

BITCOIN INVESTMENT TRUST

A Delaware Trust

Sponsored by

Grayscale Investments, LLC
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Primary Standard Industrial Code: 6221

2016 ANNUAL REPORT

Shares Representing Common Units of Fractional Undivided Beneficial Interest
No Par Value Per Share
Unlimited Shares Authorized
1,837,300 Shares Issued and Outstanding as of December 31, 2016

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, 2016 (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 February 27, 2017

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Exhibit 1 Audited Financial Statements for the years ended December 31, 2016 and December 31, 2015

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. 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 special considerations discussed in this Annual Report;
- 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. Neither the Trust nor the Sponsor is under a duty to update any of the 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” — The highest exchange rate and lowest fees the Sponsor can find within a reasonable time frame in order to pay any Extraordinary Fees in USD, if incurred.

“Annual Report” — This Annual Report for the year ended December 31, 2016.

“Assumed Fees” — As defined in “Bitcoin Investment Trust—Description of the Trust—Trust Expenses.”

“Authorized Participants” — Certain eligible financial institutions that have entered into an agreement with the Trust and the Sponsor concerning the creation and redemption of Shares. Each Authorized Participant (i) is a registered broker-dealer, (ii) has entered into a Participant Agreement with the Sponsor and the Trust and (iii) has access to 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” — The number of bitcoins that will be required for each Creation Basket or Redemption Basket, as determined from time to time by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid fees and expenses of the Trust and multiplying the quotient obtained by 100.

“Bitcoin”— A type of a virtual currency based on an open source cryptographic protocol existing on the Bitcoin Network, facilitating units of bitcoins which comprise the assets underlying the Trust’s Shares.

“Bitcoin Account” — An account that is online and connected to the internet; also referred to as a “hot wallet.” The Bitcoin Account is used to receive Creation Basket deposits from Authorized Participants. A Bitcoin Account includes a Custodian wallet account and vault account (together with any associated subaccounts).

“Bitcoin Benchmark Exchange” — As defined in “Bitcoin Investment Trust—The Index and the Bitcoin Index Price.”

“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 bitcoin exchange market for the trading of bitcoins, which consists of transactions on electronic Bitcoin Exchanges.

“Bitcoin Holdings” – The Bitcoin Index Price-derived U.S. Dollar value of the Trust as calculated by the Sponsor for operational purposes. See “Bitcoin Investment Trust—Valuation of

Bitcoins and Definition of the Trust's Bitcoin Holdings" for a description of how the Trust's Bitcoin Holdings and Bitcoin Holdings per Share are calculated.

"Bitcoin Index Price"—The U.S. Dollar value of a bitcoin as represented by the TradeBlock XBX Index, calculated at 4:00 p.m., New York time on each business day. See "Bitcoin Investment Trust—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.

"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.

"CFPB"—Consumer Financial Protection Bureau.

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

"Combined Fee"—As defined in "Bitcoin Investment Trust—Trust Expenses."

"Covered Person"—As defined in "Material Contracts — Trust Agreement — Fiduciary and Regulatory Duties of the Sponsor."

"Creation Basket"—Basket of Shares issued by the Trust in exchange for deposits of the Creation Basket Bitcoin Amount.

"Creation Basket Bitcoin Amount"—The number of bitcoins that will be required for each Creation Basket, as determined from time to time by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid fees and expenses of the Trust, and multiplying the quotient obtained by 100.

"Custodian"—Xapo, Inc.

"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 paid by the Sponsor to the Custodian from the Combined Fee.

"DDoS Attack"—Distributed denial of service attacks are coordinated hacking attempts to disrupt websites, web servers or computer networks in which an attacker bombards an online target with

a large quantity of external requests, thus precluding the target from processing requests from genuine users.

“Distributor” — Genesis Global Trading, Inc.

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

“DTC” — As defined in “Par or Stated Value and Description of the Security—Common or Preferred Stock—Book-Entry Form.”

“DTC Participant” — As defined in “Par or Stated Value and Description of the Security—Common or Preferred Stock—Book-Entry Form.”

“ERISA” — Employee Retirement Income Security Act of 1974, as amended.

“Extraordinary Fee” — As defined in “Bitcoin Investment Trust—Trust Expenses.”

“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.

“Form S-1” — The Trust’s Registration Statement on Form S-1 relating to the proposed registration of the Trust’s Shares, filed publicly with the SEC on January 20, 2017.

“GAAP” — United States Generally Accepted Accounting Principles

“Independent Auditor” — Friedman LLP.

“Index” — The TradeBlock XBX Index.

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

“Indirect Participants” — As defined in “Par or Stated Value and Description of the Security—Common or Preferred Stock—Book-Entry Form.”

“Initial Purchaser” — Genesis Global Trading, Inc.

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

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

“IRS” — The Internal Revenue Service.

“Marketer” — Genesis Global Trading, Inc.

“Marketing Fee” — Fee paid by the Sponsor to the Marketer from the Combined Fee.

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

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

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

“OTCQX Fees” — The fees outlined by Part 5 of the OTCQX Rules for U.S. Companies, as amended from time to time.

“Participant Agreement” — An agreement entered into by each Authorized Participant with the Sponsor and the Trust that states the procedures for the creation and redemption of Baskets and for the delivery of bitcoins from the Authorized Participant 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 Redemption Basket Bitcoin Amount.

“Redemption Basket Bitcoin Amount” — The number of bitcoins that will be required for each Redemption Basket, as determined from time to time by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid fees and expenses of the Trust, and multiplying the quotient obtained by 100.

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

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

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

“Service Providers” — Collectively, Grayscale Investments, LLC; Continental Stock Transfer Corporation; Genesis Global Trading, Inc.; TradeBlock; Xapo, Inc. and DCG Holdco, Inc.

“Shareholder” — Any beneficial owner of a Share.

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

“SIPC” — The Securities Investor Protection Corporation.

“Sponsor” — Grayscale Investments, LLC.

“Transfer Agent” — Continental Stock Transfer Corporation.

“Trust” — Bitcoin Investment Trust.

“Trust Agreement” — The Third 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 (f/k/a CSC Trust Company of Delaware).

“USD” 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) 668-3911

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

The Sponsor's website: The Sponsor maintains a corporate website, 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
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New York, New York 10011
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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 to issue an unlimited number of Shares. The Trust issues Shares only in Baskets (a Basket being a block of 100 Shares) and only upon the order of an Authorized Participant. The Shares represent common 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 or redeemed on a continuous basis, but only upon the order of Authorized Participants and only in blocks of 100 Shares, or Baskets. The Trust creates and redeems the Shares on a continuous basis, but only in Baskets. Initially, each Share represented 1/10th of a bitcoin. Shareholders that are not Authorized Participants may not purchase from the Trust or redeem Shares or Baskets.

On January 19, 2017, in connection with and prior to the initial public filing of the Trust's Form S-1 with the SEC, the Trust stopped issuing 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 anticipates that the Shares offered in the Trust's initial public offering will be listed on NYSE Arca, Inc.

Management; Voting by Shareholders

The Shareholders take no part in the management or control of the Trust, and have no voice in the operation of the business of the Trust. Shareholders, may, however, remove and replace the Sponsor by the affirmative vote of a 75% of the outstanding Shares. The owners of 75% of the outstanding Shares may also compel dissolution of the Trust. In addition, any amendment that adversely affects the rights of Shareholders, appoints a new Sponsor, dissolves the Trust or makes any material change to the Trust’s basic investment policies or structure must be approved by the affirmative vote of Shareholders owning at least 50% of the outstanding Shares.

Redemption of Shares

The Shares may be redeemed only by or through an Authorized Participant and only in Baskets. See “Description of the Trust—Creation and Redemption of Shares” for details on the redemption of Shares. On September 23, 2014, the Distributor 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 the Distributor’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 the Distributor, appeared to violate Regulation M under the Securities Exchange Act because redemptions of Shares took place at the same time the Trust was in the process of creating Shares.

On July 11, 2016, the SEC accepted the Trust’s offer of settlement and imposed a cease and desist order against the Trust pertaining to its offering of shares and share redemption program. As set forth in the SEC’s order, beginning on September 25, 2013 the Trust began offering its shares for sale to accredited investors on a continuous basis pursuant to Rule 506(d) of Regulation D. In response to requests for liquidity from shareholders, on April 2, 2014, the Trust, through its Authorized Participant, Genesis Global Trading, Inc., began repurchasing its shares through a share redemption program. From April 2, 2014 to September 4, 2014, Genesis Global Trading, Inc. purchased 85,721 shares in connection with redemptions made by Trust shareholders. In addition, from November 4, 2013 to September 4, 2014, the Trust also redeemed 6,479 of its shares from Genesis Global Trading, Inc. See “Risk Factors – 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.”

Transfer Restrictions

Shares may be purchased and sold on the OTCQX U.S. Premier marketplace. The Shares may not otherwise 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, other than on the OTCQX U.S. Premier marketplace, without the approval of the Sponsor in its sole discretion will be void *ab initio*.

Book-Entry Form

Upon the settlement date of any creation, transfer or 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 redeemed to the accounts of the appropriate parties.

Ownership of Shares is shown on, and the transfer of ownership is affected only 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.

Individual certificates will not be issued for the Shares. Instead, 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 all of the Shares outstanding at any time. Under the Trust Agreement, 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.

Distributions

Although the Trust may make distributions at the discretion of the Sponsor, the Sponsor does not expect to make any distributions.

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

As of December 31, 2016, the Trust had unlimited Shares authorized. As of December 31, 2016, there were 1,837,300 Shares issued and outstanding.

The following table shows the number of the Shares outstanding:

	As of Year Ended December 31, 2016	As of Year Ended December 31, 2015
(i) Number of shares authorized	Unlimited	Unlimited
(ii) Number of shares outstanding	1,837,300	1,476,500
(iii) Number of shares freely tradable (public float)	1,311,534	917,345
(iv) Number of unaffiliated beneficial holders of freely tradable shares¹	33	70
(v) Number of holders of record¹	127	97

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 17 Battery Place, 8th 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.

¹ 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 Trust was formed as a Delaware statutory trust on September 13, 2013. The Trust holds bitcoins and, from time to time, issues Baskets of Shares, or Creation Baskets, in exchange for deposits of bitcoins and, subject to exemptive relief from the SEC, distributes bitcoins in connection with Redemption Baskets. The investment objective of the Trust is for the Shares to reflect the performance of the value of a bitcoin as represented by the Index, less the Trust’s liabilities and expenses. On January 19, 2017, in connection with and prior to the initial public filing of the Trust's Form S-1 with the SEC, the Trust stopped issuing 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 anticipates that the Shares offered in the Trust's initial public offering will be listed on NYSE Arca, Inc.

The Shares represent common units of fractional undivided beneficial interest in, and ownership of, the Trust. The Trust is not managed like a business corporation or an active investment vehicle. In accordance with the Trust Agreement, during the life of the Trust, proceeds from the creation of Shares in Baskets will only be (1) owned by the Trust and held by the Custodian, (2) disbursed (or converted to USD, if necessary) to pay the Trust’s expenses, (3) distributed to Authorized Participants upon receipt of Redemption Baskets, (4) liquidated in the event that the Trust terminates, or (5) liquidated as otherwise required by law or regulation. The payment of expenses by the Trust will result in a taxable event to Shareholders. See “U.S. Federal Income Tax Consequences—Taxation of U.S. Shareholders.”

The Trust is not regulated as an investment company under the Investment Company Act.

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 experienced increases of more than 10% of the same class of outstanding equity securities 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.

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

There are no past or pending stock splits, stock dividends, recapitalizations, mergers, acquisitions, spin-offs, or reorganizations within the last three years.

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 Trust's securities 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.

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against the Trust or the Sponsor that could have a material effect on the Trust's or the Sponsor's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator.

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 USD, 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. 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. “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 Off-Blockchain transactions is generally not publicly available in contrast to true bitcoin transactions, which are publicly recorded on the Blockchain. 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. 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.

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 groups including MIT’s Media Lab 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 generally occur rapidly (within a few seconds to a few minutes), but at times taking substantially longer, 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 (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.

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, 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.

“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 Off-Blockchain transactions is generally not publicly available in contrast to true bitcoin transactions, which are publicly recorded on the Blockchain. 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. 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 a 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 allow 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. The 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 below in "—Bitcoin Mining – Creation of New Bitcoins," 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 0.01 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. 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) in such a way that the encrypting key cannot be used to decrypt a message and vice versa. 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 generates an address (a string of letters and numbers) that is used to encode payments, which can then only be retrieved with the associated private key that is used to authorize the transaction. In other words, the payer, 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 being 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 Bitman 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 increasing 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 December 30, 2016, the largest three identifiable mining pools were AntPool, F2Pool and BW.com, which, when aggregated, represented approximately 43% 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, on such date, the ten largest identifiable pools (AntPool, F2Pool, BW.com, BitFury, BTCC Pool, SlushPool, BTC.com, HaoBTC, ViaBTC and GBMiners) accounted for 87% of the mining processing power on the Bitcoin Network.

Mathematically Controlled Supply

The supply of new bitcoins is mathematically controlled in a manner 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 late-June 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 December 30, 2016, nearly 16.08 million bitcoins have been mined and estimates of when the 21.0 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"). 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 result in the automatic adoption of the updates, however. 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." 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.

The Core Developers' revisions to the Bitcoin source code have increasingly focused on modifications of the Bitcoin protocol to allow non-financial and next generation uses (sometimes referred to as Bitcoin 2.0 projects). These uses include smart contracts and distributed registers built into, built atop or pegged alongside the Blockchain. For example, the white paper for Blockstream, a company 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 block chain ledgers that can interact with and rely on the security of the Bitcoin Network and Blockchain, while remaining independent thereof. 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 the 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 USD or the Chinese Yuan. While a significant volume of bitcoin-to-fiat-currency exchange is denominated in currency other than USD, movements in pricing on these exchanges are generally in-line with USD-denominated exchanges. For example, volume on the self-reported, unregulated exchanges located in China made up approximately 95% of the global trade volume in bitcoins as of December 30, 2016. Based on data from the Index Provider, from May 10, 2015 to December 30, 2016, the 4:00 p.m., New York time spot price on the three primary Chinese Yuan-denominated exchanges, BTC China, Huobi and OKCoin, differed from the Bitcoin Index Price by only 1.5% on average. See “Overview of the Bitcoin Industry and Market—Government Oversight” for a discussion on recent developments in China.

Bitcoin price indexes have also been developed by a number of service providers in the bitcoin space. For example, Coindesk, a digital currency content provider and subsidiary of Digital Currency Group, Inc., launched a proprietary bitcoin price index in September 2013, and bitcoinaverage.com provides an average of all bitcoin prices on several Bitcoin Exchanges. The Sponsor uses the Index calculated by the Index Provider to determine the Bitcoin Index Price, as described under “Description of the Trust—Bitcoin Index Price.” Additionally, some providers for data feeds now accept the “XBT” designation as bitcoin’s ISO 4217 currency code, although XBT is not yet an official currency code, and a number of data feeds and other trading platforms are contemplating adopting XBT as the bitcoin currency code for their trading platforms. As the bitcoin price discovery and the adoption of XBT become mainstream, it is expected that the valuation of bitcoins will be more akin to the valuation of a fiat currency.

Forms of Attack Against the Bitcoin Network

Exploitation of Flaws in the Bitcoin Network’s Source Code

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 and, during a brief period in early June 2014, GHash.io 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. 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 San Francisco-based Pantera Capital 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. 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.

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. BitPay, Coinbase and GoCoin provide 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 OKCoin are three of the largest Bitcoin Exchanges in the world. BTCC, Huobi and OKCoin are large Bitcoin Exchanges based in China that primarily feature trading of bitcoins for Chinese Yuan. Coinbase is a multi-service financial institutions 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, Coinbase, and Bitfinex, 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 eligible for inclusion in the Index from May 10, 2015 to December 30, 2016, using data reported by the exchanges:

Bitcoin Exchanges included in the Index as of December 30, 2016¹	Volume (BTC)²³	Market Share
Bitfinex	12,333,460	30.89%
OKCoin ⁴	6,200,571	15.53%
Bitstamp	5,768,897	14.45%
GDAX (formerly known as Coinbase Exchange).....	4,325,755	10.83%
ItBit	3,026,029	7.58%
Total U.S. Dollar-BTC trading pair	31,654,711	79.28%

Among the Bitcoin Exchanges eligible for inclusion in the Index, domicile, regulation and legal compliance 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 to allow for regulatory compliance upgrades. Genesis Global Trading, Inc. also operates a form of dark pool through a trading desk that buys and sells large blocks of bitcoins without publically reporting trade 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

¹ Based on amounts reported by the exchanges, the Sponsor estimates that the U.S. Dollar-BTC Bitcoin Exchanges listed above account for approximately 3% of the global trade volume in bitcoins. From May 10, 2015 to December 30, 2016, the three primary Chinese Bitcoin Exchanges, BTC China, Huobi and OKCoin, reported a trade volume of over 1.26 billion bitcoins. Volume on the self-reported, unregulated exchanges located in China made up approximately 95% of the global trade volume in bitcoins. Similar to other currency pairs, such as Euro to bitcoin, movements in pricing on the Chinese exchanges are generally in-line with U.S. Dollar-denominated exchanges. For example, based on data from the Index Provider, from May 10, 2015 to December 30, 2016, the 4:00 p.m., New York time spot price on the three primary Chinese Yuan-denominated exchanges, BTC China, Huobi and OKCoin, differed from the Bitcoin Index Price by only 1.5% on average. Recent developments in China indicate that global trade volume for bitcoin could change substantially. See “Overview of the Bitcoin Industry and Market—Government Oversight” for more information.

² Reflects the aggregate number of trades of U.S. Dollars for bitcoin on each named Bitcoin Exchange above from May 10, 2015 to December 30, 2016.

³ For the period from May 10, 2015 to December 30, 2016, Kraken EUR (U.S. Dollar equivalent) was included in the Index on the day of May 10, 2015.

⁴ Effective February 17, 2017, the Index Provider removed OKCoin from the Index due to a suspension in withdrawals.

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.

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 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 and 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. Other cryptographic digital currencies have developed since the Bitcoin Network’s inception: Ethereum, Ethereum Classic, Ripple, Litecoin and Monero 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.

Government Oversight

Digital currencies, such as bitcoin, are a recent technological innovation and the regulatory schemes to which bitcoins and the Bitcoin Network may be subject have not been fully explored or developed. As bitcoins 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, CFPB, the Department of Justice, the Department of Homeland Security, the Federal Bureau of Investigation, the IRS, and state financial institution regulators) have begun to examine the operations of the Bitcoin Network, bitcoin users and the Bitcoin Exchange Market, with particular focus on the extent to which bitcoins 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 hold bitcoins for users. On-going 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.

Many of these agencies, including the SEC, CFPB, FINRA, the Federal Trade Commission (“FTC”) and state financial regulatory agencies, including those of Washington, Wisconsin, North Carolina, Nevada, Massachusetts, Michigan, New Hampshire, Alabama, Maryland, Maine, New Mexico, California, Florida and Hawaii, have issued consumer advisories regarding the risks posed by digital currencies, including bitcoin.

In guidance released on March 18, 2013, FinCEN took the position that any administrator or exchanger of convertible virtual currencies, including bitcoins, 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. The requirement that bitcoin exchangers that do business in the U.S. 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.

On March 25, 2014, the IRS released a notice discussing certain aspects of the treatment of virtual currencies, such as bitcoins, for U.S. federal income tax purposes. The notice was the first guidance from a U.S. government agency to provide asset classification of bitcoins, classifying them as “property” for U.S. federal income tax purposes. The notice clarified that bitcoins may be held as capital assets. The asset classification of bitcoins by the IRS is not controlling on other government agencies for purposes other than those relating to U.S. federal income tax.

To date, the SEC has not asserted regulatory authority over the Bitcoin Network or bitcoin trading or ownership and has not expressed the view that bitcoin should be classified or treated as securities for purposes of U.S. federal securities laws. However, the SEC has indicated that the subject of bitcoin’s regulatory status is under review. In addition, it has commented on bitcoin and bitcoin-related market developments and has taken action against investment schemes involving bitcoin. 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.

The CFTC has indicated that it considers bitcoin to be a “commodity” under the CEA, which makes it possible for futures, swaps, and other CFTC-regulated derivatives based on bitcoin to be offered and traded in the United States. The CFTC has not, to date, taken the view that bitcoin is a “commodity interest,” which is defined under the CEA to include futures, swaps, and other derivatives based on commodities. Commodity interests are subject to CFTC regulation and thus, if bitcoin 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 CEA and CFTC regulations.

On June 3, 2015, NYDFS issued its comprehensive regulatory scheme for digital currency businesses, called the “BitLicense.” The BitLicense scheme requires most businesses involved in digital currency transactions in or involving New York, excluding merchants and consumers, to apply for a license from the NYDFS and to comply with anti-money laundering, cyber security, consumer protection, and financial and reporting requirements, among others. Other states have considered similar regimes (for example, a bill in California would have imposed a similar regime, although the bill is no longer being pursued), or have required virtual currency businesses to register with their states as money transmitters, which results in virtual currency businesses being subject to requirements similar to those of NYDFS’s BitLicense regime. Certain state regulators, such as the Texas Department of Banking and Kansas Office of the State Bank Commissioner, have found that bitcoins do not constitute money, and that mere transmission of bitcoin does not constitute money transmission requiring licensure. The North Carolina Commissioner of Banks has issued guidance providing that North Carolina’s money transmission regulations only apply to the transmission of virtual currency (including bitcoins) and not its use. On June 28, 2014, the Governor of the State of California signed into law a bill that removed state-level prohibitions on the use of alternative forms of currency or value (including bitcoins). The bill indirectly authorizes the use of bitcoins as an alternative form of money in California. The inconsistency in applying money transmitting licensure requirements to certain bitcoin businesses may make it more difficult for bitcoin businesses to provide services, which may affect consumer adoption of bitcoin and its price.

Bitcoins currently face an uncertain regulatory landscape not only in the United States but also in many foreign jurisdictions such as the European Union, China, Japan and Russia. While certain governments such as Germany, where the Ministry of Finance has declared 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), 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 bitcoin, bitcoin users and the Bitcoin Network. In March 2015, Her Majesty’s Treasury proposed applying the United Kingdom’s anti-money laundering regulations to bitcoins. In October 2015, the European Court of Justice ruled that bitcoin transactions throughout the European Union should be treated as a traditional currency transactions and not be subject to value-added tax.

In China, a December 2013 government notice classified bitcoins as “virtual commodities,” and not legal tender. The same notice restricted the banking and payment industries from using bitcoin, creating uncertainty and limiting the ability of bitcoin exchanges to operate in the then-second-largest bitcoin market. In mid-January 2017, the largest China-based Bitcoin Exchanges—BTCC, Huobi and OKCoin—adjusted their terms to pause or limit loan and borrowing services 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, and, shortly thereafter, these exchanges introduced a 0.2% fixed-rate transaction fee for all bitcoin buy and sell orders in response to added regulatory pressure by the PBoC. In February 2017, China’s smaller bitcoin exchanges, including BTC Trade, BTC100, CHBTC, Dahonghuo, Yuanboa, and BitBays also imposed or increased trading fees on their respective exchanges. In the subsequent weeks, BTCC, Huobi, and OKCoin temporarily halted bitcoin withdrawals.

In the United Arab Emirates, the government recently released a new regulatory framework that may restrict banking and payment industries from using bitcoin. The Australian Senate has recently launched an inquiry into the country’s tax treatment and regulation of bitcoins, and the government of Israel and the Israel Tax Authority are reportedly looking into taxing the profits from bitcoin trading. Conversely, regulatory bodies in some countries such as India and Switzerland have declined to exercise regulatory authority when afforded the opportunity. In April 2015, the Japanese Cabinet approved proposed legal changes that would reportedly treat bitcoin as a form of currency. These regulations, which were approved by the Japanese Diet in May 2016 and are expected to be effective beginning in the first half of 2017, require market participants, including exchanges, to meet certain compliance requirements and be subject to oversight by the Financial Services Agency, a Japanese regulator. At the other extreme, Russia’s Ministry of Finance issued a draft bill that was submitted to Russia’s legislature in December 2015, which would ban bitcoin and other “money surrogates” and impose monetary penalties for its use or even the advocacy of its use. Currently, this bill has been put on hold. In 2014, Ecuador, Bolivia, and Bangladesh banned the use of bitcoin and other digital currencies.

Not a Regulated Commodity Pool

The Trust is authorized solely to take immediate delivery of actual bitcoins. The Trust will not trade, buy, sell or hold bitcoin derivatives, including bitcoin futures contracts, bitcoin swaps, or other bitcoin transactions that could be “commodity interests” under the CEA and CFTC regulations. Because the Trust does not invest in or trade commodity interests, the Sponsor

believes the Trust is not a commodity pool and, thus, neither it nor the Trust are subject to regulation by the CFTC under the CEA. Accordingly, the Trust will not be operated by a CFTC-regulated commodity pool operator. Investors in the Trust will not receive the regulatory protections afforded to investors in regulated commodity pools. 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 was formed as a Delaware statutory trust on September 13, 2013. The Trust holds bitcoins and, from time to time, issues Baskets of Shares, or Creation Baskets, in exchange for deposits of bitcoins and, subject to exemptive relief from the SEC, distributes bitcoins in connection with Redemption Baskets. The investment objective of the Trust is for the Bitcoin Holdings per Share to track the Bitcoin Index Price per Share, less the Trust's liabilities (including estimated accrued expenses). On January 19, 2017, in connection with and prior to the initial public filing of the Trust's Form S-1 with the SEC, the Trust stopped issuing 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 anticipates that the Shares offered in the Trust's initial public offering will be listed on NYSE Arca, Inc.

The Shares represent common units of fractional undivided beneficial interest in, and ownership of, the Trust. The Trust is not managed like a business corporation or an active investment vehicle. In accordance with the Trust Agreement, during the life of the Trust, proceeds from the creation of Shares in Baskets will only be (1) owned by the Trust and held by the Custodian, (2) disbursed (or converted to USD, if necessary) to pay the Trust's expenses, (3) distributed to Authorized Participants upon receipt of Redemption Baskets, (4) liquidated in the event that the Trust terminates, or (5) liquidated as otherwise required by law or regulation. The payment of expenses by the Trust will result in a taxable event to Shareholders. See "U.S. Federal Income Tax Consequences—Taxation of U.S. Shareholders."

The Trust is not regulated as an investment company under the Investment Company Act.

Valuation of Bitcoins and Definition of the Trust's Bitcoin Holdings

The Bitcoin Holdings value ("Bitcoin Holdings") of the Trust is the aggregate value, expressed in USD, of the Trust's assets, less its liabilities (which include estimated accrued but unpaid fees and expenses). The Sponsor or its delegate calculates and publishes the Trust's Bitcoin Holdings each business day as of 4:00 PM, New York time, or as soon thereafter as practicable. While Bitcoin Holdings is used for operational creation and redemption purposes, these metrics should be considered supplemental operating information and are not meant to substitute the net asset value reported in the financial statements hereto, as calculated in accordance with GAAP.

In order to calculate the Trust's Bitcoin Holdings, the Sponsor:

1. Determines the Bitcoin Index Price.
2. Multiplies the Bitcoin Index Price by the Trust's aggregate number of bitcoins owned as of 4:00 PM, New York time on the immediately preceding day.
3. Adds the dollar value of the bitcoins receivable under pending Creation Baskets.

4. Adds the accrued but unpaid interest, if any, and the value of other Trust assets, if any.
5. Subtracts the accrued but unpaid Combined Fee (and Extraordinary Fee, if any).
6. Subtracts the dollar value of the bitcoins payable under pending Redemption Baskets.
7. Subtracts other Trust expenses and liabilities, if any.

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 shall determine an alternative methodology.

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. To the extent the Trust's Bitcoin Holdings and the Bitcoin Holdings per Share have been calculated using a price per bitcoin other than the Bitcoin Index Price for such Evaluation Day, the publication on the Trust's website will note the valuation methodology and the price per bitcoin resulting from such calculation.

The Shareholders may rely on any evaluation furnished by the Sponsor. The determinations 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 DTC, 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.

The Index and the Bitcoin Index Price

The Trust values its bitcoins for operational 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 Administrator 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 presented below, should one or more specific rule(s) fail:

1. Bitcoin Index Price = The price set by the Index 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 derivative 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 anomalous 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 trades 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 derivative 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/>. *None of the information on the Index Provider's websites is incorporated by reference into this Annual Report.* 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 defined below) 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 24-hour period from 4:00 p.m., New York time (or as soon as practicable thereafter) on the business day prior to the valuation date to 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 24-hour period from 4:00 p.m., New York time (or as soon as practicable thereafter) on the business day prior to the valuation date to 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 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; 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 in 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.

Data used for the above calculation of the Bitcoin Index Price is gathered by the Administrator 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 Administrator 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 Administrator, 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 or the Administrator to such changes.

Creation and Redemption of Shares

The Trust creates and redeems the Shares on a continuous basis, but only upon the order of Authorized Participants and only in Baskets. A Basket is a block of 100 Shares. Initially, each Share represented 1/10th of a bitcoin.

The creation and redemption of Baskets requires the delivery to the Trust or the distribution by the Trust of the number of bitcoins represented by the Baskets being created or redeemed. The number of bitcoins that will be required ("Basket Bitcoin Amount") for each creation basket ("Creation

Basket”) or redemption basket (“Redemption Basket”) will be determined from time to time by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid fees and expenses of the Trust, and multiplying the quotient obtained by 100. The Basket Bitcoin Amount may gradually decrease over time if the Trust’s bitcoins are used to pay the Trust’s expenses.

Authorized Participants are the only persons that may place orders to create and redeem Baskets. Each Authorized Participant (i) is a registered broker-dealer, (ii) has entered into a Participant Agreement with the Sponsor and the Trust and (iii) has access to an Authorized Participant Self-Administered Account. The Participant Agreement provides the procedures for the creation and redemption of Baskets and for the delivery of bitcoins required for creations and redemptions. A list of the current Authorized Participants can be obtained from the Sponsor. The Participant Agreements may be amended by the Sponsor and the relevant Authorized Participant.

Authorized Participants who make deposits of bitcoins with the Trust in exchange for Creation Baskets receive no fees, commissions or other form of compensation or inducement of any kind from either the Sponsor or the Trust. No Authorized Participant has any obligation or responsibility to the Sponsor or the Trust to affect any sale or resale of Shares. Authorized Participants may realize significant profits buying, selling, creating and redeeming Shares as a result of changes in the value of Shares or bitcoins. In particular, an Authorized Participant may profit from the “spread” (or difference) between the prices at which it purchases and sells Shares and bitcoins (or obtains Shares or bitcoins through the creation and redemption of Baskets). For example, when creating Shares, an Authorized Participant may deposit bitcoins with the Trust that it has acquired at a price that is lower than the current Bitcoin Index Price and thus receive Shares with a value greater than the Authorized Participant’s cost of acquiring the deposited bitcoins. Similarly, an Authorized Participant may sell Shares to a customer from its inventory at a price higher than the Authorized Participant’s cost in acquiring such Shares. As another example, when redeeming Shares, an Authorized Participant may receive bitcoins and then hold them for later resale at a profit if the price of bitcoins increases. The frequent and significant fluctuations in the price of bitcoins increases the extent to which an Authorized Participant may profit from its transactions in Shares and bitcoins. As of the date of this Annual Report, the only Authorized Participant is Genesis Global Trading, Inc., an affiliate of the Sponsor.

Each Authorized Participant will be registered as a broker-dealer under the Securities Exchange Act of 1934, as amended, and will be regulated by the Financial Industry Regulatory Authority, Inc., or, and will be qualified to act as a broker or dealer in the states or other jurisdictions where the nature of its business so requires. Certain Authorized Participants may be regulated under federal and state banking laws and regulations. Each Authorized Participant will have its own set of rules and procedures, internal controls and information barriers as it determines to be appropriate in light of its own regulatory regime.

Authorized Participants may act for their own accounts or as agents for customers. As of the date of this Annual Report, Genesis Global Trading, Inc. has signed a Participant Agreement with the Sponsor and the Trust and may create and redeem Baskets.

The following description of the procedures for the creation and redemption of Baskets is only a summary.

Creation Procedures

On January 19, 2017, in connection with and prior to the initial public filing of the Trust's Form S-1 with the SEC, the Trust stopped issuing Shares, which had been taking place through private placement transactions exempt from the registration requirements of the Securities Act.

In order to create a Basket, the Authorized Participant deposits the Basket Bitcoin Amount with the Custodian and orders Creation Baskets from the Trust via notification to the Sponsor. Following receipt of the Creation Basket Bitcoin Amount, the Transfer Agent credits Creation Baskets to the Authorized Participant. The Authorized Participant will then be able to sell Shares to its customers directly.

Determination of required deposits

The Creation Basket Bitcoin Amount required for a Creation Basket will be determined by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid fees and expenses of the Trust, and multiplying the quotient obtained by 100 and the number of Creation Baskets.

The Sponsor has final determination of all questions as to the composition of the Creation Basket Bitcoin Amount.

Delivery of required deposits

An Authorized Participant who places a creation order is responsible for delivering the Creation Basket Bitcoin Amount to the Bitcoin Account. The Authorized Participant will initiate delivery of the Creation Basket Bitcoin Amount from a bitcoin wallet address previously known to the Custodian as belonging to the Authorized Participant ("Authorized Participant Self-Administered Account") to the Bitcoin Account. Deposits other than those received from an Authorized Participant Self-Administered Account will be rejected. The expense and risk of delivery, ownership and safekeeping of bitcoins, until such bitcoins have been received by the Trust, shall be borne solely by the Authorized Participant. Upon confirmation from the Custodian of the deposit and the validation of the transaction by the Bitcoin Network, the Sponsor will then direct the Transfer Agent to credit the number of Creation Baskets ordered to the Authorized Participant's account on the next business day after the creation order date.

The Custodian may accept delivery of bitcoins by such other means as the Sponsor, from time to time, may determine to be acceptable for the Trust.

Rejection of creation orders

The delivery of the Shares against deposit of the Creation Basket Bitcoin Amount may be suspended generally, or refused with respect to particular requested creations, during any period when the transfer books of the Sponsor are closed or if any such action is deemed necessary or advisable by the Sponsor for any reason at any time or from time to time. None of the Sponsor or the Custodian will be liable for the rejection or acceptance of any creation order or Creation Basket Bitcoin Amount.

Redemption Procedures

At this time, the Sponsor is not accepting redemption requests from holders of Shares.

In order to redeem Shares, an Authorized Participant must send the Sponsor a redemption order specifying the number of Redemption Baskets that the Authorized Participant wishes to redeem and confirming the Authorized Participant Self-Administered Account information. The Sponsor or its delegates instructs the Custodian to send the Authorized Participant a number of bitcoins equal to the Redemption Basket Bitcoin Amount and directs the Transfer Agent to debit the number of Redemption Baskets redeemed from the Authorized Participant's account on the next business day after the redemption order date.

Determination of redemption distribution

The Redemption Basket Bitcoin Amount required for a Redemption Basket will be determined by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid fees and expenses of the Trust, and multiplying the quotient obtained by 100 and the number of Redemption Baskets.

The Sponsor has final determination of all questions as to the composition of the Redemption Basket Bitcoin Amount.

Delivery of redemption distribution

The Redemption Basket Bitcoin Amount due from the Trust is delivered to the Authorized Participant as directed in the Authorized Participant's Participant Agreement.

The Redemption Basket Bitcoin Amount from the Trust is transferred by the Custodian from the Bitcoin Account to the Authorized Participant Self-Administered Account, after giving effect to all estimated accrued but unpaid interest and expenses. The Authorized Participant and the Trust are each at risk in respect of bitcoins credited to their respective accounts in the event of the Custodian's insolvency. The Redemption Basket Bitcoin Amount is subject to the deduction of any applicable tax or other governmental charges that may be due.

The Sponsor has final determination of all questions as to the composition of the Redemption Basket Bitcoin Amount.

Suspension or rejection of redemption orders

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 market for, the market price and the Bitcoin Holdings per share.

Tax Responsibility

Authorized Participants are responsible for any transfer tax, sales or use tax, recording tax, value added tax or similar tax or governmental charge applicable to the creation of Creation Baskets or

redemption of Redemption Baskets, regardless of whether or not such tax or charge is imposed directly on the Authorized Participant, and agree to indemnify the Sponsor, the Custodian and the Trust if they are 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 charge is expected to be the remuneration due to the Sponsor (the "Combined Fee"). The Combined Fee equals an annual rate of 2% of the daily Bitcoin Holdings of the Trust and will accrue daily in bitcoins, and will be payable in bitcoins at the Sponsor's sole discretion, which is expected to occur monthly in arrears.

To pay the Combined Fee, the Trust will (i) withdraw from the Bitcoin Account a number of bitcoins equal to accrued but unpaid expenses and (ii) transfer such bitcoins to an account maintained by the Custodian for the Sponsor. The Sponsor, from time to time, may waive all or a portion of the Combined Fee at its discretion for stated periods of time. The Sponsor is under no obligation to extend a waiver after the end of any such stated period, and, if such waiver is not continued, the Combined Fee will be paid in full for subsequent periods. Presently, the Sponsor does not intend to waive any of the Combined Fee. The Sponsor will, from time to time, instruct the Custodian to deliver bitcoins to the Sponsor in payment of the Combined Fee.

As consideration for its receipt of the Combined Fee, the Sponsor is obligated under the Trust Agreement to assume and pay the following fees and expenses of the Trust: the Marketing Fee, the Custodian Fee, the Transfer Agent fee, the Trustee fee, OTCQX Fees and expenses related to public quotation on OTCQX in an amount up to \$600,000 annually (including legal and audit fees and expenses), any other legal and accounting fees, regulatory fees, printing and mailing costs attributable to the Trust (other than Extraordinary Fees), and applicable license fees with respect to the Trust (the "Assumed Fees").

The Sponsor is not required to assume extraordinary, non-recurring expenses, but the Trust may incur certain extraordinary, non-recurring expenses and indemnification expenses (collectively, "Extraordinary Fees") that are not contractually assumed by the Sponsor. In such circumstances, the Sponsor may cause the Custodian to sell bitcoins for, or transfer bitcoins to, the Sponsor for conversion into bitcoins to USD or other fiat currencies in such quantity as may be necessary to permit payment of such Extraordinary Fees. If Extraordinary Fees are incurred, the Trust will be required to pay these Extraordinary Fees by selling bitcoins and, as a result, both the Trust's Bitcoin Holdings and Bitcoin Holdings per Share will decline at such time. If the Trust were to incur Extraordinary Fees in USD, bitcoins will need to be converted to USD at the Actual Exchange Rate at the time of conversion to pay these Extraordinary Fees. Although the Sponsor cannot definitively state the frequency or magnitude of the Extraordinary Fees, the Sponsor expects that they may occur infrequently, if at all.

The number of bitcoins to be delivered to the Sponsor in payment of the Combined Fee and sold to permit payment of Extraordinary Fees will vary from time to time depending on the level of the Trust's expenses and the value of bitcoins.

Because the Combined Fee is payable in bitcoins each month, the Sponsor, its delegates or the Custodian will withdraw bitcoins as needed from the Bitcoin Account to pay the Combined Fee.

In addition, if the Trust incurs any Extraordinary Fees, the Sponsor, its delegates or the Custodian will withdraw bitcoins from the Bitcoin Account and sell such bitcoins in order to pay the Extraordinary Fees. If the Trust incurs Extraordinary Fees in USD, bitcoins will be converted to U.S. Dollars at the Actual Exchange Rate at the time of conversion to pay these Extraordinary Fees. Shareholders do not have the option of choosing to pay their proportionate shares of Extraordinary Fees in lieu of having their shares of Extraordinary Fees paid by the Trust's sale of bitcoins. Assuming that the Trust is treated a grantor trust for U.S. federal income tax purposes, the payment of expenses by the Trust will result in a taxable event to Shareholders. See "U.S. Federal Income Tax Consequences—Taxation of U.S. Shareholders."

The Trust will dissolve upon the occurrence of certain dissolution events listed in the Trust Agreement. See "Trust Agreement — Termination Events."

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 a description of certain 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.

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 bitcoins 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 a 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 bitcoins and other digital currencies;
- government and quasi-government regulation of bitcoins and other digital assets and their use, or restrictions on or regulation of access to and operation of the Bitcoin Network or similar digital asset systems;
- changes in consumer demographics and public tastes and preferences;
- the maintenance and development of the open-source software protocol of the Bitcoin Network;

- 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 bitcoins 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 listing of the Shares and the expansion of its bitcoin holdings on the digital asset 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 small use of bitcoins in the retail and commercial marketplace in comparison to relatively large use by speculators, thus contributing to price volatility that could adversely affect an investment in the Shares.

Bitcoins and the Bitcoin Network have only recently become accepted as a means of payment for goods and services by certain major retail and commercial outlets, and use of bitcoins by consumers to pay such retail and commercial outlets remains limited. 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. A lack of expansion by bitcoins into 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 known as 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, 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 control, exclude or modify the ordering of transactions, though it could not generate new bitcoins or transactions using such control. The malicious actor 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.

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. 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.

If the award of bitcoins for solving blocks and 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.

If the award of new bitcoins for solving blocks declines and transaction fees are not sufficiently high, miners may not have an adequate incentive to continue mining and may cease their mining operations. 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.

If fees increase for recording transactions in the Blockchain, demand for bitcoins may be reduced and prevent the expansion of the Bitcoin Network to retail merchants and commercial businesses, resulting in a reduction in the price of bitcoins that could adversely affect an investment in the Shares.

As the number of bitcoins awarded for solving a block in the Blockchain decreases, the incentive for miners to contribute processing power to the Bitcoin Network will transition from a set reward to transaction fees. In order to incentivize miners to continue to contribute processing power to the

Bitcoin Network, the Bitcoin Network may either formally or informally transition from a set reward to transaction fees earned upon solving for a block. If miners demand higher transaction fees to recording transactions in the Blockchain or a software upgrade automatically charges fees for all transactions, the cost of using bitcoins may increase and the marketplace may be reluctant to accept bitcoins as a means of payment. Existing users may be motivated to switch from bitcoins to another digital currency or back to fiat currency. Decreased use and demand for bitcoins 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 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 two 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, 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 2016, the reward for mining bitcoins was reduced from 25 bitcoins to 12.5 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.

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. 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 bitcoins 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.

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, a proposed modification is not accepted by a vast majority of miners and users, but is nonetheless accepted by a substantial population of participants in the Bitcoin Network, a “fork” in the Blockchain could develop, resulting in two separate Bitcoin Networks. Such a fork in the Blockchain typically would be addressed by community-led efforts to merge the forked Blockchains, and several prior forks have been so merged.

However, if a permanent fork were to occur, there is a remote possibility that bitcoin would evolve into two slightly different versions. For example, in 2016, Ethereum, a digital currency, experienced a permanent fork in its blockchain that resulted in two slightly different versions of the digital currency. Community-led efforts to merge the blockchains were not successful and a small minority of Ethereum holders continued to support the old blockchain. This led to the development of two distinct blockchains that produced two slightly different versions of Ethereum: Ethereum and Ethereum Classic. Therefore holders of Ethereum Classic were given an equal number of the new Ethereum currency and therefore held equal numbers of Ethereum Classic and Ethereum when the fork became permanent.

If a permanent fork, similar to Ethereum, were to occur to bitcoin, the Trust would hold equal amounts of the original and the new bitcoin as a result. In consultation with the Index Provider, the Sponsor would select a Bitcoin Network (and therefore a single version of bitcoin). The Sponsor would simultaneously isolate the bitcoin on the Bitcoin Network that it did not select to segregate it from the Trust's bitcoin holdings. The Sponsor's intention would be to distribute to its Shareholders the bitcoin on the Bitcoin Network that it did not select. Therefore, the Trust would only hold one version of bitcoin. It is uncertain whether the value of the distribution of the bitcoin on the Bitcoin Network that the Sponsor did not select would equal the change in the value of the Shares. Consequently, a permanent fork could materially and adversely affect the value of the Shares.

Intellectual property rights claims may adversely affect the operation of the Bitcoin Network and could cause the termination of the Trust.

Third parties may assert intellectual property rights claims relating to the operation of digital currencies and their source code relating to the holding and transfer of such assets. 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 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. 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.

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, 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 Bitcoin Exchanges: electronic market places where exchange participants may first use fiat currency to trade, buy and sell bitcoins based on bid-ask trading. The Index uses U.S. Dollar-denominated trading data from the Bitcoin Exchanges to determine the Bitcoin Index Price. Whether a Bitcoin Exchange is considered eligible to be included in the Index's calculation depends on 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 has fluctuated widely over the past four years and may continue to experience significant price fluctuations. Several factors may affect the Bitcoin Index Price, including, but not limited to:

- Total bitcoins in existence (estimated at approximately 16.08 million as of December 30, 2016 according to 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 deflation 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 Bitcoin Exchanges;

- Cyber theft of bitcoins from online bitcoin wallet providers, or news of such theft from such providers, or from individuals' bitcoin wallets;
- Investment and trading activities of large investors, including private and registered funds, that may directly or indirectly invest in bitcoins;
- Monetary policies of governments, trade restrictions, currency devaluations and revaluations;
- 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 payments services;
- Global or regional political, economic or financial events and situations;
- Expectations among Bitcoin economy participants that the value of bitcoins will soon change; and
- Fees associated with processing a bitcoin transaction.

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 methodology for determining the Bitcoin Index Price is new and untested. Such methodology may now or in the future contain inherent flaws that may adversely affect the Sponsor's ability to determine the Bitcoin Index Price and may, in turn, adversely affect the price of the Shares.

The methodology for determining the Bitcoin Index Price established by the Sponsor is new and untested. Such methodology is based on a flexible set of rules that were designed by the Sponsor specifically for the operations of the Trust. Certain assumptions included in the methodology may be flawed and may adversely impact the Trust's ability to accurately determine the Bitcoin Index

Price. The failure of one or more of the assumptions built into the Bitcoin Index Price methodology could have an adverse effect on the Trust and on the value of the Shares.

The value of bitcoins as represented by the Bitcoin Index Price 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 derivative platforms. 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 more volatile. As a result, bitcoins may be more likely to fluctuate in value due to changing investor confidence in future appreciation or depreciation in the Bitcoin Index Price, which could 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 includes 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 December 31, 2016, the eligible Bitcoin Exchanges selected by the Index Provider include Bitfinex, Bitstamp, GDAX (formerly known as Coinbase Exchange), itBit and OKCoin. 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. See "Overview of the Bitcoin Industry and Market—Bitcoin Value."

The price of bitcoins on public Bitcoin Exchanges has a limited, four year history. 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.

The Index is designed to have limited exposure to Bitcoin Exchange interruption by utilizing transaction data from the highest volume 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 USD 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 into 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 operation limits on fiat currency deposits and withdrawals may be reduced by “exchange shopping” among Bitcoin Exchange users. For example, a delay in USD 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 largely 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 most cases, largely 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 USD 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.

The Bitcoin Holdings per Share is determined using the Bitcoin Index Price as represented by the Index as of 4:00 p.m., New York time on the valuation date. The Index utilizes data from Bitcoin Exchanges selected by the Index Provider to determine the weighted average price for bitcoins. For a further discussion of the Bitcoin Exchange Market and the selection of Bitcoin Exchanges for inclusion in the Index’s calculation of bitcoin prices, see “Overview of the Bitcoin Industry and Market—Bitcoin Value” and “—Uses of Bitcoins.”

Over the past five years, many Bitcoin Exchanges have been closed due to fraud, business failure or security breaches. In many of these instances, the customers of such Bitcoin Exchanges were not compensated or made whole for the partial or complete losses of their account balances in such Bitcoin Exchanges. While smaller Bitcoin Exchanges are less likely to have the infrastructure and capitalization that make larger Bitcoin Exchanges more stable, larger Bitcoin 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, 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. Additionally, in January 2015, Bitstamp announced that approximately 19,000 bitcoin had been stolen from its operational or “hot” wallets. Further, the collapse of Mt. Gox, which filed for bankruptcy protection in Japan in late February 2014, indicated that even the largest Bitcoin Exchanges could be subject to abrupt failure with consequences for both users of a Bitcoin Exchange and the bitcoin 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.

In mid-January 2017, the People’s Bank of China provided regulatory guidance to the largest China-based Bitcoin Exchanges—BTCC, Huobi and OKCoin. See “Overview of the Bitcoin Industry and Market—Government Oversight.” Due to the recent nature of these regulatory changes, the long-term impact on the marketplace is uncertain this time.

A lack of stability in the Bitcoin Exchange Market and the closure or temporary shutdown of Bitcoin Exchanges 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 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. 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 December 30, 2016, approximately 16.08 million bitcoins had been created.

If the number of bitcoins acquired by the Trust is large enough relative to global bitcoin supply and demand, further creations and redemptions of Shares 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 of future Baskets created or redeemed by the Trust.

As of December 31, 2016, the Trust held a closing balance of 172,095 bitcoins that it acquired in the sale of Baskets, representing approximately 1.07% 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.

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 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 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 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 the selling activity of other market participants. If the Bitcoin Index Price declines, the trading price of the Shares will generally also decline.

An investment in the Shares may be adversely affected by competition from other methods of investing in bitcoins.

The Trust competes with direct investments in bitcoins and other potential financial vehicles, possibly including securities backed by or linked to bitcoins 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 bitcoins directly, which could limit the market for the Shares and reduce the liquidity of the Shares.

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.

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, the Trust's Bitcoin Holdings and the price of the Shares.

The impact of geopolitical or economic events on the supply and demand for bitcoins is uncertain, but could motivate large-scale sales of bitcoins, 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 bitcoins, 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 bitcoins either globally or locally. Large-scale sales of bitcoins would result in a reduction in the Bitcoin Index Price and could 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. It is possible that a digital asset other than bitcoins could have features that make it more desirable to a material portion of the digital asset user base, resulting in a reduction in demand for bitcoins, which 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 December 30, 2016, there were over 700 alternate digital assets (or altcoins) tracked by CoinMarketCap.com, having a total market capitalization (including bitcoin) of approximately \$17.67 billion, using market prices and total available supply of each digital asset. According to CoinMarketCap.com's calculations, bitcoins represented more than 87% of the total market capitalization of all digital assets. As of December 30, 2016, bitcoin's \$15.45 billion market capitalization was nearly 21.6 times as large as the \$716.72 million market capitalization of Ethereum (the second largest digital currency by market capitalization) and more than 66 times larger than the \$233.76 million market capitalization of Ripple (the third largest digital currency by market capitalization). Bitcoin also enjoys significantly greater acceptance and usage than other altcoin networks in the retail and commercial marketplace, due in large 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 an altcoin 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 an altcoin that includes features not incorporated into Bitcoin. If an altcoin obtains significant market share (either in market capitalization, mining power or use as a payment technology), this could reduce Bitcoin's market share and have a negative impact on the demand for, and price of, bitcoins.

Risk Factors Related to the Trust and the Shares

As the Sponsor and its management have no meaningful 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 and has no meaningful 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 Bitcoin 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 operations of the Trust may be adversely affected.

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 or trading problems or issues arise, the Sponsor's past experience and qualifications may not be suitable for solving these problems or issues.

The Shares may trade at a price which is at, above or below the Trust's Bitcoin Holdings per Share.

The Shares may trade 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 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 redeem a Basket of Shares at a discount or a premium to the publicly quoted price per Share.

The Trust could experience unforeseen difficulties in operating and maintaining key elements of its 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 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. 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 Security Procedures implemented by the Custodian are technical and complex, and the Trust depends on the Security Procedures to protect the storage, acceptance and distribution of data relating to bitcoins and the digital wallets into which the Trust deposits its 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.

It is not uncommon for businesses in the bitcoin space 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.

Furthermore, the Trust's bitcoins are stored in vaults located around the world, which may be subject to (i) hostile regulatory treatment of bitcoin, (ii) 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, the Custodian could experience delays of up to 72 hours in executing transactions involving the bitcoins held in the vault in the compromised location. Any theft, loss or damage of the Trust's bitcoins would have a negative impact on the value of the Shares, and the Trust may have no recourse or means of recovery should such theft, loss or damage occur.

The Trust'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 Trust or the Custodian is unable to identify and mitigate or stop new security threats, 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, 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, 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 harm the Trust's business operations or result in loss of the Trust's assets. 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.

The Sponsor believes that the Security Procedures that the Sponsor and Custodian utilize, such as hardware redundancy, segregation and offline data storage (i.e., the maintenance of data on computers and/or storage media that is not directly connected to or accessible from the internet and/or networked with other computers, also known as "cold storage") protocols are reasonably designed to safeguard the Trust's bitcoins from theft, loss, destruction or other issues relating to hackers and technological attack. Nevertheless, 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.

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 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, although it claimed that many customers returned the bitcoins and litecoins. 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, Administrator 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 or 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 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 Trust Agreement or any Authorized Participant Self-Administered 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 shareholder, 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.

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

The Shares have been qualified for public quotation on the OTCQX U.S. Premier marketplace. While the Sponsor hopes to establish an active public market for the Shares, such a market may not develop or be sustained. As a result, investors may not be able to sell their Shares quickly or at the market price if trading in the Shares is not active. If a public market does develop, the number of Shares available for sale is, at least initially, anticipated to be limited. Therefore, the price of the Shares may be volatile.

The Sponsor will incur significant costs as a result of the Trust's qualification on the OTCQX U.S. Premier marketplace; those costs will increase proportionately if the Trust becomes a full reporting issuer under the Securities Exchange Act, and the Sponsor's management will be required to devote substantial time to compliance requirements.

As the sponsor of a trust quoted on the OTCQX U.S. Premier marketplace, 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 Securities Exchange Act. The Sponsor intends to pay a maximum of \$600,000 towards the annual costs associated with public quotation of the Shares on the OTCQX U.S. Premier marketplace. Any costs in excess of \$600,000 will be deemed Extraordinary Costs that may be payable by the Trust.

Restrictions on transfer and restrictions on 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, other than a sale of Shares on the OTCQX U.S. Premier marketplace, 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.

Furthermore, at this time, the Sponsor is not accepting redemption requests from Shareholders. As such, until an active secondary market develops, and a holder has held its Shares for at least one year, or the Trust is permitted to, and does, reinstate 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.

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

If the Trust is required to terminate and liquidate, 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 "Trust Agreement—Termination Events" 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 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 Trust's 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.

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

In consideration for the Combined Fee, the Sponsor has contractually assumed certain operational and periodic expenses of the Trust. See "Bitcoin Investment Trust—Trust Expenses." Extraordinary expenses of the Trust (for example, expenses relating to litigation) are not assumed by the Sponsor under the terms of the Trust Agreement are borne by the Trust and paid through the sale of the Trust's bitcoins. Any incurring of extraordinary expenses by the Trust could

adversely affect an investment in the Shares. Further, because the Trust does not generate any income, every time that it pays expenses it will deliver bitcoins to the Sponsor or sell bitcoins, thereby gradually decreasing the amount of bitcoins represented by each share over time.

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 Combined Fee or other expenses and each sale of bitcoins by the Trust to pay extraordinary expenses will be a taxable event to Shareholders. Thus, the Trust's payment of expenses could result in Shareholders' incurring tax liability without an associated distribution from the Trust. Any such tax liability could adversely affect an investment in the Shares. See "U.S. Federal Income Tax Consequences."

The Trust is a passive investment vehicle. This means that the value of the Shares may be adversely affected by Trust losses that, if the Trust had been actively managed, it might have been possible to avoid.

The Sponsor will not actively manage the bitcoins held by the Trust. This means that the Sponsor will not sell bitcoins at times when its price is high, or acquire bitcoins at low prices in the expectation of future price increases, or take any other action that may be available to bitcoin investors to attempt to reduce the risk of losses resulting from bitcoin price decreases. Any losses sustained by the Trust will adversely affect the value of the Shares.

The Trust is subject to risks due to its concentration in a single asset: bitcoins. Any losses suffered as a result of a decrease in the value of individual bitcoins, the Bitcoin Index Price or the Bitcoin Exchange Market generally, can be expected to reduce the value of the Shares and will not be offset by other gains if the Trust were to invest in other assets.

Unlike certain funds that may invest in diversified assets, the Trust's investment strategy is concentrated in a single asset: bitcoins. This concentration maximizes the degree of the Trust's exposure to a variety of market risks associated with bitcoins and the Bitcoin Exchange Market. By concentrating its investment strategy solely in bitcoins, any losses suffered as a result of a decrease in the value of individual bitcoins, the Bitcoin Index Price or the Bitcoin Exchange Market generally, can be expected to reduce the value of the Shares and will not be offset by other gains if the Trust were to invest in underlying assets that were diversified.

The bitcoins held by the Trust are commingled and Authorized Participants have no specific rights to any specific bitcoin. In the event of the Custodian's insolvency, its assets may be inadequate to satisfy a claim by the Trust or an Authorized Participant.

Bitcoins deposited in the Bitcoin Account are commingled with bitcoins deposited by other Authorized Participants and are held by the Custodian in the Bitcoin Account.

In the event the Custodian becomes insolvent, the Custodian's assets might not be adequate to satisfy a claim by the Trust or any Authorized Participant for the number of bitcoins deposited by

the Trust or the Authorized Participant and, in such event, the Trust and any Authorized Participant will generally have no right in or to assets other than those of the Custodian.

In the case of insolvency of the Custodian, a liquidator may seek to freeze access to the bitcoins held in all accounts by the Custodian, including the Bitcoin Account. The Trust and the Authorized Participants could incur expenses and delays in connection with asserting their claims. These problems would be exacerbated by the fact that the wallets holding the bitcoins may be physically held in various jurisdictions and thus would be subject to inconsistent insolvency laws and that there is a lack of precedents for the treatment of bitcoins in bankruptcy.

If the Trust incurs extraordinary expenses in U.S. Dollars, the Trust will sell bitcoins to pay these expenses.

The sale of the Trust's bitcoins to pay expenses at a time of low bitcoin prices could adversely affect the value of the Shares. The Sponsor will sell bitcoins held by the Trust to pay Trust expenses not assumed by the Sponsor on an as needed basis, irrespective of then-current bitcoin prices on the Bitcoin Exchange Market. The Trust is not actively managed and no attempt will be made to protect against or to take advantage of fluctuations in the price of bitcoins. Consequently, if the Trust incurs expenses in U.S. Dollars, the Trust's bitcoins may be sold at a time when the bitcoin prices on the Bitcoin Exchange Market are low, resulting in a negative impact on the value of the Shares.

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

Under the Trust Documents, each of the Sponsor, the Trustee, the Transfer Agent 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 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; 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. 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. 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. 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 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 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.

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. No monetary penalties were assessed. In determining to accept the offers of settlement, the SEC considered the Trust's and Genesis Global Trading Inc.'s reliance on counsel regarding the development and implementation of the shareholder redemption program. The Trust intends to seek an exemption from the SEC under Regulation M in order to reinstate its redemption program, but cannot at this time predict whether it will be successful in obtaining such regulatory relief.

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.

As bitcoins 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, CFPB, the Department of Justice, the Department of Homeland Security, the Federal Bureau of Investigation, the IRS,

and state financial institution regulators) have begun to examine the operations of the Bitcoin Network, bitcoin users and the Bitcoin Exchange Market, with particular focus on the extent to which bitcoins 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 hold bitcoins for users. On-going 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.

Many of these agencies, including the SEC, CFPB, FINRA, the Federal Trade Commission (“FTC”) and state financial regulatory agencies, including those of Washington, Wisconsin, North Carolina, Nevada, Massachusetts, Michigan, New Hampshire, Alabama, Maryland, Maine, New Mexico, California, Florida and Hawaii, have issued consumer advisories regarding the risks posed by digital currencies, including bitcoin.

In March 2013 guidance, FinCEN took the position that any administrator or exchanger of convertible virtual currencies, including bitcoins, 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. The requirement that bitcoin exchangers that do business in the U.S. 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.

On June 3, 2015, NYDFS issued its comprehensive regulatory scheme for digital currency businesses, called the “BitLicense.” The BitLicense scheme requires most businesses involved in digital currency transactions in or involving New York, excluding merchants and consumers, to apply for a license from the NYDFS and to comply with anti-money laundering, cyber security, consumer protection, and financial and reporting requirements, among others. Other states have considered similar regimes (for example, a bill in California would have imposed a similar regime, although the bill was shelved), or have required virtual currency businesses to register with their states as money transmitters, which results in virtual currency businesses being subject to requirements similar to those of NYDFS’s BitLicense regime. Certain state regulators, such as the Texas Department of Banking and Kansas Office of the State Bank Commissioner, have found that bitcoins do not constitute money, and that mere transmission of bitcoin does not constitute money transmission requiring licensure. The North Carolina Commissioner of Banks has issued guidance providing that North Carolina’s money transmission regulations only apply to the transmission of virtual currency (including bitcoins) and not its use. On June 28, 2014, the Governor of the State of California signed into law a bill that removed state-level prohibitions on the use of alternative forms of currency or value (including bitcoins). The bill indirectly authorizes the use of bitcoins as an alternative form of money in the state. The inconsistency in applying money transmitting licensure requirements to certain bitcoin businesses may make it more difficult for bitcoin businesses to provide services, which may affect consumer adoption of bitcoin and its price.

To date, the SEC has not asserted regulatory authority over the Bitcoin Network or bitcoin trading or ownership and has not expressed the view that bitcoin should be classified or treated as securities for purposes of U.S. federal securities laws. However, the SEC has indicated that the subject of bitcoin’s regulatory status is under review. In addition, it has commented on bitcoin and bitcoin-

related market developments and has taken action against investment schemes involving bitcoin. 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.

The CFTC has indicated that it considers bitcoin to be a “commodity” under the CEA, which makes it possible for futures, swaps, and other CFTC-regulated derivatives based on bitcoin to be offered and traded in the United States. The CFTC has not, to date, taken the view that bitcoin is a “commodity interest,” which is defined under the CEA to include futures, swaps, and other derivatives based on commodities. Commodity interests are subject to CFTC regulation and thus, if bitcoin 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 CEA and CFTC regulations.

To the extent that future regulatory actions or policies limit the ability to exchange bitcoins or utilize them for payments, the demand for bitcoins will be reduced and Authorized Participants may not seek to redeem Redemption Baskets in exchange for redemption proceeds in bitcoins. Furthermore, regulatory actions may limit the ability of end-users to convert bitcoins into fiat currency (for example, USD) or use bitcoins to pay for goods and services. Such regulatory actions or policies would result in a reduction of demand, and in turn, the Bitcoin Index Price and the price of the Shares.

Bitcoins currently face an uncertain regulatory landscape not only in the United States but also in many foreign jurisdictions such as the European Union, China, Japan and Russia. While certain governments such as Germany, where the Ministry of Finance has declared 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), 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 bitcoin, bitcoin users and the Bitcoin Network. In March 2015, Her Majesty’s Treasury proposed applying the United Kingdom’s anti-money laundering regulations to bitcoins. In October 2015, the European Court of Justice ruled that bitcoin transactions throughout the European Union should be treated as a traditional currency transactions and not be subject to value-added tax. In China, a December 2013 government notice classified bitcoins as “virtual commodities,” and not legal tender. The same notice restricted the banking and payment industries from using bitcoin, creating uncertainty and limiting the ability of bitcoin exchanges to operate in the then-second-largest bitcoin market. In mid-January 2017, the largest China-based Bitcoin Exchanges—BTCC, Huobi and OKCoin—adjusted their terms to pause or limit loan and borrowing services 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, and, shortly thereafter, these exchanges introduced a 0.2% fixed-rate transaction fee for all bitcoin buy and sell orders in response to added regulatory pressure by the PBoC. In February 2017, China’s smaller bitcoin exchanges, including BTC Trade, BTC100, CHBTC, Dahonghuo, Yuanboa, and BitBays also imposed or increased trading fees on their respective exchanges. In the subsequent weeks, BTCC, Huobi, and OKCoin halted bitcoin withdrawals. In the United Arab Emirates, the government recently released a new regulatory framework that may restrict banking and payment industries from using bitcoin. The Australian Senate has recently launched an inquiry into the country’s tax treatment and regulation of bitcoins,

and the government of Israel and the Israel Tax Authority are reportedly looking into taxing the profits from bitcoin trading. Conversely, regulatory bodies in some countries such as India and Switzerland have declined to exercise regulatory authority when afforded the opportunity. In April 2015, the Japanese Cabinet approved proposed legal changes that would reportedly treat bitcoin as a form of currency. These regulations, which were approved by the Japanese Diet in May 2016 and are expected to be effective beginning in the first half of 2017, require market participants, including exchanges, to meet certain compliance requirements and be subject to oversight by the Financial Services Agency, a Japanese regulator. At the other extreme, Russia's Ministry of Finance issued a draft bill that was submitted to Russia's legislature in December 2015, which would ban bitcoin and other "money surrogates" and impose monetary penalties for its use or even the advocacy of its use. Currently, this bill has been put on hold. In 2014, Ecuador, Bolivia, and Bangladesh banned the use of bitcoin and other digital currencies.

Various foreign jurisdictions may, in the near future, adopt laws, regulations or directives that affect the Bitcoin Network, the Bitcoin Exchange Market and their users, particularly Bitcoin Exchanges and service providers that fall within such jurisdictions' regulatory scope. Such laws, regulations or directives may conflict with those of the United States and may negatively impact the acceptance of bitcoins by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the bitcoin economy in the European Union, China, Japan, Russia and the United States and globally, or otherwise negatively affect the value of bitcoins.

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

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 an Authorized Participant charges its clients in a material and adverse manner. If an Authorized Participant determines not to comply with such additional regulatory and registration requirements, an Authorized Participant may

terminate its role as an Authorized Participant of the Trust. Such a termination may decrease the liquidity of the Trust.

Banks may not provide banking services, or may cut off banking services, to businesses that provide bitcoin related services or that accept bitcoin as payment, which could damage the public perception of bitcoin and the utility of 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 bitcoin-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 bitcoin-related companies or companies that accept bitcoin for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses that provide bitcoin-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 bitcoin as a payment system and harming public perception of bitcoin or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of bitcoin as a payment system and the public perception of bitcoin could be damaged if banks were to close the accounts of many or of a few key businesses providing bitcoin-related services. This could decrease the price of bitcoins and therefore adversely affect 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.

Although currently bitcoins are not regulated or are lightly regulated in most countries, including the United States, one or more countries such as China and Russia may take regulatory actions in the future that severely restrict the right to acquire, own, hold, sell or use bitcoins or to exchange bitcoins for fiat currency. Such an action may also result in the restriction of ownership, holding or trading in the Shares or cause the price of bitcoin to substantially decrease. For example, approximately 95% of the global trade volume in bitcoins occurred on self-reported, unregulated exchanges located in China until early 2017, when the largest China-based Bitcoin Exchanges—BTCC, Huobi and OKCoin—adjusted their terms to pause or limit loan and borrowing services 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. Shortly thereafter, these exchanges introduced a 0.2% fixed-rate transaction fee for all bitcoin buy and sell orders in response to added regulatory pressure by the PBoC. In February 2017, China’s smaller bitcoin exchanges, including BTC Trade, BTC100, CHBTC, Dahonghuo, Yuanboa, and BitBays also imposed or increased trading fees on their respective exchanges. In the subsequent weeks, BTCC, Huobi, and OKCoin halted bitcoin withdrawals. As a result of the PBoC, bitcoin trading volumes on China-based Bitcoin Exchanges have experienced a significant decrease. Recent daily volumes on China-based Bitcoin Exchanges are now roughly-balanced with that of large U.S. dollar-denominated Bitcoin Exchanges. Further regulatory action could materially restrict liquidity in trading and could have a significant impact on the price of bitcoin globally. Such regulatory actions or restrictions could adversely affect an investment in the Shares or result in the termination and liquidation of the Trust at a time that is disadvantageous to Shareholders.

If regulatory changes or interpretations of the Trust’s activities require the registration of the Trust as a money services business under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act, the Trust may be required to register and comply with such regulations. If regulatory changes or interpretations of the Trust’s activities require the licensing or other registration of the Trust as a money transmitter (or equivalent designation) under state law in any state in which the Trust operates, the Trust may be required to seek licensure or otherwise register and comply with such state law. In the event of any such requirement, to the extent that the Sponsor decides to continue the Trust, the required registrations, licensure and regulatory compliance steps may result in extraordinary, nonrecurring expenses to the Trust. The Sponsor may also decide to terminate the Trust. Any termination of the Trust in response to the changed regulatory circumstances may be at a time that is disadvantageous to Shareholders.

To the extent that the activities of the Trust cause it to be deemed a “money service business” under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act, the Trust may be required to comply with FinCEN regulations, including those that would mandate the Trust to implement anti-money laundering programs, make certain reports to FinCEN and maintain certain records.

To the extent that the activities of the Trust cause it to be deemed a “money transmitter” (or equivalent designation) under state law in any state in which the Trust operates, the Trust may be required to seek a license or otherwise register with a state regulator and comply with state regulations that may include the implementation of anti-money laundering programs, maintenance of certain records and other operational requirements. Similarly, to the extent the Trust’s activities are deemed to be “Virtual Currency Business Activity” (or similar activity), the Trust may be required to acquire a license under NYDFS’s BitLicense scheme and comply with anti-money laundering requirements, among others. Neither the Trust nor the Sponsor has applied for a license under the BitLicense regime. Other states besides New York may implement digital-currency specific regimes that could require the Trust to apply for licenses and comply with various requirements.

Such additional federal or state regulatory obligations may cause the Trust to incur extraordinary expenses, possibly affecting an investment in the Shares in a material and adverse manner. Furthermore, the Trust and its service providers may not be capable of complying with certain federal or state regulatory obligations applicable to money service businesses’ money transmitters, and businesses involved in virtual currency business activity. If the Sponsor is deemed to be subject to and determines not to comply with such additional regulatory and registration requirements, the Sponsor will act to dissolve and liquidate the Trust. Any such termination could result in the liquidation of the Trust’s bitcoins at a time that is disadvantageous to Shareholders.

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. Although several U.S. federal district courts have recently held for certain purposes that bitcoins are currency or a form of money, 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 will be 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, a pro rata portion of the Trust’s income, gain, losses and deductions will “flow through” to each beneficial owner of Shares.

Recent amendments to the Trust Agreement were intended to clarify the Trust’s classification as a grantor trust for U.S. federal income tax purposes. On February 9, 2017, the Court of Chancery of the State of Delaware ordered that the amended Trust Agreement, dated as of January 1, 2016, and subsequent petition of the court eliminates any ambiguity that the Trust is intended to be a grantor trust for U.S. federal income tax purposes and shall also be retroactive to the dates of the original Trust Agreements, namely September 25, 2013 and December 26, 2014. However, the IRS might not agree that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. The Trust intends to seek a ruling from the IRS that the Trust is a grantor trust for U.S.

federal income tax purposes, but there can be no assurance that the Trust will be successful in obtaining such a ruling.

If the IRS were successful in asserting that 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, although due to the uncertain treatment of bitcoins for U.S. federal income tax purposes (see “U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Bitcoins”), 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 the timing of recognition of gain or loss. 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 marginal rate of 35%) on its net taxable income and certain distributions made by the Trust to Shareholders would be taxable as dividends to the extent of the Trust’s current and accumulated earnings and profits (which, in the case of a non-U.S. Shareholder, generally would be subject to U.S. federal withholding tax at a 30% rate (or a lower rate provided by an applicable income tax treaty)).

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 Bitcoins” below, the Trust intends to take the position that each beneficial owner of Shares generally will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the bitcoins held in the Trust. Many significant aspects of the U.S. federal income tax treatment of bitcoins are uncertain, and the Sponsor does not intend to request a ruling from the IRS on these issues. On March 25, 2014, the IRS released a notice (the “Notice”) discussing certain aspects of the treatment of virtual 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) bitcoins are “property” that is not currency and (ii) bitcoins may be held as capital assets. However, the Notice is not binding on the IRS, and a court might not uphold this treatment. In addition, legislation has been introduced that would, if enacted, cause bitcoins to be treated as currency for U.S. federal income tax purposes. If bitcoins were properly treated as currency for U.S. federal income tax purposes, gains recognized on the disposition of bitcoins would constitute ordinary income, and losses recognized on the disposition of bitcoins 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 bitcoins, including: (i) whether bitcoins are properly treated as “commodities” for U.S. federal income tax purposes; (ii) whether bitcoins are properly treated as “collectibles” for U.S. federal income tax purposes, (iii) the proper method of determining a holder’s holding period and tax basis for bitcoins acquired at different times or at varying prices; and (iv) whether and how a holder of bitcoins acquired at different times or at varying prices may designate, for U.S. federal income tax purposes, which of the bitcoins is transferred in a subsequent sale, exchange or other disposition.

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

Future developments in the tax treatment of bitcoins could adversely affect an investment in the Shares.

The New York State Department of Taxation and Finance issued guidance regarding the application of New York State tax law to virtual currencies such as bitcoins. The agency determined that New York State would follow the Notice with respect to the treatment of virtual currencies such as bitcoins for state income tax purposes. Furthermore, the agency took the position that virtual 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 state sales tax (although transactions of bitcoin 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 bitcoins from sales tax. It is unclear what further guidance on the treatment of bitcoins for state tax purposes may be issued in the future. If a state does not follow the Notice, such state’s treatment of bitcoins may have negative consequences, including the imposition of a greater tax burden on investors in bitcoin or the imposition of a greater cost on the acquisition and disposition of bitcoins generally. Any such treatment may have a negative effect on prices in the Bitcoin Exchange Market and a negative impact on the Shares.

The treatment of virtual currencies such as bitcoins for tax purposes by foreign jurisdictions may differ from the treatment of virtual currencies by the IRS or the New York State Department of Taxation and Finance. If a foreign jurisdiction with a significant share of the market of bitcoin users 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 affect the price of bitcoins and negatively affect an investment in 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, which may permit them to favor their own interests to the detriment of the Trust and its Shareholders.

The Sponsor will manage the business and 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 business and 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;
- Barry E. Silbert, the Chief Executive Officer of the Sponsor, acts as an advisor to the Index Provider and owns less than 1.0% of the Index Provider’s voting equity;
- Digital Currency Group, Inc. is (i) the sole member and parent company of the Sponsor and Genesis, (ii) the owner of approximately 2.4% of the Index Provider’s voting equity and owns warrants representing approximately 1.4% of the Index Provider’s voting equity and (iii) a minority interest holder in the Custodian, representing less than 1.0% of its equity;
- The Sponsor decides whether to retain separate counsel, accountants or others to perform services for the Trust; and
- While the Index does not currently utilize data from over-the-counter markets or derivative platforms, it may decide to include pricing data from such markets or platforms in the future, which could include data from Genesis, an affiliate of the Trust.

By investing in the Shares, investors agree and consent to the provisions set forth in the Trust Agreement. See “Trust Agreement.”

For a further discussion of the conflicts of interest among the Sponsor, Authorized Participants, 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.

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.

The history of the Bitcoin Exchange Market has shown that bitcoin exchanges and large holders of bitcoins must adapt to technological change in order to secure and safeguard client accounts. While the Custodian is required in its agreement to safeguard the Custodial Coins from theft, loss, destruction or other issues relating to hackers and technological attack, its ability to do so is based upon known technology and threats. As technological change occurs, the security threats to the Custodial Coins 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 Custodian is unable to identify and mitigate or stop new security threats, the Custodial Coins 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.

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 business, the Trust primarily values its bitcoins by looking to the proprietary TradeBlock XBX Index (the "Index"), which takes into account prices set for bitcoins on certain bitcoin trading venues. Subject to the next sentence, 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 employ one of the other rules available to determine the Bitcoin Index Price, as discussed above under "Description of the Trust — Bitcoin Index Price".

Description of the Index

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 derivative platforms. The Index Provider uses standardized eligibility criteria to select trading venues that will be included in the Index based on guidelines such as depth of liquidity, compliance with applicable legal and regulatory requirements, data availability, domicile in the United States and acceptance of U.S. Dollar deposits. The Index Provider conducts quarterly reviews of these guidelines. To calculate the reference rate, 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 this weighting algorithm quarterly, but maintains discretion in extreme circumstances which could necessitate immediate update to the algorithm or included exchanges. To calculate volume weighted price, the weighting algorithm is applied to the price

and volume of all inputs for the immediately preceding 24-hour period at 4:00:00 PM, New York time on the valuation date.

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.

Changes to the Index

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 the periodic review schedule and expert discretion described above. The Index Provider does not have any obligation to take the needs of the Sponsor, the Trust, the shareholders, or anyone else into consideration in connection with such changes. The Index Provider is not required to publicize or explain the changes, nor to alert the Sponsor to such changes.

The TradeBlock XBX Index has a limited history. There is no guarantee that the methodology currently used by the Index will appropriately allow the Index to track the price of bitcoins in the future. Additionally, the Index Provider has discretion at any time to change the methodology, the criteria used to select trading venues from which bitcoin trading data is sourced for inclusion in the Index, and the trading venues themselves. The Index is based on various inputs which may include spot currency exchange rates, over-the-counter trade data, derivative instrument pricing, or data from other related financial products. The Index Provider does not guarantee the validity of any of these inputs, which may be subject to technological error, manipulative activity, or fraudulent reporting from their initial source. Since the Bitcoin Index Price will be set to the value of the Index (unless the other rules for calculating the Bitcoin Index Price apply), the Index could be calculated now or in the future in a way that adversely affects an investment in the Shares.

Certain Relationships

The Index Provider and the Sponsor have entered into an 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. 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.

The Index Provider has licensed on a fee basis its over-the-counter market platform software to Genesis Global Trading, Inc., which serves as the Distributor, Marketer, Initial Purchaser, and sole Authorized Participant of the Trust. Genesis Global Trading, Inc., uses the software to operate its bitcoin trading desk, which Genesis Global Trading, Inc., relies upon to act as the Authorized Participant. Under this platform license agreement, Genesis Global Trading, Inc., has agreed to provide its bitcoin trade data to the Index Provider. Consequently, the Index Provider may or may not decide to include Genesis Global Trading, Inc.'s over-the-counter trading desk as a trading

venue that is included in the TradeBlock XBX Index. Under this agreement, the Index Provider also provides the Index to Genesis Global Trading, Inc.

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 less than 1.0% of the Index Provider's voting equity.

Digital Currency Group, Inc., the sole member and parent company of the Sponsor owns approximately 2.4% of the Index Provider's voting equity and owns warrants representing approximately 1.4% of the Index Provider's voting equity.

U.S. FEDERAL INCOME TAX CONSEQUENCES

The following is a discussion of certain U.S. federal income tax considerations that generally apply to the purchase, ownership and disposition of Shares by a U.S. Shareholder (as defined below), and certain U.S. federal income that may apply to an investment in Shares by a Non-U.S. Shareholder (as defined below). The discussion below is based on the Internal Revenue Code, Treasury Regulations promulgated under the Internal Revenue Code, and judicial and administrative interpretations of the Internal Revenue Code, all as in effect on the date of this Annual Report and all of which are subject to change either prospectively or retroactively. The tax treatment of Shareholders may vary depending upon their own particular circumstances. Certain Shareholders (including broker-dealers, traders, banks and other financial institutions, insurance companies, real estate investment trusts, tax-exempt entities, Shareholders whose functional currency is not the USD, or other investors with special circumstances) may be subject to special rules not discussed below. In addition, the following discussion applies only to investors who will hold Shares as “capital assets” within the meaning of Internal Revenue Code section 1221 and not as part of a straddle, hedging transaction or a conversion or constructive sale transaction. Moreover, the discussion below does not address the effect of any state, local or foreign tax law on an owner of Shares, nor the effect of alternative minimum tax consequences or consequences of the Medicare contribution tax on net investment income. Purchasers of Shares are urged to consult their own tax advisors with respect to all federal, state, local and foreign tax law considerations potentially applicable to their investment in Shares.

For purposes of this discussion, a “U.S. Shareholder” is a Shareholder that is:

- An individual who is treated as 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 any political subdivision thereof;
- An estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- A trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (within the meaning of Internal Revenue Code section 7701(a)(30)) have the authority to control all substantial decisions of the trust, or if the trust has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

For purposes of this discussion, a “Non-U.S. Shareholder” is a Shareholder that is not a U.S. Shareholder as defined above and that is classified for U.S. federal income tax purposes as being neither a partnership nor a “disregarded entity.” For U.S. federal income tax purposes, the treatment of any beneficial owner of an interest in an entity classified as a partnership for U.S. federal income tax purposes will generally depend upon the status of the partner and upon the activities of the partnership. Partnerships and partners in partnerships should consult their tax advisors about the U.S. federal income tax consequences of purchasing, owning and disposing of

Shares. For U.S. federal income tax purposes, the assets held by any entity that is classified as a “disregarded entity” and that has a single member are generally deemed to be held directly by such member.

Taxation of the Trust

The Sponsor intends to take the position that the Trust will be 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, a *pro rata* portion of the Trust’s income, gain, losses and deductions will “flow through” to each beneficial owner of Shares.

Recent amendments to the Trust Agreement were intended to clarify the Trust’s classification as a grantor trust for U.S. federal income tax purposes. On February 9, 2017, the Court of Chancery of the State of Delaware ordered that the amended Trust Agreement, dated as of January 1, 2016, and subsequent petition of the court eliminates any ambiguity that the Trust is intended to be a grantor trust for U.S. federal income tax purposes and shall also be retroactive to the dates of the original Trust Agreements, namely September 25, 2013 and December 26, 2014. However, due to the absence of direct legal authority addressing the classification of an entity such as the Trust, the IRS might not agree that of the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. The Trust intends to seek a ruling from the IRS that the Trust is a grantor trust for U.S. federal income tax purposes, but there can be no assurance that the Trust will be successful in obtaining such a ruling.

If the IRS were successful in asserting that 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, although due to the uncertain treatment of bitcoins for U.S. federal income tax purposes (discussed below), 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 35%) on its net taxable income and certain distributions made by the Trust to Shareholders could be taxable as dividends to the extent of the Trust’s current and accumulated earnings and profits (which, in the case of Non-U.S. Holders (as defined below), generally would be subject to U.S. federal withholding tax at a 30% rate (or a lower rate provided by an applicable income tax treaty)). 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 Bitcoins

As discussed below, each beneficial owner of Shares generally will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the bitcoins held in the Trust. Many significant aspects of the U.S. federal income tax treatment of bitcoins are uncertain, and the Sponsor does not intend to request a ruling from the IRS on these issues. On March 25, 2014, the IRS released a notice (the “Notice”) discussing certain aspects of the treatment of virtual 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) bitcoins are “property” that is not currency and (ii) bitcoins may be held as capital assets. However, the Notice is not binding on the IRS, and special tax counsel to the Trust expresses no opinion in respect of, and a court might not uphold, this treatment. In addition, legislation has been introduced that would, if enacted, cause bitcoins to be treated as currency for U.S. federal income tax purposes. If bitcoins were properly treated as currency for U.S. federal income tax purposes, gain recognized on the disposition of bitcoins would constitute ordinary income, and losses recognized on the disposition of bitcoin could be subject to special reporting requirements applicable to “reportable transactions.” The remainder of this discussion assumes that bitcoins are properly treated for U.S. federal income tax purposes as property that is not currency. Special tax counsel to the Trust expresses no opinion regarding these aspects of the U.S. federal income tax treatment of bitcoins.

The Notice does not address other significant aspects of the U.S. federal income tax treatment of bitcoins, including: (i) whether bitcoins are properly treated as “commodities” for U.S. federal income tax purposes; (ii) whether bitcoins are properly treated as “collectibles” for U.S. federal income tax purposes; (iii) the proper method of determining a holder’s holding period and tax basis for bitcoins acquired at different times or at varying prices; and (iv) whether and how a holder of bitcoins acquired at different times or at varying prices may designate, for U.S. federal income tax purposes, which of the bitcoins is transferred in a subsequent sale, exchange or other disposition.

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

Taxation of U.S. Shareholders

Characterization of Bitcoin. The IRS recently issued the Notice, discussed above, containing guidance and frequently asked questions relating to virtual currencies such as bitcoins. Under this Notice, a bitcoin will be treated as property (which may qualify for treatment as a capital asset) and not as “currency.” The Notice also provides that general tax principles applicable to property transactions will apply to transactions using bitcoins.

Basis of Shares. In the case of Shares acquired for cash, the Shareholder’s initial tax basis in its proportionate share of the Trust’s assets will be equal to the cost of acquiring the Shares and the Shareholder’s holding period in such assets will begin on the day following purchase. The acquisition of Shares for cash should not be a taxable event for the Shareholder. For purposes of this discussion, it is assumed that all of a Shareholder’s shares are acquired on the same date and at the same price. Shareholders that acquire shares at different times and at different price are encouraged to consult their tax advisers concerning their bases and holding periods in the Trust’s underlying assets.

Sale of Bitcoins by the Trust. When the Trust sells bitcoins, including the sale of bitcoins to pay the Trust’s expenses, a Shareholder will recognize gain or loss in an amount equal to the difference between (a) the Shareholder’s proportionate share of the amount realized by the Trust from the sale and (b) the Shareholder’s tax basis for its proportionate share of the bitcoins sold, which gain or loss will generally be long-term or short-term capital gain or loss. In general, a Shareholder’s tax basis in bitcoins sold by the Trust will equal (a) the Shareholder’s basis in all of the bitcoins held by the Trust immediately prior to the sale multiplied by (b) a fraction the numerator of which is the number of bitcoins sold and the denominator of which is the total number of the bitcoins

held by the Trust immediately prior to the sale. After any sale, a Shareholder's tax basis in its pro-rata share of the bitcoins remaining in the Trust will equal (a) the Shareholder's tax basis in the bitcoins held by the Trust immediately prior to the sale, less (b) the portion of the Shareholder's basis allocable to the bitcoins sold. The Trust does not anticipate that it will make cash or in-kind distributions and, thus, Shareholders should have alternative means to pay taxes on the gain from the sale of bitcoins by the Trust.

Sale of Shares. Upon the sale of a Share, a Shareholder will be deemed to sell the portion of the Trust's bitcoins attributable to the Share. Accordingly, the Shareholder generally will recognize gain or loss on the sale in an amount equal to the difference between (a) the amount realized from the sale of the Share, and (b) the Shareholder's tax basis in the portion of the Trust's bitcoins attributable to the Share, determined in the manner described above. After a sale of less than all of a Shareholder's Shares, the Shareholder's tax basis in its share of the bitcoins held by the Trust will be equal to (a) the Shareholder's tax basis in its pro-rata share of the Trust's bitcoins immediately prior to the sale, less (b) the portion of the Shareholder's basis attributable to the bitcoins sold.

Tax on Net Investment Income. A 3.8% tax will be imposed on some or all of the net investment income of certain individuals with modified adjusted gross income of over \$200,000 (\$250,000 in the case of joint filers) and the undistributed net investment income of certain estates and trusts. For these purposes, it is expected that all or a substantial portion of a U.S. Shareholder's share of Trust income will be net investment income. In addition, certain Trust expenses may not be deducted in calculating a U.S. Shareholder's net investment income. Furthermore, because of certain netting rules, the tax on net investment income may be imposed on an amount of income that exceeds a U.S. Shareholder's economic income from its investment in the Trust.

Brokerage Fees. Any brokerage or other transaction fee incurred by a Shareholder in purchasing Shares will be treated as part of the Shareholder's tax basis in the underlying assets of the Trust. Similarly, any brokerage fee incurred by a Shareholder in selling Shares will reduce the amount realized by the Shareholder with respect to the sale.

Nondeductible Expenses. U.S. Shareholders who are individuals, estates or trusts may be required to treat some or all of the expenses of the Trust as miscellaneous itemized deductions. Individuals may deduct certain miscellaneous itemized deductions only to the extent they exceed 2% of adjusted gross income. In addition, such deductions may be subject to phase-outs and other limitations under applicable provisions of the Internal Revenue Code. Consequently, in the case of bitcoins sold to pay expenses, an individual Shareholder may have to include income from the sale without having the benefit of an offsetting deduction.

Taxation of Non-U.S. Shareholders

The Trust does not expect to generate taxable income except for gain (if any) upon the sale of bitcoins. A Non-U.S. Shareholder generally will not be subject to U.S. federal income tax with respect to gain recognized upon the sale or other disposition of Shares, or upon the sale of bitcoins by the Trust, unless: (1) the Non-U.S. Shareholder is an individual and is physically present in the United States for: (x) 31 days during the taxable year of the sale or other disposition, and (y) 183 days or more during the three-year period that includes the taxable year of the sale or other

disposition and the two years before, calculated as follows: all of the days such shareholder was present in the taxable year of the sale or other disposition, and one-third of the such shareholder was present in the first year before the taxable year of the sale or other disposition, and one-sixth of the days such shareholder was present in the second year before the taxable year of the sale or other disposition, and (z) the gain is treated as being from United States sources; or (2) the gain is effectively connected with the conduct by the Non-U.S. Shareholder of a trade or business in the United States.

United States Information Reporting and Backup Withholding

A U.S. Shareholder may be subject to United States backup withholding tax in certain circumstances unless it provides its taxpayer identification number and complies with certain certification procedures. Non-U.S. Shareholders may have to comply with certification procedures to establish that they are not a United States person in order to avoid the information reporting and backup withholding tax requirements. Backup withholding is not an additional tax. The amount of any backup withholding will be allowed as a credit against a Shareholder's U.S. federal income tax liability and may entitle such a Shareholder 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 Sponsor is currently conducting operations on behalf of 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. Xapo, Inc. is the Custodian of the Trust. 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 an Authorized Participant. The financial results of these entities are not included in the Trust's financial statements.

The Sponsor

Grayscale Investments, LLC (formerly known as Alternative Currency Asset Management, LLC) is the Sponsor of the Trust, is organized as a Delaware limited liability company and established the Trust.

The Sponsor was formed on May 29, 2013 and is wholly-owned by its sole member, Digital Currency Group, Inc. (a majority-owned subsidiary of DCG Holdco, Inc.). The Sponsor is not registered with either the Securities and Exchange Commission or the Commodity Futures Trading Commission in any capacity. The Sponsor's principal place of business is 636 Avenue of the Americas, New York, New York 10011, and telephone number: 212.668.3911.

As wholly-owned by its sole member, Digital Currency Group, Inc., the Sponsor is also an affiliate of Genesis Global Trading, Inc. The Sponsor monitors the overall performance of the Trust. The Sponsor is responsible for preparing and providing periodic reports on behalf of the Trust to investors. The Sponsor is responsible for selecting and monitoring the Trust's Service Providers and may from time to time engage additional, successor or replacement Service Providers. The Sponsor or its delegate calculates and publishes the Trust's Bitcoin Holdings and Bitcoin Holdings per Share each business day as of 4:00 PM, New York time, or as soon thereafter as practicable. At the request of the Sponsor, the Custodian will withdraw bitcoins as needed to pay Trust expenses.

The Sponsor maintains a public website, www.grayscale.co, which contains information about the Trust and the Shares, and provides certain Shareholder services, such as a call center.

The Sponsor may transfer all or substantially all of its assets to an entity which 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 then be relieved of all further liability under the Trust Agreement.

The Combined Fee is paid by the Trust to the Sponsor as compensation for services performed under the Trust Agreement and for the Sponsor's agreement to pay the Assumed Fees. See "Bitcoin Investment Trust — Trust Expenses."

The Custodian

Xapo, Inc., a Delaware corporation, is Custodian of the Trust and, in that capacity, has entered into a Custodial Agreement with the Trust and the Sponsor. Under the Custodial Agreement, the Custodian is responsible for keeping the private keys, or keys that provide access to the Trust's digital wallets and vaults, secure. Pursuant to a request from the Sponsor or the Trust, the Custodian has established and maintains an account with one or more wallets (the "Wallet Account") and one or more cold-storage vault accounts (the "Vault Account" and, together with the Wallet Account and any subaccounts associated therewith, the "Bitcoin Account") in the name of the Sponsor and the Trust. The Custodian deposits and withdraws bitcoins to and from the Bitcoin Account at the instruction of the Sponsor. The Custodian is responsible for administering the Bitcoin Account.

The Custodian withdraws from the Wallet Account the number of bitcoins necessary to pay the Trust expenses provided for in the Trust Agreement and any otherwise unpaid expenses thereunder. In the event that the Combined Fee and the Extraordinary Fee, if any, plus other Trust expenses, if any, exceed the bitcoin balance of the Wallet Account, the Custodian will withdraw additional bitcoins from the Vault Account to pay the excess.

Under the Custodial Agreement, the Custodian must indemnify the Trust and Sponsor for damages arising out of or caused by the Custodian and the Sponsor and Trust's reasonable reliance on the Custodian's untrue representations and warranties. The Custodian must also indemnify the Sponsor and Trust from any loss or damage caused by any employee, 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.

The Custodian will be paid a fee by the Sponsor as described in "Bitcoin Investment Trust — Trust Expenses."

The Initial Purchaser and Authorized Participant

Genesis Global Trading, Inc., a Delaware corporation, was the Initial Purchaser and the Authorized Participant. The Initial Purchaser and the Authorized Participant entered into the Initial Purchaser Agreement and a Participant Agreement, respectively.

Authorized Participants who make deposits of bitcoins with the Trust in exchange for Creation Baskets receive no fees, commissions or other form of compensation or inducement of any kind

from either the Sponsor or the Trust. No Authorized Participant has any obligation or responsibility to the Sponsor or the Trust to effect any sale or resale of Shares. Authorized Participants may realize significant profits buying, selling, creating and redeeming Shares as a result of changes in the value of Shares or bitcoins. In particular, an Authorized Participant may profit from the “spread” (or difference) between the prices at which it purchases and sells Shares and bitcoins (or obtains Shares or bitcoins through the creation and redemption of Baskets). For example, when creating Shares, an Authorized Participant may deposit bitcoins with the Trust that it has acquired at a price that is lower than the current Bitcoin Index Price and thus receive Shares with a value greater than the Authorized Participant’s cost of acquiring the deposited bitcoins. Similarly, an Authorized Participant may sell Shares to a customer from its inventory at a price higher than the Authorized Participant’s cost in acquiring such Shares. As another example, when redeeming Shares, an Authorized Participant may receive bitcoins and then hold them for later resale at a profit if the price of bitcoins increases. The frequent and significant fluctuations in the price of bitcoins increases the extent to which an Authorized Participant may profit from its transactions in Shares and bitcoins. As of the date of this Annual Report, the only Authorized Participant is Genesis Global Trading, Inc., an affiliate of the Sponsor.

The Distributor and Marketer

Genesis Global Trading, Inc., a Delaware corporation, is the Distributor and the Marketer for 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 Sponsor’s website, www.grayscale.co, executing the marketing plan for the Trust, and providing strategic and tactical research 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 determine to engage additional or successor Distributors and Marketers.

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.

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 business and 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 business and affairs of the Trust consistent with its or their respective fiduciary duties to the Trust and others.

Relationship of the Sponsor to the Distributor and Marketer.

We refer to the Distributor and Marketer collectively as the “Affiliated Service Provider.”

The Sponsor and the Affiliated Service Provider are affiliates of each other.

The Sponsor has a disincentive to replace the Affiliated Service Provider because of the affiliation with the Sponsor. In connection with this conflict of interest, Shareholders should understand that the Affiliated Service Provider receives fees for providing services to the Trust. Clients of the Affiliated Service Provider may pay commissions at negotiated rates which are greater or less than the rate paid by the Trust.

The Sponsor and the 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 the Affiliated Service Provider may generate larger fees, resulting in increased payments to employees, and therefore, incentivizing the Sponsor and/or the Affiliated Service Provider to allocate it/their limited resources accordingly to the potential detriment of the Trust.

Affiliated Authorized Participant

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

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 that 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 taking positions in their personal trading accounts which are opposite of the positions taken for the Trust. Records of the Sponsor officers' personal trading accounts will not be available for inspection by Shareholders.

Relationships of TradeBlock, which calculates the Index, with the Sponsor, Distributor, Marketer, Initial Purchaser, Authorized Participant, and management of the Sponsor

The Sponsor and its affiliates rely on services provided by TradeBlock (aside from the calculation of the Index) or are otherwise interested in the success of TradeBlock. These relationships include:

- Barry E. Silbert, the founder of Digital Currency Group, Inc. and an officer of the Sponsor, acts as an advisor to TradeBlock and owns less than 1.0% of TradeBlock's voting equity.
- Digital Currency Group, Inc., the sole member and parent company of the Sponsor owns approximately 2.4% of TradeBlock's voting equity and warrants representing approximately 1.4% of TradeBlock's voting equity.
- Genesis Global Trading, Inc. licenses and uses a trading software platform provided by TradeBlock to operate its bitcoin trading desk. This platform also facilitates Genesis Global Trading, Inc.'s acting as the 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 TradeBlock, lead to a decrease in TradeBlock's revenue or otherwise adversely affect TradeBlock, and because of the relationships listed above, the Sponsor has a conflict of interest with respect to TradeBlock.

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 business.

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, 2016.

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.

Not applicable.

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 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 Holdco, Inc. 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

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 bitcoin and blockchain companies through its insights, network and access to capital. In addition, Mr. Silbert is the creator of the Bitcoin Investment Trust. Starting in 2012, Mr. Silbert became one of the first and most active investors in the bitcoin space, providing seed funding for Coinbase, Ripple, BitPay and a number of other companies who have defined the bitcoin industry.

Prior to founding DCG, Mr. Silbert founded SecondMarket, which 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 of Emory University. Barry 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, VP, Finance and Controller

Simcha Wurtzel is Vice President, Finance and Controller of the Sponsor and the Vice President of Finance and Controller of the Digital Currency Group, Inc. and its wholly owned subsidiary, Grayscale Investments, LLC. From 2007 to 2015, Mr. Wurtzel served as the Financial and Operations Principal for SecondMarket. Prior to working at SecondMarket, 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.

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 receives a Combined Fee, which accrues daily at an annual rate of 2% of the Trust’s Bitcoin Holdings, at such times as determined in the Sponsor’s sole discretion and is generally expected to occur monthly in arrears. For the years ended December 31, 2016 and 2015, the Sponsor earned \$1,818,656 and 741,575, respectively in management fees from the Trust.

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, 2016 and December 31, 2015 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.

Not applicable.

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

Andrew D. Thorpe, Esq.
Orrick, Herrington & Sutcliffe LLP
The Orrick Building
405 Howard Street
San Francisco, California 94105
Telephone: (415) 773-5970
Facsimilie: (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.

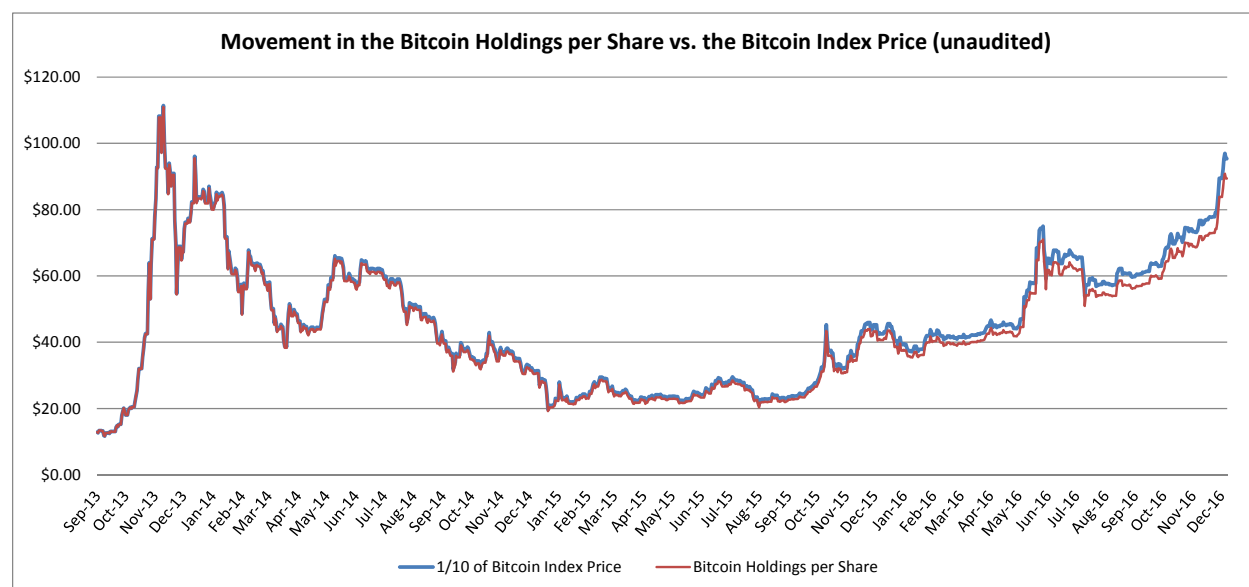
Not applicable.

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.

The Trust is a passive entity that is managed and administered by the Sponsor and does not have any officers, directors or employees. The Trust holds bitcoins and, from time to time, issues Baskets of Shares, or Creation Baskets, in exchange for deposits of bitcoins and, subject to exemptive relief from the SEC, will distribute bitcoins in connection with Redemption Baskets. As a passive investment vehicle, the investment objective of the Trust is for the Shares to reflect the performance of the value of a bitcoin as represented by the Index, less the Trust's liabilities and expenses. The Shares are designed to provide investors with a cost-effective and convenient way to invest in bitcoin. The Trust is not managed like a business corporation or an active investment vehicle. As of December 31, 2016, the Trust had unlimited Shares authorized and 1,837,300 Shares issued and outstanding. On January 19, 2017, in connection with and prior to the initial public filing of the Trust's Form S-1 with the SEC, the Trust stopped issuing 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 anticipates that the Shares offered in the Trust's initial public offering will be listed on NYSE Arca, Inc.

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 since September 25, 2013 through December 31, 2016:



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

Critical Accounting Policies

Investment Transactions and Revenue Recognition

The Trust considers its investment transactions to be the receipt of bitcoin for share creations and the payment of bitcoin for share redemptions 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 management fees in bitcoin and share redemptions.

Valuation of Bitcoin

Bitcoins are held by the Custodian on behalf of the Trust and are carried, for financial statement purposes, at fair value. Unlike the procedure used for determining the Bitcoin Index Price and the Trust’s Bitcoin Holdings, which are calculated using a weighted average calculated across multiple bitcoin exchanges, 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 determined the fair value per bitcoin to be \$966.02 on December 31, 2016, and \$431.88 on December 31, 2015. 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 market 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 market 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 market 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 with an exception for the period of January 5, 2015 through January 31, 2015 when the trust relied on pricing from Bitfinex. On January 5, 2015 Bitstamp suffered a disruption of operations, and in accordance with the

Trust’s procedures for determining its principal market, Bitfinex was relied upon until January 31, 2015, when the trust determined that Bitstamp was again able to be relied upon as the 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 Global Digital Asset Exchange (“GDAX”). The Trust has applied this change in principal market effective December 31, 2016 and has valued bitcoin held by the trust at December 31, 2016 using the GDAX exchange. The cost basis of the investment in bitcoin recorded by the Trust for financial reporting purposes (but not for U.S. federal income tax purposes) is the fair value of bitcoins 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 the corresponding Shares to investors.

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.

Review of Financial Results

Financial Highlights for the Years Ended December 31, 2016 and 2015

(All amounts in the following table and the subsequent paragraphs, except per share, are in 000s of US\$)

	<u>For the year ended December 31, 2016</u>	<u>For the year ended December 31, 2015</u>
Net realized and change in unrealized gains	86,983	15,761
Net increase in net assets resulting from operations .	85,165	15,019
Net assets.....	166,247	60,939

Net realized gain and change in unrealized appreciation for the year ended December 31, 2016 was \$86,983, which includes a realized gain of \$429 on the distribution of bitcoins to pay expenses. 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.

Net realized gain and change in unrealized appreciation for the year ended December 31, 2015 was \$15,761, which includes a realized loss of \$414 on the distribution of bitcoins to pay expenses and bitcoins distributed on the redemption of Shares. Net assets increased to \$60,939 at December 31, 2015, a 42.39% 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 to pay expenses, the Sponsor endeavors to sell the exact number of bitcoins needed to pay expenses in order to minimize the Trust's holdings of assets other than bitcoin. As a consequence, we expect 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 Combined 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 Combined Fee. The Trust's only source of liquidity is its sales of bitcoins. 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

(All bitcoin balances are rounded to the nearest whole bitcoin)	For the year ended December 31, 2016	For the year ended December 31, 2015
Bitcoins:		
Opening balance.....	141,101	134,777
Creations.....	34,155	9,040
Redemptions.....	-	-
Expense payouts.....	(3,161)	(2,716)
Closing balance.....	172,095	141,101
Accrued but unpaid expenses.....	-	-
Net closing balance.....	<u>172,095</u>	<u>141,101</u>
Number of Shares:		
Opening balance.....	1,476,500	1,382,400
Creations.....	360,800	94,100
Redemptions.....	-	-
Closing balance.....	<u>1,837,300</u>	<u>1,476,500</u>
	As of December 31, 2016	As of December 31, 2015
Price of bitcoin on principal market (1).....	<u>966.02</u>	<u>431.88</u>
NAV per Share(2).....	<u>90.48</u>	<u>41.27</u>
Bitcoin Index Price.....	<u>954.21</u>	<u>425.32</u>
Bitcoin Holdings per Share(3).....	<u>89.38</u>	<u>40.65</u>

- (1) The Trust performed an assessment of the principal market at December 31, 2016, and identified a change in the principal market from Bitstamp to Global Digital Asset Exchange (“GDAX”).
- (2) As of December 31, 2016, 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. As of December 31, 2015, the NAV per Share was calculated using

the fair value of bitcoins based on the price provided by Bitstamp, the Bitcoin Exchange that the Trust then considered its principal market, as of 4:00 p.m., New York time on the valuation date.

- (3) 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 Bitcoins and Definition 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, 2016 and 2015 were Bitfinex, Bitstamp, GDAX (formerly known as Coinbase Exchange), itBit and OKCoin.

In the year ended December 31, 2016, an additional 360,800 Shares (3,608 Baskets), were created in exchange for 34,155 bitcoins, no redemptions occurred, and 3,161 bitcoins were deducted from the Trust’s holdings and used by the Sponsor to settle expenses. In the year ended December 31, 2015, 94,100 Shares (941 Baskets) were created in exchange for 9,040 bitcoins, no redemptions occurred, and 2,716 bitcoins were deducted from the Trust’s 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, the Trust delivers bitcoins upon receipt of Shares.

As of December 31, 2016, the Trust owned 172,095 bitcoins, with a market value of approximately \$164,214,460, based on the Bitcoin Index Price of \$954.21 on December 31, 2016.

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.

During the period between inception and December 31, 2016, the bitcoin price, based on the price reported by the Trust’s principal market as of 4:00 pm ET, traded between \$110.83 per bitcoin (10/2/2013) and \$1,138.29 (11/30/2013) and the average was \$452.97. The quarterly and annual average, high, low and end-of-period bitcoin prices for the four years ended December 31, 2016, 2015, 2014 and 2013, and for the period from the inception of the Trust until December 31, 2016, based on the price reported by the Trust’s principal market as of 4:00 pm ET on the applicable date were:

Period	Average	High	Date	Low	Date	End of period	Last business day
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	\$368.18	2/3/2016	\$966.02	\$959.92
September 13, 2013 (the inception of the Trust) to December 31, 2016	\$452.97	\$1,138.29	11/30/2013	\$110.83	10/2/2013	\$966.02	\$959.92

PART E. ISSUANCE HISTORY

Item 17. List of securities offerings and shares issued for services in the past two years.

Information regarding securities offerings and shares issued for services in the past two years can be located on the Sponsor's website at www.grayscale.co.

PART F. EXHIBITS

Item 18. Material Contracts.

Custodial Agreement

The Agreement between Sponsor, Trust and Custodian, governed by the laws of New York, establishes the Bitcoin Account and the rights and responsibilities for Sponsor, Trust, Custodian and Authorized Participants with respect to the Custodial Coins in the Bitcoin Account as well as the facilitation of transactions associated with the Custodial Coins. The Custodian, as instructed by the Authorized Participant, is authorized to accept bitcoin deposits for and make bitcoin distributions from the Bitcoin Account. The Custodian is not a trustee for Trust or the Shareholders. The Custodian is obligated to return the bitcoins to Trust on demand and in accordance with the terms and conditions of the Agreement.

Under the terms of the Agreement the Custodian will use its best efforts to keep in safe custody on behalf of Sponsor and Trust all bitcoins held in the Bitcoin Account ("Custodial Coins"). Pursuant to the Agreement the Bitcoin Account will be controlled at all times by or on behalf of the Custodian or on behalf of Custodian by an affiliate of Custodian. The Agreement provides that all Custodial Coins credited to the Bitcoin Account must be appropriately identified as being held for Sponsor and / or Trust, be held in a Bitcoin Account on a non-fungible basis, cannot be commingled with other bitcoins held by Custodian and cannot be deposited or held with any third-party depository, custodian, clearance system or wallet without prior written consent of Sponsor and / or Trust.

Under the Agreement, for any Bitcoin Account maintained by Custodian on behalf of Sponsor or Trust, Custodian will use best efforts to keep the private key or keys secure, and will not disclose such keys to Sponsor, Trust, or any other individual or entity except to the extent that any keys or keys are disclosed consistent with a standard of best efforts and as part of a multiple signature solution.

Trust will be able to withdraw bitcoins from the Bitcoin Account to another bitcoin account that is not maintained or controlled by Custodian; provided, however, that Trust will be able to withdraw bitcoins stored in the vault within the Vault Withdrawal Timeframes as defined in the Agreement. Except for certain prohibited activities of Trust or Sponsor as set forth in the Agreement (e.g., attempts to gain unauthorized access to Custodian's services or bypass security features; illegal, abusive or disruptive activity or unauthorized copying, selling or reselling Custodian's services) Custodian will not suspend Trust or Sponsor access to the Bitcoin Account, and any suspension of Trust or Sponsor access to the Bitcoin Account will constitute a breach of

the Agreement. However, Custodian may restrict access or use of the Bitcoin Account by any Authorized Person, as that term is defined in the Agreement, if, in Custodian's good faith belief, such restriction is reasonably necessary to comply with Custodian's anti-money laundering programs and policies or any requirements under applicable law, and would, except with respect to Trust or Sponsor's actions that caused or contributed to such restriction, constitute a Loss as defined in the Agreement.

As provided in the Agreement, Custodian will provide to Sponsor such information as is necessary for Authorized Persons to make deposits to the Account. To support Trust's ordinary course deposits and withdrawals, which involve deposits from and withdrawals to bitcoin accounts owned by Authorized Participants, Custodian's services will allow Sponsor to receive a bitcoin address for deposits by Authorized Participants, and to initiate withdrawals to bitcoin addresses controlled by Authorized Participants. Custodian will use best efforts to design and put in place via its services a secure procedure to allow Sponsor to receive such addresses, and to facilitate such withdrawals.

The Agreement provides that Trust, Sponsor and Authorized Persons will be able to access the Bitcoin Account via 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 and initiate withdrawal of bitcoins from the vault, and otherwise use Custodian's services.

Under the Agreement, Custodian will credit to the Bitcoin Account all bitcoins properly sent to Custodian via its services by Authorized Persons for the Bitcoin Account. Custodian will notify Trust or Sponsor and the relevant Authorized Person(s) of such receipt of Custodial Coins and of such credit 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 p.m. Eastern Time may be processed on the next business day.

The Agreement states Custodian will not allow withdrawals of any bitcoins from the Bitcoin Account except those withdrawals made by Authorized Persons. Custodian will debit from the Bitcoin Account all bitcoins withdrawn by Authorized Persons from the Bitcoin Account. Custodian will, via its services, notify Sponsor or Trust and the relevant Authorized Person(s) of such withdrawal and of such debit from the Bitcoin Account. Such debit will be made on the same business day as the transaction is finalized by the Bitcoin Network, except that transactions finalized after 5 p.m. Eastern Time may be processed on the next business day; and, provided, however, that Trust will be able to withdraw bitcoins stored in the vault within the Vault Withdrawal Timeframes as defined in the Agreement.

Trust, Sponsor and Custodian will comply with any application Security Procedures with respect to the delivery or authentication of Instructions, as those terms are defined in the Agreement, and will ensure through exercise of best efforts that any codes, passwords or similar devices are reasonably safeguarded. Under the Agreement Custodian will exercise best efforts in all Bitcoin Network transactions executed in connection with its services as contemplated by the Agreement.

Pursuant to the Agreement, Custodian cannot and does not guarantee the value of bitcoins. Custodian does not control the Bitcoin Network and therefore is not responsible for the services provided by the Bitcoin Network – in particular, verifying and confirming transactions that are

submitted to the Bitcoin Network. Furthermore, Custodian cannot cancel or reverse a transaction that has been submitted to the Bitcoin Network. Once a transaction request has been submitted to the Bitcoin Network via Custodian's services, Trust or Sponsor will subsequently not be able to cancel or otherwise modify the transaction request. Trust and Sponsor acknowledge and agree that, to the extent Custodian did not cause or contribute to a loss Trust or Sponsor suffers in connection with any bitcoin transaction initiated via Custodian's services, Custodian will have no liability for such loss. Custodian has no control over the Bitcoin Network and therefore does not ensure that any transaction request Account Holder submits to the Bitcoin Network via Custodian's services will be completed. Trust and Sponsor acknowledge and agree that the transaction request submitted via Custodian's services for completion on the Bitcoin Network may not be completed, or may be substantially delayed, by the Bitcoin Network and Custodian is not responsible for any delay or any failure of completion caused by the Bitcoin Network. When Trust or Sponsor completes a transaction request via Custodian's services, Trust or Sponsor authorizes Custodian to submit the transaction request to the Bitcoin Network in accordance with the instructions provided via Custodian's services.

Custodian will keep appropriate records regarding its services and all records maintained pursuant to the Agreement will be retained by Custodian for such period as required by applicable law, but in no event for less than seven years. The Agreement also provides Custodian will permit to the extent it may legally do so, Trust or Sponsor auditors or third-party accountants, upon reasonable notice, to inspect, take extracts from and audit the records maintained pursuant to the Agreement. Custodian will, as soon as reasonably practicable after receipt of any audit report prepared by its internal or independent auditors provide Trust or Sponsor a copy of such report.

Indemnity

Custodian and the Sponsor and Trust agree to indemnify and hold harmless each other party 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 of any Custodian, Sponsor and / or Trust of its duties and obligations under the Custodial Agreements as well as either party's reasonable reliance on any representations or warranties made by Custodian and / or the Sponsor or Trust under the Custodial Agreement that were or become in fact untrue. Custodian further agrees to indemnify and hold harmless the Sponsor and Trust from the holding of the Custodial Coins by Custodian, including any loss or damage caused by any act or omission of any employee of Custodian or any agent, representative or independent contractor engaged by Custodian, whether or not such act or omission occurred within the scope of his employment or engagement.

Limitations of Liability

Sponsor, Trust or Custodian's total liability under the 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 Custodian notifies Sponsor or Trust in writing or Sponsor or Trust otherwise has actual knowledge of the events causing the liability. The Custodian, Sponsor and Trust will not be liable to each other for any indirect, incidental, special or consequential damages whether or not these losses were foreseeable.

Custodian will be entitled to rely on, and may act upon the advice of, legal counsel and accountants (who may also be advisors to Sponsor and / or Trust), in each case nationally recognized and with expertise in the relevant area, in relation to matters of law, regulation or market practice, and will not be liable to Sponsor or Trust for any action taken or omitted pursuant to such advice.

Excuse of Performance

Pursuant to the Agreement, Custodian will not be responsible or liable to Sponsor or Trust for failure or inability to perform under the Agreement or for any loss of Custodial Coins to the extent Custodian did not cause or contribute to such loss and such failure, inability or loss is attributable to circumstances beyond Custodian's reasonable control when exercising best efforts, including acts of God, terrorist activities, war, rebellion, or military or usurped power or confiscation.

Custodian will not be liable for activities it believes in good faith to be reasonably necessary to comply with requirements under applicable law, including requirements under any applicable anti-money laundering laws and regulations, except with respect to activities that are not caused or contributed to by the Sponsor or Trust's actions. The Agreement provides the Custodian will not be responsible or liable to Trust or Sponsor for failure or inability to perform if such failure is attributable to the negligence of or a material breach of the Agreement by Trust, Sponsor or any Authorized Person. Custodian is further excluded from liability for the Sponsor's, Trust's or any Authorized Person's failure to protect the confidentiality or security of any Bitcoin Account login credentials or private keys associated with Custodial Coins and an unauthorized party's access to any computer or device used by Authorized Persons to access the Account.

Termination

The Agreement provides for annual, automatically renewable terms. Generally, the Custodian or the Sponsor and / or Trust may terminate the Agreement for any reason whatsoever upon 60 days written prior notice. In certain other situations, including a material breach or failure to perform obligations of the Agreement the Custodian, Sponsor and / or Trust may terminate the custodial relationship immediately after providing written notice. Upon termination the Custodian must promptly deliver or cause to be delivered when ordered by Sponsor or Trust all Custodial Coins held or controlled by Custodian to Trust as of the effective date of termination, together with such copies of the records maintained pursuant to the Agreement and as the Sponsor and / or Trust requests.

Trust Agreement

The following summary describes in brief certain aspects of the operation of the Trust and the respective responsibilities of the Trustee and the Sponsor concerning the Trust and the material terms of the Trust Agreement. Please see the above section “Description of the Shares” regarding the Shares. Prospective investors should carefully review the Trust Agreement and consult with their own advisers concerning the implications to such prospective subscribers of investing in a Delaware statutory trust. Capitalized terms used in this section and not otherwise defined shall have such meanings assigned to them under the Trust Agreement.

Principal Office

The Trust is organized as a statutory trust under the Delaware Statutory Trust Act. The Trust is managed by the Sponsor, whose office is located at 636 Avenue of the Americas, New York, New York 10011, and telephone number: (212) 668-3911.

The Trustee

Delaware Trust Company (formerly known as CSC Trust Company of Delaware), a Delaware corporation, is the sole Trustee of the Trust. The Trustee’s principal offices are located at 2711 Centerville Road, Suite 400, Wilmington, DE 19808. The Trustee is unaffiliated with the Sponsor. The Trustee’s duties and liabilities with respect to the offering of the Shares and the management of the Trust are limited to its express obligations under the Trust Agreement.

The rights and duties of the Trustee, the Sponsor and the Shareholders are governed by the provisions of the Delaware Statutory Trust Act and by the Trust Agreement.

The Trustee serves as the sole trustee of the Trust in the State of Delaware. The Trustee will accept service of legal process on the Trust in the State of Delaware and will make certain filings under the Delaware Statutory Trust Act. The Trustee does not owe any other express duties to the Trust, the Sponsor or the Shareholders. The Trustee is permitted to resign upon at least one hundred eighty (180) days’ notice to the Sponsor. The Trust Agreement provides that the Trustee is indemnified by the Trust against certain expenses subject to such losses not being caused by the Trustee’s willful misconduct, bad faith or gross negligence. The Sponsor has the discretion to replace the Trustee.

The Trustee’s liability in connection with the issuance and sale of the Shares and with respect to its role as Trustee is limited solely to the express obligations of the Trustee set forth in the Trust Agreement. The Trustee is both indemnified and exculpated as provided in the Trust Agreement.

Under the Trust Agreement, the Sponsor has the exclusive management, authority and control of all aspects of the business 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 Shareholders have no voice in the day-to-day management of the business and operations of the Trust, other than certain limited voting rights as set forth in the Trust Agreement. In the course of its management of the business and affairs of the Trust, the Sponsor may, in its sole and absolute discretion, delegate its duties under the Trust Agreement to an affiliate or

affiliates of the Sponsor and retain such persons, including affiliates of the Sponsor, as it deems necessary for the efficient operation of the Trust.

The existence of a trustee should not be taken as an indication of any additional level of management or supervision over the Trust. The Trustee's only duties are to satisfy the requirements of the Delaware Statutory Trust Act that a Delaware statutory trust have at least one trustee with its principal place of business in Delaware. The Trust Agreement provides that the management authority with respect to the Trust is vested directly in the Sponsor.

The Trustee has not prepared or verified, and shall not be responsible or liable for, any information, disclosure or other statement in this Annual Report or in any other document issued or delivered in connection with the sale or transfer of the Shares. The Trust Agreement will provide that the Trustee shall not be responsible or liable for the genuineness, enforceability, collectability, value, sufficiency, location or existence of any of the bitcoins or other assets of the Trust.

The Sponsor is obligated under the Trust Agreement to assume and pay the Trustee's fee.

Fiduciary and Regulatory Duties of the Sponsor

An investor should be aware that the Sponsor has a fiduciary responsibility to the Shareholders to exercise good faith and fairness in all dealings affecting the Trust.

As Sponsor of the Trust, the Sponsor effectively is subject to the duties and restrictions imposed on "fiduciaries" under both statutory and common law. The general fiduciary duties which would otherwise be imposed on the Sponsor (which would make the operation of the Trust as described herein impracticable due to the strict prohibition imposed by such duties on, for example, conflicts of interest on behalf of a fiduciary in its dealings with its beneficiaries), are defined and limited in scope by the disclosure of the business terms of the Trust, as set forth herein and in the Trust Agreement (to which terms all Shareholders, by subscribing to the Shares, are deemed to consent).

The Trust Agreement provides that the Sponsor and its affiliates (each a "Covered Person"), will have no liability to the Trust or to any Shareholder for any loss suffered by the Trust arising out of any action or inaction of the Covered Person if the Covered Person, in good faith, determined that such course of conduct was in the best interests of the Trust and such course of conduct did not constitute fraud, gross negligence, bad faith or willful misconduct by the Covered Person. The Trust has agreed to indemnify the Covered Person against any losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by it in connection with the Covered Person's activities for the Trust, provided that the Covered Person was acting on behalf of or performing services for the Trust and has determined, in good faith, that such course of conduct was in the best interests of the Trust 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 the Sponsor and any such indemnification will only be recoverable from the Trust estate.

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 of

the Trust 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.

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 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.

There are substantial and inherent conflicts of interest in the structure of the Trust which are, on their face, inconsistent with the Sponsor's fiduciary duties. One of the purposes underlying the disclosures set forth in this Annual Report is to disclose to all prospective Shareholders these conflicts of interest so that the Sponsor may have the opportunity to obtain investors' informed consent to such conflicts. Prospective investors who are not willing to consent to the various conflicts of interest described in "Conflicts of Interest" and elsewhere should not invest in the Trust. The Sponsor currently intends to raise such disclosures and consent as a defense in any proceeding brought seeking relief based on the existence of such conflicts of interest.

The foregoing summary describing in general terms the remedies available to Shareholders under applicable law is based on statutes, rules and decisions as of the date of this Annual Report. This is a rapidly developing and changing area of the law. Therefore, Shareholders who believe that they may have a legal cause of action against any of the foregoing parties should consult their own counsel as to their evaluation of the status of the applicable law at such time.

Recognition of the Trust in Certain States

A number of states do not have "statutory trust" statutes such as that under which the Trust has been formed in the State of Delaware. It is possible, although unlikely, that a court in such a state could hold that, due to the absence of any statutory provision to the contrary in such jurisdiction, the Shareholders, although entitled under Delaware law to similar limitations on personal liability as stockholders in a private corporation for profit organized under the laws of the State of Delaware, are not so entitled in such state. To protect Shareholders against any loss of limited liability, the Trust Agreement provides that no written obligation may be undertaken by the Trust unless such obligation is explicitly limited so as not to be enforceable against any Shareholder personally. Furthermore, the Trust indemnifies all its Shareholders against any liability that such Shareholders might incur in addition to that of a beneficial owner.

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, Shareholders agree in the Trust Agreement that they will indemnify the Trust for any harm suffered by it as a result of:

- Shareholders' actions unrelated to the business of the Trust, or
- taxes imposed on the Shares by any state, local or foreign taxing authority in which such Shareholders reside.

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 so that the tax status of the Trust in such states might, theoretically, be challenged — although the Sponsor is unaware of any instance in which this has actually occurred) are commonplace in statutory trusts and limited partnerships.

Reports to Shareholders

The Sponsor will furnish Shareholders with an annual report of the Trust within 180 calendar days after the Trust's fiscal year (or as soon as reasonably practicable thereafter) including, but not limited to, annual audited financial statements (including a statement of income and statement of financial condition), prepared in accordance with GAAP and accompanied by a report of the Independent Auditor that audited such statements.

Payment of Expenses

See "Bitcoin Investment Trust — Trust Expenses" for information regarding the payment of the Trust's monthly expenses.

Actions taken to Protect the Trust

The Sponsor may, in its own discretion, undertake any action that it considers necessary or desirable 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 Extraordinary Fees. The Sponsor will be entitled to be reimbursed for the Extraordinary Fees.

Termination Events

The Trust will dissolve if any of the following events occur:

- a United States 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;
- 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, and the Sponsor has made the determination that dissolution of the Trust is advisable;

- the Trust is required to obtain a license or make a registration under any state law regulating money transmitters, money services business, providers of prepaid or stored value, virtual currency business or similar entities, and the Sponsor has made the determination that dissolution of the Trust is advisable;
- 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 USD;
- 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 upon the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor, or an event of withdrawal unless (i) at the time there is at least one remaining Sponsor and that remaining Sponsor carries on the business of the Trust or (ii) within 90 days of such event of withdrawal all the remaining Shareholders agree in writing to continue the business of the Trust and to select, effective as of the date of such event, one or more successor Sponsors;
- Shareholders holding at least 75% of the outstanding Shares notify the Sponsor that they elect to dissolve the Trust, notice of which is sent to the Sponsor not less than ninety (90) business 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 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 operating expenses of the Trust make it unreasonable or imprudent to continue the business of the Trust; or
- 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 Internal Revenue 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, the Trust will dissolve.

Upon dissolution of the Trust and surrender of Shares by the Shareholders, Shareholders will receive a distribution in USD or in bitcoins, at the sole discretion of the Sponsor, after the Sponsor has sold the Trust's bitcoins and has paid or made provision for the Trust's claims and obligations.

Item 19. Articles of Incorporation and Bylaws.

Attached as an exhibit hereto is a copy of the Third Amended and Restated Declaration of Trust and Trust Agreement of Bitcoin Investment Trust dated as of January 1, 2016.

Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Information regarding purchases of equity securities by the Trust and affiliated purchasers can be located on the Sponsor's website at www.grayscale.co.

Item 21. Issuer's Certifications.

Certification

I, Barry E. Silbert, 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 February 27, 2017

/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: February 27, 2017

/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, 2018 and December 31, 2017

FINANCIAL STATEMENTS

Bitcoin Investment Trust

For the Years Ended December 31, 2016 and 2015

With Report of Independent Registered Public Accounting Firm

Bitcoin Investment Trust™

Bitcoin Investment Trust
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FRIEDMAN LLP[®]

ACCOUNTANTS AND ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Sponsor of
Bitcoin Investment Trust

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, 2016 and 2015, and the related statements of operations and change in net assets for each of the years in the two-year period ended December 31, 2016. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. The Trust is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2016 and 2015, and the results of its operations for each of the years in the two-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

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 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. 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.



East Hanover, New Jersey
February 27, 2017

Bitcoin Investment Trust
Statements of Assets and Liabilities

	December 31, 2016	December 31, 2015
(Amounts in U.S. Dollars, except share amounts)		
Assets:		
Investments in bitcoin, at fair value (cost \$78,496,406 and \$59,742,218 as of December 31, 2016, and December 31, 2015 respectively)	\$166,246,898	\$60,938,790
Total assets	<u>\$166,246,898</u>	<u>\$60,938,790</u>
Liabilities:		
Fees payable	\$ -	\$ -
Total liabilities	-	-
Net assets	<u>\$166,246,898</u>	<u>\$60,938,790</u>
Net Assets Consists of:		
Paid-in-Capital	81,506,820	61,363,288
Accumulated net investment loss	(3,751,256)	(1,932,600)
Accumulated net realized gain on investments	740,842	311,529
Accumulated net change in unrealized appreciation on investments	87,750,492	1,196,573
	<u>\$166,246,898</u>	<u>\$60,938,790</u>
Shares issued and outstanding, no par value (unlimited shares authorized)	1,837,300	1,476,500
Net asset value per share	<u>\$90.48</u>	<u>\$41.27</u>

See accompanying notes to financial statements.

**Bitcoin Investment Trust
Schedules of Investment**

December 31, 2016

	Number of Bitcoin	Cost	Fair Value	% of Net Assets
	<hr/>	<hr/>	<hr/>	<hr/>
Investment in bitcoin	172,094.67544221	\$78,496,406	\$166,246,898	100%
Total investments		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

December 31, 2015

	Number of Bitcoin	Cost	Fair Value	% of Net Assets
	<hr/>	<hr/>	<hr/>	<hr/>
Investment in bitcoin	141,101.20906271	\$59,742,218	\$60,938,790	100%
Total investments		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

Bitcoin Investment Trust
Statements of Operations

	Year ended December 31, 2016	Year ended December 31, 2015
	<u> </u>	<u> </u>
(Amounts in U.S. Dollars)		
Investment income:		
Investment income	<u>\$ -</u>	<u>\$</u>
Expenses:		
Management fees	<u>1,818,656</u>	<u>741,575</u>
Net investment loss	<u>(1,818,656)</u>	<u>(741,575)</u>
Net realized and unrealized gain/ (loss) on investment in bitcoin		
Net realized gain/(loss) on investment in bitcoin	429,313	(414,437)
Net change in unrealized appreciation on investment in bitcoin	<u>86,553,919</u>	<u>16,175,469</u>
Net realized and unrealized gain on investment in bitcoin:	<u>86,983,232</u>	<u>15,761,032</u>
Net increase in net assets resulting from operations	<u><u>\$85,164,576</u></u>	<u><u>\$15,019,457</u></u>

See accompanying notes to financial statements.

Bitcoin Investment Trust
Statements of Changes in Net Assets

	Year ended December 31, 2016	Year ended December 31, 2015
(Amounts in U.S. Dollars, except change in shares outstanding)		
Increase/Decrease in net assets from operations:		
Net investment loss	\$(1,818,656)	\$ (741,575)
Net realized gain/(loss) on investment in bitcoin	429,313	(414,437)
Net change in unrealized appreciation on investment in bitcoin	86,553,919	16,175,469
Net increase in net assets resulting from operations	85,164,576	15,019,457
Increase in net assets from capital share transactions:		
Shares issued	20,143,532	3,123,457
Shares redeemed	-	-
Net increase in net assets resulting from capital share transactions	20,143,532	3,123,457
Net increase in net assets from operations and capital share transactions	105,308,108	18,142,914
Net assets:		
Beginning of year	60,938,790	42,795,876
End of year	\$ 166,246,898	\$ 60,938,790
Change in shares outstanding		
Shares outstanding at beginning of year	1,476,500	1,382,400
Shares issued	360,800	94,100
Shares redeemed	-	-
Net increase in shares	360,800	94,100
Shares outstanding at end of year	1,837,300	1,476,500

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 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 distributes bitcoin in connection with redemptions of Baskets. 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 performance of the market price of bitcoin, less the Trust’s expenses.

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 quarterly and annual 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 management fee as discussed in Note 6.

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, serves as the Trust’s sole Authorized Participant and is 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.

The custodian of the Trust (the “Custodian”) is responsible for safeguarding the bitcoin held by the Trust. The Custodian through August 8, 2015 was DCG Holdco, Inc. (“DCG Holdco”). On August 9, 2015, Xapo, Inc. (“Xapo”) became the Custodian.

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

On March 25, 2015 the Trust received notice that its shares have been qualified for 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.

Bitcoin Investment Trust

Notes to Financial Statements

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”). The Trust qualifies as an investment company for accounting purposes pursuant to the accounting and reporting guidance under Financial Accounting Standards Board Accounting Standards Codification Topic 946. The Trust is not registered under the Investment Company Act of 1940. 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.

The Trust conducts its transactions in bitcoin, including receiving bitcoin for the creation of shares, payment of bitcoin for the redemption of shares, as well as paying its management fees. Since its inception, the Trust has not held cash or cash equivalents.

The Trust classifies its investment in bitcoin as a commodity, which is consistent with the Commodity Futures Trading Commission’s indication that bitcoin is considered a commodity under the Commodity Exchange Act.

Investment Transactions and Revenue Recognition

The Trust considers its investment transactions to be the receipt of bitcoin for share creations and the payment of bitcoin for share redemptions 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 management fees 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.

Bitcoin Investment Trust
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

U.S. 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.

December 31, 2016

	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Investment in bitcoin	\$ -	\$166,246,898	\$ -	\$166,246,898

December 31, 2015

	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Investment in bitcoin	\$ -	\$60,938,790	\$ -	\$60,938,790

Bitcoin Investment Trust

Notes to Financial Statements

3. Fair Value of Bitcoin

Bitcoin is held by the Custodian on behalf of the Trust and is carried at fair value. As of December 31, 2016, and December 31, 2015 the Trust held 172,094.67544221 and 141,101.20906271 bitcoin, respectively. The Trust determined the fair value per bitcoin to be \$966.02 on December 31, 2016, and \$431.88 on December 31, 2015 using the price provided at 4:00 PM in New York by the bitcoin market considered to be the Trust's Principal market for bitcoin. 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 market 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 market 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.

Bitcoin Investment Trust
Notes to Financial Statements

3. Fair Value of Bitcoin (continued)

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 market 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'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.

Historically, the Trust considered Bitstamp to be its principal market with an exception for the period of January 5, 2015 through January 31, 2015 when the Trust relied on pricing from Bitfinex. On January 5, 2015 Bitstamp suffered a disruption of operations, and in accordance with the Trust's procedures for determining its principal market, Bitfinex was relied upon until January 31, 2015 when the Trust determined that Bitstamp was again able to be relied upon as the 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 Global Digital Asset Exchange ("GDAX") (formerly known as Coinbase Exchange). The Trust has applied this change in principal market effective December 31, 2016 and has valued bitcoin held by the Trust at December 31, 2016 using the GDAX exchange.

The following represents the changes in quantity of bitcoin and the respective fair value:

	Year Ended December 31, 2016		Year ended December 31, 2015	
	Bitcoin	Fair Value	Bitcoin	Fair Value
Beginning balance	141,101.20906271	\$60,938,790	134,777.42574934	\$42,795,876
Bitcoin contributed	34,155.29569721	20,143,532	9,039.84724021	3,123,457
Bitcoin distributed for expenses	(3,161.82931771)	(1,818,656)	(2,716.06392684)	(741,575)
Net change in unrealized appreciation on investment in bitcoin	-	86,553,919	-	16,175,469
Net realized gain/(loss) on investment in bitcoin	-	429,313	-	(414,437)
Ending balance	<u>172,094.67544221</u>	<u>\$166,246,898</u>	<u>141,101.20906271</u>	<u>\$60,938,790</u>

Bitcoin Investment Trust

Notes to Financial Statements

4. Creations and Redemptions of Shares

At December 31, 2016 and December 31, 2015, 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 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 bitcoins required for each creation basket or redemption basket is determined by dividing the number of bitcoins 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 0.094 and 0.096 of a bitcoin at December 31, 2016 and 2015, respectively.

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 PM New York time on the date of transfer to the Trust by the Authorized Participant. 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 bitcoins.

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. The Trust is seeking an exemption from the Securities and Exchange Commission (“SEC”) under Regulation M in order to reinstate its redemption program, but the Distributor/Authorized Participant and the Trust cannot at this time predict the timeline of receiving an exemption or whether the Trust will be permitted to reinstate the Share redemption program for the benefit of Shareholders.

On July 11, 2016, the Trust entered into a settlement agreement with the SEC whereby it agreed to a cease-and-desist order against future violations of Rules 101 and 102 of Regulation M, resulting in a negligible fee disgorgement by the Authorized Participant with no financial impact to the Trust. However, such settlement did not enable the Trust to reinstate the Share redemption program.

On January 19, 2017, in connection with and prior to the initial filing of the Form S-1 with the SEC, the Trust stopped issuing shares under the creation program, which had been taking place through private placement transactions.

Bitcoin Investment Trust

Notes to Financial Statements

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.

As of January 1, 2016, an amendment to the Trust Agreement was made regarding certain tax provisions. 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 shall be retroactive to the original date of execution of the agreement. The Trust is seeking a private letter ruling from the IRS regarding certainty for its tax position and is unable to predict a timeline of when a ruling will occur or whether a favorable outcome will be received. 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 are required as of December 31, 2016 or December 31, 2015.

6. Related Parties

The Trust considers the following entities and their directors to be related parties of the Trust: DCG, DCG Holdco, Genesis and Grayscale. As of December 31, 2016 and December 31, 2015, 217,512 and 191,741 shares of the Trust were held by related parties of the Trust, respectively.

In accordance with the Trust agreement, the Trust pays a Management Fee to the Sponsor, calculated as 2% of the aggregate value of the Trust's assets, less its liabilities (which include accrued but unpaid expenses), as calculated by the Sponsor or its delegates (the "Combined Fee"). The Combined Fee accrues daily in bitcoin and will be payable in bitcoins at the Sponsor's sole discretion, which is expected to occur monthly in arrears. As consideration for its receipt of the Combined Fee, the Sponsor is obligated under the Trust agreement to assume and pay the following fees and expenses of the Trust: marketing fees, custodian fees, administrator fees and sponsor fees (the "Constituent Fees"), the shareholder communications hub fee, transfer agent fee, trustee fee, expenses related to public trading on OTCQX in an amount up to \$600,000 annually (including legal and audit fees and expenses), any other legal and accounting fees, regulatory fees, printing and mailing costs, and applicable license fees (along with the Constituent Fees, the "Assumed Fees").

Bitcoin Investment Trust

Notes to Financial Statements

6. Related Parties (continued)

The Trust may pay expenses in addition to the Combined Fee and the Assumed Fees, such as, but not limited to, taxes and governmental charges, expenses and costs of any services performed by the Sponsor (or any other service provider) on behalf of the Trust to protect the Trust or the interests of Shareholders, indemnification expenses, fees and expenses related to public trading on OTCQX in excess of \$600,000 annually, and legal fees and expenses (collectively, “Extraordinary Fees”).

As of December 31, 2016, no Extraordinary Fees have been incurred by the Trust since its inception. Management fees on the Statement of Operations include the combined fee and would include the Extraordinary Fees to the extent they were incurred.

For the years ended December 31, 2016 and December 31, 2015, the Trust incurred management fees of \$1,818,656 and \$741,575, respectively, which were paid in bitcoin. As of December 31, 2016 and December 31, 2015 there were no accrued or unpaid management fees, respectively.

7. Risks and Uncertainties

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.

The net asset value of the Trust relates directly to the value of the 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 bitcoins 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 bitcoins 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. As of August 9, 2015, the Trust and Sponsor have transitioned the role of the Custodian to Xapo

Bitcoin Investment Trust
Notes to Financial Statements

7. Risks and Uncertainties (continued)

to fulfill all custodial obligations of the Trust, which were formerly the responsibility of DCG Holdco. DCG Holdco no longer serves as a custodian of the Trust in any capacity. 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 February 24, 2017 the fair value of bitcoin determined in accordance with the Trust's accounting policy was \$1,170.01 per bitcoin.

8. Financial Highlights Per Share Performance

	Year ended December 31, 2016	Year ended December 31, 2015
Per Share Data:		
Net asset value, beginning of year	\$41.27	\$30.96
Net increase (decrease) in net assets from investment operations		
Net investment loss	(1.08)	(0.53)
Net realized and unrealized gains	50.29	10.84
Net increase in net assets resulting from operations	49.21	10.31
Net asset value, end of year	\$90.48	\$41.27
Total return	119.24%	33.30%
<i>Ratios to average net assets:</i>		
Net investment loss	-1.90%	-1.96%
Expenses	-1.90%	-1.96%

Bitcoin Investment Trust
Notes to Financial Statements

8. Financial Highlights Per Share Performance (continued)

Ratios of net investment loss and expenses to average net assets have been annualized.

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 period and redemption on the last day of the period.

9. 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 Holdco and its officers, directors, employees, subsidiaries and affiliates, and Xapo beginning August 9, 2015 (see Footnote 7 regarding the change in Custodian), 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.

10. Subsequent Events

On January 19, 2017, in connection with and prior to the initial filing of the Form S-1 with the SEC, the Trust stopped issuing Shares under the creation program, which had been taking place through private placement transactions.