shareholders but has net proceeds from liquidation of \$9,604,206 that are to be remitted on April 3, 2018.

In connection with the Bitcoin Gold hard fork, the Trust incurred Additional Trust Expenses. These Additional Trust Expenses primarily related to consultations with the Trust's professional advisors and third-party service providers to determine an appropriate approach to handling the Bitcoin Gold that would preserve value for the Shareholders in a manner consistent with the Trust's continued treatment as a grantor trust for U.S. federal income tax purposes. Pursuant to the terms of the Trust Agreement, Additional Trust Expenses are borne by the Trust.

<b>(All Bitcoin Gold balances are rounded to the nearest whole Bitcoin Gold)</b>	<b>For the year ended December 31, 2017</b>
<b>Incidental Right (Bitcoin Gold):</b>	
Opening Balance	-
Incidental Right of Bitcoin Gold received	172,324
Additional Trust Expense – Bitcoin Gold	(80)
In-kind Incidental Right Bitcoin Gold Distribution	(172,244)
Net closing balance	-
Price of Bitcoin Gold on principal market at the Bitcoin Gold Record Date <sup>(1)</sup>	\$ 308.41
Realized gain on Bitcoin Gold	\$ 53,140,430
Additional Trust Expense, related party - Bitcoin Gold <sup>(2)</sup>	(18,804)
Fair market value of the in-kind Incidental Right Bitcoin Gold Distribution <sup>(3)</sup>	\$ 53,121,626
Outstanding Shares of Bitcoin Gold Record Date Shareholders on the Bitcoin Gold Record Date <sup>(4)</sup>	170,051,700
Fair market value of in-kind Incidental Right Bitcoin Gold Distribution per Outstanding Share of Bitcoin Gold Record Date Shareholders	\$ 0.31

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**4. Distributions (continued)**

- (1) The Trust determined the fair value per Bitcoin Gold token to be \$308.41 on the Bitcoin Gold Record Date, using the price provided at 4:00 p.m., New York time, by the Bitcoin Gold principal market, Bitfinex. The Trust evaluates exchanges to determine the principal market for Incidental Rights to IR Virtual Currency in the same manner as investments in Bitcoin as discussed in Note 3. Based on the Trust's evaluation, it was determined there were no exchanges that met the applicable regulatory requirements. The Trust then identified the exchange with the highest U.S. Dollar-denominated trading volume that had an online platform, published transaction price and volume data publicly.
- (2) On November 21, 2017, the Trust reimbursed the Sponsor of the Trust for Additional Trust Expenses of approximately \$18,804 that the Sponsor had incurred on the Trust's behalf. The Trust determined the fair value per Incidental Rights to Bitcoin Gold token to be \$235.00 on November 21, 2017, using the price of Bitcoin Gold tokens provided at 4:00 p.m., New York time, by Bitfinex, as noted above.
- (3) The Trust has no ownership interest in the distributed Incidental Rights to Bitcoin Gold, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Bitcoin Gold or the disposition thereof or of the underlying Bitcoin Gold from the Bitcoin Gold Record Date Shareholders, their Agent or any other person. However, Grayscale, in its role as the Agent of the Bitcoin Gold Record Date Shareholders voluntarily informed the Trust that it had claimed the Bitcoin Gold tokens on behalf of the Bitcoin Gold Record Date Shareholders and began liquidating the Bitcoin Gold tokens. As of the date of this Annual Report, the Agent has voluntarily informed the Trust that it has not remitted net cash proceeds to the Bitcoin Gold Record Date Shareholders but has net proceeds from liquidation of \$9,604,206 that are to be remitted on April 3, 2018.
- (4) Outstanding Shares of Bitcoin Gold Record Date Shareholders of 1,868,700 has been retroactively adjusted to reflect the 91-for-1 Share Split of the Trust's issued and outstanding Shares. Shareholders of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held.

**Bitcoin Fork on December 28, 2017 (Bitcoin SegWit2X)**

*Background and Measurement*

In the case of the Bitcoin SegWit2X hard fork on December 28, 2017, a quorum of network participants accepted a modification to activate Segregated Witness and then trigger a hard fork for a 2-megabyte block size. This version of the Bitcoin Network was rebranded as Bitcoin SegWit2X.

Immediately following the hard fork on December 28, 2017, holders of Bitcoin passively received an Incidental Right to obtain an equal number of Bitcoin SegWit2X. At that time, the Trust held approximately 175,878 Bitcoin and the newly created Bitcoin SegWit2X was and is inaccessible to the Trust. As of the date of this Annual Report, Bitcoin SegWit2X remains inaccessible and will continue to be inaccessible until the Custodian is able to develop processes to safely and securely obtain access to and permit withdrawal of Bitcoin SegWit2X. On the date of the hard fork, the Incidental Rights to Bitcoin SegWit2X was determined to have no value as there were insufficient observable market inputs to determine the fair value of Bitcoin SegWit2X.



**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**4. Distributions (continued)**

Furthermore, on December 29, 2017, the Sponsor of the Trust announced that it has declared a distribution and established a record date for the distribution of the Incidental Right to the Bitcoin SegWit2X to Shareholders of record as of the close of business on January 8, 2018.

*Subsequent Measurement and Distribution of Incidental Rights to Bitcoin SegWit2X*

Subsequent to the date of the fork, active trading markets for Bitcoin SegWit2X have not yet developed. Bitcoin SegWit2X currently trades on limited exchanges as well as over the counter markets. As of December 31, 2017 and January 8, 2018, respectively, the exchanges trading Bitcoin SegWit2X did not have sufficient trading volumes to be considered to have active markets. The Trust determined the fair value per Incidental Right of Bitcoin SegWit2X to be \$0 as of December 31, 2017.

On January 8, 2018, the Trust declared a distribution and established a record date for the distribution of the Incidental Rights to obtain 175,878 Bitcoin SegWit2X tokens held by the Trust to the Shareholders of record (“Bitcoin SegWit2X Shareholders”) as of the close of business on January 8, 2018 (the “Bitcoin SegWit2X Record Date” and such distribution, the “Incidental Rights to Bitcoin SegWit2X Distribution”) The Trust determined such Incidental Rights to have a fair value of \$0 and no gain or loss was recognized as part of the in-kind Incidental Right distribution.

On the Bitcoin SegWit2X Record Date, the Trust, acting on behalf of the Bitcoin SegWit2X Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Bitcoin SegWit2X Record Date Shareholders and distributed the Incidental Rights to Bitcoin SegWit2X tokens held by the Trust to the Bitcoin SegWit2X Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no ownership interest in the distributed Incidental Rights to Bitcoin SegWit2X, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Bitcoin SegWit2X or the disposition thereof or of the underlying Bitcoin SegWit2X from the Bitcoin SegWit2X Record Date Shareholders, their Agent or any other person. However, the Agent voluntarily informed the Trust that, on behalf of the Bitcoin SegWit2X Record Date Shareholders, it irrevocably abandoned all of the rights to Bitcoin SegWit2X tokens because it was determined that the costs incurred by the Agent in connection with selling the Bitcoin SegWit2X tokens would exceed the gross proceeds from such sales.

**Bitcoin Diamond and Bytether Tokens**

On December 1, 2017, the Sponsor, announced that the Trust irrevocably abandoned (i) all of the rights to Bitcoin Diamond tokens then held by the Trust as a result of the fork in the Bitcoin blockchain on November 24, 2017 and (ii) all of the rights to Bytether tokens then held by the Trust as a result of an airdrop on August 1, 2017. The Trust did not receive, and will not receive, any direct or indirect consideration for the abandonment of these rights. As a consequence of the abandonment, the Trust has no right to receive any Bitcoin Diamond tokens or Bytether tokens at any point in the future, will not accept any Bitcoin Diamond tokens or Bytether tokens, or any payment in respect thereof, at any point in the future and will not otherwise take any action in the future inconsistent with such abandonment.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**5. Creations and Redemptions of Shares**

At December 31, 2017 and 2016, there was an unlimited number of Shares authorized by the Trust. The Trust creates (and, should the Trust commence a redemption program, redeems) Shares from time to time, but only in one or more Baskets. The creation and redemption of Baskets on behalf of investors are made by the Authorized Participant in exchange for the delivery of Bitcoin to the Trust or the distribution of Bitcoin by the Trust. The number of Bitcoin required for each creation Basket or redemption Basket is determined by dividing the number of Bitcoin owned by the Trust at such time by the number of Shares outstanding at such time and multiplying the quotient obtained by 100. Each Share represented approximately 0.00101 and 0.00103 of one Bitcoin at December 31, 2017 and 2016, respectively, adjusted to reflect the Share Split.

The cost basis of investments in Bitcoin recorded by the Trust is the fair value of Bitcoin, as determined by the Trust, at 4:00 p.m., New York time, on the date of transfer to the Trust by the Authorized Participant based on the creation Baskets. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of each Share to investors. The Authorized Participant may realize significant profits buying, selling, creating and redeeming Shares as a result of changes in the value of Shares or Bitcoin

Effective October 28, 2014, the Trust suspended its redemption program, in which Shareholders were permitted to request the redemption of their Shares through the Authorized Participant out of concern that the redemption program was in violation of Regulation M under the Securities Exchange Act, resulting in a settlement reached with the Securities Exchange Commission (“SEC”).

On January 19, 2017, prior to the initial filing of the registration statement on Form S-1 with the SEC, the Trust stopped issuing Shares under the creation program, which had been taking place through private placement transactions. On October 25, 2017, the Trust withdrew its registration statement (File No. 333-215627) that was initially filed on January 20, 2017 and the Trust resumed offering Shares in private placement transactions exempt from the registration requirements of the SEC on December 4, 2017.

**6. Income Taxes**

As of January 1, 2016, an amendment to the Trust Agreement was made to ensure that the Trust Agreement was consistent with the treatment of the Trust as a grantor trust. On February 9, 2017, the Court of Chancery of the State of Delaware ordered that the Original Trust Agreement be reformed so that the amendments made are retroactive to the original date of execution of the Trust Agreement. On September 11, 2017, the Trust received a final decision from the IRS regarding the private letter ruling and the IRS concluded that the Trust qualified at that time as a grantor trust for U.S. federal income tax purposes as of the date of the private letter ruling. Furthermore, as of October 24, 2017, amendments to the Trust Agreement were made to permit the Trust to hold rights to acquire, or otherwise establish, dominion and control over, Incidental Rights and IR Virtual Currency in a manner consistent with the Trust’s continued treatment as a grantor trust for U.S. federal income tax purposes.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**6. Income Taxes (continued)**

Accordingly, the Sponsor takes the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial owner of Shares will be treated as directly owning its pro rata Share of the Trust's assets and a pro rata portion of the Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

If the Trust were not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency, including forks, airdrops and similar occurrences for U.S. federal income tax purposes, there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing. In addition, tax information reports provided to beneficial owners of Shares would be made in a different form. If the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at a maximum rate of 21%) on its net taxable income and certain distributions made by the Trust to Shareholders would be treated as taxable dividends to the extent of the Trust's current and accumulated earnings and profits.

In accordance with GAAP, the Trust has defined the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely than-not" to be sustained by the applicable taxing authority and requires measurement of a tax position meeting the "more-likely than not" threshold, based on the largest benefit that is more than 50% likely to be realized. Tax positions not deemed to meet the "more-likely than-not" threshold are recorded as a tax benefit or expense in the current year. As of and during the years ended December 31, 2017 and 2016, the Trust did not have a liability for any unrecognized tax amounts. However, the Sponsor's conclusions concerning its determination of "more-likely than-not" tax positions may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance, and on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Sponsor of the Trust has evaluated whether or not there are uncertain tax positions that require financial statement recognition and has determined that no reserves for uncertain tax positions related to federal, state and local income taxes existed as of December 31, 2017 or 2016, respectively.

**7. Related Parties**

The Trust considers the following entities and their directors to be related parties of the Trust: DCG, Genesis and Grayscale. As of December 31, 2017 and 2016, 10,884,237 and 19,793,592 Shares of the Trust were held by related parties of the Trust, respectively.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**7. Related Parties (continued)**

In accordance with the Trust agreement, the Trust pays a fee to the Sponsor, calculated as 2% of aggregate value of the Trust's assets, less liabilities (which includes any accrued but unpaid expenses), as calculated and published by the Sponsor or its delegates (the "Sponsor Fee"). The Sponsor Fee accrues daily in Bitcoin and will be payable in Bitcoin at the Sponsor's sole discretion, monthly in arrears. Incidental Rights and IR Virtual Currencies have been excluded from the value of the Trust's assets for purposes of calculation of the Sponsor Fee and have not been distributed in payment of Sponsor fees through December 31, 2017.

As consideration for its receipt of the Sponsor's Fee, the Sponsor is obligated under the Trust Agreement to assume and pay the following fees and expenses incurred by the Trust in the ordinary course of its affairs, excluding taxes by including marketing fees, administrator fees, custodian fees, transfer agent fees, trustee fees, fees and expenses related to trading on any secondary market (including legal, marketing and audit fees and expenses) in an amount up to \$600,000 in any given fiscal year, legal expenses, audit fees, regulatory fees, printing and mailing costs and costs of maintaining the Trust's website and applicable license fees with respect to the Trust (the "Sponsor-paid Expenses"). The Trust may incur Additional Trust Expenses, non-recurring expenses and indemnification expenses that are not Sponsor-paid Expenses, including expenses incurred in connection with any Incidental Rights or IR Virtual Currency. In such circumstances, the Sponsor will either convert Bitcoin, Incidental Rights or IR Virtual Currency into U.S. Dollars or other fiat currencies at the Actual Exchange Rate or deliver Bitcoin, Incidental Rights or IR Virtual Currency in kind, in each case, in such quantity as may be necessary to pay such Additional Trust Expenses.

For the years ended December 31, 2017 and December 31, 2016, the Trust incurred Sponsor fees of \$13,829,467 and \$1,818,656, respectively, which were paid in Bitcoin. As of December 31, 2017 and 2016, there were no accrued and unpaid Sponsor fees respectively. In addition, the Sponsor may incur Additional Trust Expenses, reimbursable by the Trust to the Sponsor. For the year ended December 31, 2017, the Sponsor incurred \$358,185 of Additional Trust Expenses related to consultations with the Trust's professional advisors and third-party service providers to determine an appropriate approach to handling the Incidental Rights and IR Virtual Currency distributions that would maximize Shareholder value while ensuring the Trust's continued treatment as a grantor trust for U.S. federal income tax purposes. For the year ended December 31, 2016, the Sponsor did not incur any Additional Trust Expenses.

**8. Risks and Uncertainties**

*Investments in Bitcoin*

The Trust is subject to various risks including market risk, liquidity risk, and other risks related to its concentration in a single asset, Bitcoin. Investing in Bitcoin is currently unregulated, highly speculative, and volatile.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**8. Risks and Uncertainties (continued)**

The net asset value of the Trust relates primarily to the value of Bitcoin held by the Trust, and fluctuations in the price of Bitcoin could materially and adversely affect an investment in the Shares of the Trust. The price of Bitcoin has a limited history. During such history, Bitcoin prices have been volatile and subject to influence by many factors including the levels of liquidity. If Bitcoin markets continue to experience significant price fluctuations, the Trust may experience losses. Several factors may affect the price of Bitcoin, including, but not limited to, global Bitcoin supply and demand, theft of Bitcoin from global exchanges or vaults, and competition from other forms of digital currency or payments services.

The Bitcoin held by the Trust are commingled and the Trust's Shareholders have no specific rights to any specific Bitcoin. In the event of the insolvency of the Trust, its assets may be inadequate to satisfy a claim by its Shareholders.

There is currently no clearing house for Bitcoin, nor is there a central or major depository for the custody of Bitcoin. There is a risk that some or all of the Trust's Bitcoin could be lost or stolen. The Trust does not have insurance protection on its Bitcoin which exposes the Trust and its Shareholders to the risk of loss of the Trust's Bitcoin. Further, Bitcoin transactions are irrevocable. Stolen or incorrectly transferred Bitcoin may be irretrievable. As a result, any incorrectly executed Bitcoin transactions could adversely affect an investment in the Trust.

The Sponsor's parent, an affiliate of the Trust, holds a minority interest in Xapo that represents less than 1% of Xapo's ownership. To the extent private keys for Bitcoin addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Trust may be unable to access the Bitcoin held in the associated address and the private key will not be capable of being restored by the Bitcoin network. The processes by which Bitcoin transactions are settled are dependent on the Bitcoin peer-to-peer network, and as such, the Trust is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the value of Bitcoin.

As of the close of business on March 29, 2018 the fair value of Bitcoin determined in accordance with the Trust's accounting policy was \$7,337.16 per Bitcoin.

*Inherent Rights and IR Virtual Currencies*

During the year ended December 31, 2017, the Trust came into possession of Incidental Rights and IR Virtual Currency by virtue of the Trust's investment in Bitcoin. The Sponsor intends to evaluate each fork or airdrop on a case-by-case basis in consultation with the Trust's legal advisors, tax consultants, and Custodian, and may decide to abandon any Incidental Rights or IR Virtual Currency resulting from a hard fork or airdrop should the Sponsor conclude, in its discretion, that such abandonment is in the best interests of the Trust. Any inability to realize the economic benefit of a hard fork or airdrop could adversely impact an investment in the Shares.

The markets that develop subsequent to each fork or airdrop have very limited trading history, are unregulated in nature and are subject to significant volatility. Fluctuations in the value of Inherent Rights and IR Virtual Currencies may be significant. Furthermore, the network participants could stop supporting and using the forked networks at any time which could result in a significant impairment of the value of Inherent Rights and IR Virtual Currencies. There can be no assurances that Shareholders will receive any benefit from a distribution of Inherent Rights or IR Virtual Currencies.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**9. Financial Highlights Per Share Performance**

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Per Share Data:</b>		
Net asset value, beginning of year	\$ 0.99	\$ 0.45
Net increase (decrease) in net assets from investment operation:		
Net investment loss	(0.08)	(0.01)
Net realized and unrealized gains	14.31	0.55
Net increase in net assets resulting from operations	14.23	0.54
In-kind distributions:		
Bitcoin Cash	(0.61)	-
Bitcoin Gold	(0.31)	-
Net decrease in net assets from in-kind distributions	(0.92)	-
Net asset value, end of year	\$ 14.30	\$ 0.99
Total return	1,344.44%	120.00%
<i>Ratios to average net assets:</i>		
Net investment loss	-2.05%	-2.00%
Expenses	-2.05%	-2.00%

An individual Shareholder's return, ratios, and per Share performance may vary from those presented above based on the timing of Share transactions.

Total return is calculated assuming an initial investment made at the net asset value at the beginning of the year and redemption on the last day of the year.

**10. Indemnifications**

In the normal course of business, the Trust enters into certain contracts that provide a variety of indemnities, including contracts with the Sponsor and affiliates of the Sponsor, DCG and its officers, directors, employees, subsidiaries and affiliates, and Xapo as well as others relating to services provided to the Trust. The Trust's maximum exposure under these and its other indemnities is unknown. However, no liabilities have arisen under these indemnities in the past and, while there can be no assurances in this regard, there is no expectation that any will occur in the future. Therefore, the Sponsor does not consider it necessary to record a liability in this regard.

**Bitcoin Investment Trust**  
**Notes to Financial Statements**

**11. Subsequent Events**

There are no known events that have occurred that require disclosure other than that which has already been disclosed in these notes to the financial statements.