

FINANCIAL STATEMENTS

Bitcoin Investment Trust
For the period from September 25, 2013 (commencement of
operations) to December 31, 2013
With Report of Independent Auditors

Bitcoin Investment Trust

Financial Statements

For the period from September 25, 2013 (commencement of operations) to December 31, 2013

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Report of Independent Auditors

The Shareholders of
Bitcoin Investment Trust

We have audited the accompanying financial statements of Bitcoin Investment Trust (the “Trust”), which comprise the statement of assets and liabilities as of December 31, 2013, and the related statements of operations, and changes in net assets for the period from September 25, 2013 (commencement of operations) to December 31, 2013, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bitcoin Investment Trust at December 31, 2013, and the results of its operations for the period from September 25, 2013 (commencement of operations) to December 31, 2013 in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter – Investments in Bitcoin

In forming our opinion we have considered the adequacy of the disclosures included in Note 7 to the financial statements concerning among other things the risks and uncertainties related to the Trust's investments in bitcoin. The risks and rewards to be recognized by the Trust associated with its investments 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. 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 of this matter.

Ernst & Young LLP

July 22, 2014

Bitcoin Investment Trust

Statement of Assets and Liabilities

December 31, 2013

ASSETS:

Investments in bitcoin, at fair value (cost \$24,650,293)	\$	51,045,863
Total assets		51,045,863

NET ASSETS		51,045,863
Shares outstanding (unlimited shares authorized)		701,100
Net asset value, per share	\$	72.81

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

Bitcoin Investment Trust

Statement of Operations

For the period from September 25, 2013 (commencement of operations) to December 31, 2013

INVESTMENT INCOME:	
Investment Income	\$ —
EXPENSES:	
Management fees	146,520
NET INVESTMENT LOSS	(146,520)
NET REALIZED AND UNREALIZED GAINS:	
Net realized gain on investments in bitcoin	59,870
Net change from unrealized appreciation from investments in bitcoin	26,482,220
NET REALIZED AND UNREALIZED GAINS:	26,542,090
Net increase in net assets resulting from operations	\$ 26,395,570

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

Bitcoin Investment Trust

Statement of Changes in Net Assets

For the period from September 25, 2013 (commencement of operations) to December 31, 2013

INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:

Net investment loss	\$ (146,520)
Net realized and unrealized gains on investments in bitcoin	26,542,090
Net increase in net assets resulting from operations	26,395,570

NET ASSETS:

September 25, 2013 (commencement of operations)	-
End of year	51,045,863

CHANGES IN SHARES OUTSTANDING

Shares issued	703,700
Shares redeemed	2,600
Net increase in shares	701,100

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

Bitcoin Investment Trust

Notes to Financial Statements

December 31, 2013

1. Organization

The Bitcoin Investment Trust (the “Trust” or “BIT”), a Delaware Trust that commenced operations on September 25, 2013, is a private, open-ended trust that is invested exclusively in bitcoin. The Trust holds bitcoin and from time to time issues shares (“Shares”) (in minimum denominations of 100, referred to as “Baskets”) in exchange for deposits of bitcoin and to distribute bitcoin in connection with redemptions of Baskets. The investment objective is for the Shares to reflect the performance of the market price of bitcoin, less the Trust’s expenses.

Alternative Currency Asset Management, LLC (“ACAM” or “Sponsor”) is a wholly owned subsidiary of SecondMarket Holdings, Inc. ACAM acts as the sponsor for the Trust. ACAM is responsible for preparing and providing periodic reports on behalf of the BIT to investors. ACAM is also responsible for selecting and monitoring the BIT’s service providers. As payment for its services, ACAM charges the Trust a fee as discussed in Note 6.

Authorized Participants of the Trust may place orders to create or redeem Baskets. As of December 31, 2013 SecondMarket, Inc., a registered broker dealer, served as the BIT’s Authorized Participant and was party to a participant agreement with the Sponsor and the Trust. The participant agreement provides the procedures for the creation and redemption of Baskets and for the delivery of bitcoins required for creation or redemption.

SecondMarket Holdings, Inc. is the administrator and custodian of the Trust. The responsibilities of the administrator include the calculation of the Bitcoin Market Price, as defined in the Trust’s private placement memorandum, as well as facilitating the creations and redemptions of Baskets. The custodian is responsible for safeguarding the bitcoin held by the Trust.

The transfer agent for the Trust is Continental Stock Transfer Corporation. The responsibilities of the transfer agent are to maintain creations and redemptions of the Trust’s shares in book form.

Bitcoin Investment Trust

Notes to Financial Statements (continued)

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 U.S. generally accepted accounting principles (“U.S. GAAP”). U.S. 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.

Investment Transactions and Revenue Recognition

The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change from unrealized appreciation on investments. Realized gains and losses are calculated on the specific identification method. Realized gains and losses are recognized in connection with transactions including settling obligations in bitcoin and share redemptions.

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.

The accounting standard establishes 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, valuation of these securities does not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in markets that are not active or for which all 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.

Bitcoin Investment Trust

Notes to Financial Statements (continued)

2. Summary of significant accounting policies (continued)

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. If the inputs used to measure fair value fall into different levels of the fair value hierarchy, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Bitcoin Receivable

Bitcoin receivable, when recorded, represents the quantity of bitcoin covered by contractually binding orders for the creation of Shares where the bitcoin has not yet been transferred to the Trust's account. Generally, ownership of the bitcoin is transferred on trade date and no receivable is recorded. As of December 31, 2013, the Trust did not have any receivables.

Bitcoin Payable

Bitcoin payable represents the quantity of bitcoin covered by contractually binding orders for the redemption of Shares or payment of expenses where the bitcoin has not yet been transferred out of the Trust's account. Generally, ownership of the bitcoin is transferred within three days of the trade date. As of December 31, 2013, the Trust did not have any accrued payables.

3. Fair Value of Bitcoin

Bitcoin is held by the Custodian on behalf of the Trust and is carried at fair value. The Trust determined a fair value of \$732 per bitcoin using the price provided by Bitstamp, the Trust's primary source of bitcoin exchange at the close of business at 4 PM Eastern Standard Time on December 31, 2013.

	Quoted Prices			
	in Active	Significant		
	Markets for	Other	Significant	Balance
	Identical	Observable	Unobservable	as of
	Assets	inputs	Inputs	December 31,
	(Level 1)	(Level 2)	(Level 3)	2013
Assets				
Investments in bitcoin	\$ -	\$51,045,863	\$ -	\$ 51,045,863

Bitcoin Investment Trust

Notes to Financial Statements (continued)

4. Creations and Redemptions of Shares

The cost basis of the investment in bitcoin recorded by the Trust 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 each Share to investors.

At December 31, 2013, there was an unlimited number of Shares authorized by the Trust. The Trust creates and redeems Shares from time to time, but only in one or more Baskets. The creation and redemption of Baskets will only be made in exchange for the delivery to the Trust or the distribution by the Trust, both by the Authorized Participant, of the amount of bitcoin represented by the Baskets being created or redeemed, the amount of which will be based on a predetermined formula pertaining to the number of Shares included in the Baskets being created or redeemed determined on the day the order to create or redeem Baskets is received. The terms of redemptions of shares of the BIT are included within the Trust's private placement memorandum.

From September 25, 2013 to December 31, 2013, 703,700 Trust shares were created and 2,600 shares were redeemed. Realized gains or losses on bitcoin related to these redemptions are recorded using the specific identification method.

5. Income Taxes

The Trust is treated as a grantor trust and the shareholders will be treated as owning proportionate interests in the Trust for U.S. Federal income tax purposes. The Trust, therefore, will not be subject to U.S. Federal income tax. Instead, each shareholder will be deemed to acquire and hold a proportionate interest in the Trust's assets and will be required to report its proportionate share of the Trust's gains, income, losses and expenses on its U.S. Federal income tax returns in accordance with the shareholder's method of accounting. However, there can be no assurance that the IRS will agree with this conclusion and it is possible that the IRS could assert a position to the contrary to one or all of those conclusions and that a court could sustain that contrary conclusion.

Bitcoin Investment Trust

Notes to Financial Statements (continued)

6. Related Parties

SecondMarket Holdings, Inc., SecondMarket, Inc. and ACAM are all considered to be related parties of the Trust.

The Trust pays a management fee which accrues daily, as defined in the private placement memorandum of the Trust, and is payable to the Sponsor in bitcoin monthly in arrears. As consideration for its receipt of the management fee, the Sponsor is obligated under the Trust Agreement of the BIT to assume and pay the following fees and expenses of the Trust: the marketing fee, custodian fee, administrator fee and the sponsor fee (the “Constituent Fees”), the shareholder communications hub fee, transfer agent fee, trustee fee, legal fees and expenses, audit fees and expenses, marketplace fees (if any), regulatory fees, printing and mailing costs, and applicable license fees (along with the Constituent Fees, the “Assumed Fees”). In certain circumstances, the Trust may pay expenses in addition to the management fee and the Assumed Fees. For the period from September 25, 2013 (commencement of operations) to December 31, 2013, the Trust incurred, and paid the Sponsor management fees in bitcoin, with a value of \$146,520. There were no accrued or unpaid management fees as of December 31, 2013.

Additionally, as of December 31, 2013, 200,892 shares of the Trust were held by related parties.

7. Risk Factors

Investing in bitcoin is currently unregulated, highly speculative, and volatile. There is currently no clearing house for bitcoin, nor is there a central or major depository for the custody of bitcoin. To the extent private keys for bitcoin addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, we 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 is dependent on the bitcoin peer-to-peer network, and as such, the Trust is subject to operational risk. As of the close of business on July 21, 2014, the fair value of bitcoin determined in accordance with the Company’s accounting policy was \$623 per bitcoin.

Bitcoin Investment Trust

Notes to Financial Statements (continued)

8. Financial Highlights

The following represents ratios to average shareholders' capital and other supplemental information for the year ended December 31, 2013:

Ratios and supplemental data	
Total return	<u>107.1%</u>
Ratios to average shareholder's capital:	
Net investment loss	<u>-3.6%</u>
Expenses	<u>-3.6%</u>

9. Indemnifications

In the normal course of business, the Trust enters into certain contracts that provide a variety of indemnities. The Trust's maximum exposure under these 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.

10. Subsequent Events

The Trust has performed an evaluation of subsequent events through July 22, 2014, which is the date the financial statements were available to be issued. As of May 30, 2014 the Private Placement Memorandum has been updated. On June 27, 2014, ACAM was subsequently renamed Grayscale Investments, LLC. There are no other known events that have occurred that require disclosure other than that which has already been disclosed in these notes to the consolidated financial statements.