

# ETHEREUM CLASSIC INVESTMENT TRUST

A Delaware Trust

*Sponsored by*

Grayscale Investments, LLC  
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Primary Standard Industrial Code: 6221

## QUARTERLY REPORT

For the quarterly period ended June 30, 2018

Shares Representing Common Units of Fractional Undivided Beneficial Interest

No Par Value Per Share

Unlimited Shares Authorized

4,486,100 Shares Outstanding as of June 30, 2018

**OTCQX: ETCG**

**Grayscale Investments, LLC (the “Sponsor”), on behalf of Ethereum Classic Investment Trust (the “Trust”), is responsible for the content of this quarterly report for the quarter ended June 30, 2018 (the “Quarterly Report”), which has been prepared to fulfill the disclosure requirements of the OTCQX U.S. marketplace. The information contained in this Quarterly 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,” “Ethereum Classic 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.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934).

Yes  No

Indicate by check mark whether the company’s shell status has changed since the previous reporting period.

Yes  No

Indicate by check mark whether a change in control of the company has occurred over this reporting period.

Yes  No

Dated as of August 6, 2018

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

This Quarterly Report contains “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 Quarterly 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 activities and affairs, the Sponsor’s plans and references to the Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially from such statements. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors appropriate in the circumstances. Whether 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 Quarterly Report, the particular risks associated with new technologies such as Ethereum Classic and blockchain, the inability to redeem Shares, the economic conditions in the ETC industry and market, general economic, market and business conditions, the use of technology by us and our vendors, including the Key Maintainer and Backup Maintainer, in conducting our business, including disruptions in our computer systems and data centers and our transition to, and quality of, new technology platforms, the costs and effect of any litigation or regulatory investigations, our ability to maintain a positive reputation and other world economic and political developments. See the section entitled “Risk Factors” in our Annual Report. Consequently, all forward-looking statements made in this Quarterly Report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments that 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 affairs or the value of the Shares. Should one or more of these risks discussed in “Risk Factors” in our Annual Report 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. Investors are therefore cautioned against relying on forward-looking statements.

The risk factors included in our Annual Report continue to apply to us, and describe risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. There have not been any material changes from the risk factors previously described in our Annual Report, except for as provided in “Item 7 – Other Information.”

## Glossary

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

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

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

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

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

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

“Annual Report” — The Trust’s Annual Report for the period from April 18, 2017 (the inception of the Trust) to December 31, 2017.

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

“Authorized Participant Self-Administered Account” — An ETC wallet address that is recognized by the Sponsor and the Key Maintainer as belonging to the Authorized Participant.

“Backup Maintainer” — Persons who are engaged by the Sponsor to assist in the maintenance of the Trust’s ETC.

“Backup Security Factor Agreements” — The backup security factor agreements entered into between the Trust and each Backup Maintainer providing for the security of the Trust’s ETC through a multi-factor security system.

“Basket” — A block of 100 Shares.

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

“Blockchain” or “Ethereum Classic Blockchain” — The public transaction ledger of the Ethereum Classic 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 ETC from the Ethereum Classic Network and the payment of transaction fees, if any, from users whose transactions are recorded in the block being added.

“Callisto” — A type of digital currency based on an open source cryptographic protocol existing on the Callisto Network, which came into existence following the Ethereum Classic airdrop on March 5, 2018.

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

“DCG” — Digital Currency Group, Inc.

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

“ETC” or “Ethereum Classic” — Ethereum Classic tokens, which are a type of digital currency based on an open-source cryptographic protocol existing on the Ethereum Classic Network.

“ETC Account” — An account holding the Trust’s ETC which, in the discretion of the Sponsor, could be an on-blockchain hot or cold wallet or a collection of accounts or sub-accounts maintained by one or more security vendors engaged by the Trust that represent or relate to on-blockchain ETC accounts that hold the Trust’s ETC.

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

“ETC Holdings” — The aggregate value, expressed in U.S. Dollars, of the Trust’s assets (other than U.S. Dollars, or other fiat currency), less its liabilities (which include estimated accrued but unpaid fees and expenses). See “Valuation of ETC and Determination of the Trust’s ETC Holdings” in our Annual Report for a description of how the Trust’s ETC Holdings and ETC Holdings per Share are calculated. See also “Management’s Discussion and Analysis — Critical Accounting Policies — Valuation of Ethereum Classic” for a description of the Trust’s NAV, as calculated in accordance with GAAP.

“ETC Holdings Fee Basis Amount” —The amount on which the Sponsor’s Fee is based, as calculated in the manner set forth under “Valuation of ETC and Determination of ETC Holdings” in our Annual Report.

“ETC Index Price” — The U.S. Dollar value of an ETC derived from the ETC Exchanges that are reflected in the Index, calculated at 4:00 PM, New York time, on each business day. See “Description of the Trust — The Index and the ETC Index Price” in our Annual Report for a description of how the ETC Index Price is calculated.

“Ethereum Classic 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 Ethereum Classic Network.

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

“GAAP” — United States Generally Accepted Accounting Principles

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

“Grayscale” — Grayscale Investments, LLC.

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

“Index”— The TradeBlock ECX Index.

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

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

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

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

“Key Maintainer” — Ledger SAS, who is engaged by the Sponsor to assist in the maintenance of the Trust’s ETC.

“Key Maintenance Agreement” — The key maintenance agreement entered into by the Trust and the Key Maintainer providing for the security of the Trust’s ETC through a multi-factor security system.

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

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

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

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

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

“Quarterly Report” — This Quarterly Report for the three and six months ended June 30, 2018.

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

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

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

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

“Security Vendor” or “Security Vendors” means Ledger SAS and any other person or persons from time to time engaged to provide security or custodian services or related services to the Trust pursuant to authority delegated by the Sponsor.

“Security Vendors Fee” means the fee payable to the Security Vendors for the services they provide to the Trust, which the Sponsor shall pay to the Security Vendors as a Sponsor-paid Expense.

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

“Shareholder” — Any person that owns Shares.

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

“Sponsor” — Grayscale Investments, LLC.

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

“Sponsor’s Fee” — A fee, payable in ETC which accrues daily in U.S. Dollars at an annual rate of 3.0% of the ETC Holdings Fee Basis Amount of the Trust as of 4:00 PM, New York time, on each day, provided that for a day that is not a business day, the calculation of the Sponsor’s Fee will be based on the ETC Holdings Fee Basis Amount for the most recent business day, reduced

by the accrued and unpaid Sponsor's Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date.

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

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

"Trust" — Ethereum Classic Investment Trust, a Delaware statutory trust, formed on April 18, 2017 under the DSTA and pursuant to the Trust Agreement.

"Trust Agreement" — The Second 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, a Delaware trust company, is the Delaware trustee of the Trust.

"U.S." — United States.

"U.S. Dollar," "USD" or "\$" — United States Dollar or Dollars.



**Item 1. The Exact Name of the Issuer and the Address of its Principal Executive Offices.**

The name of the trust is the Ethereum Classic Investment Trust.

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

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

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

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

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

**Item 2. Shares 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. Marketplace of the OTC Markets Group Inc. is "ETCG" and the CUSIP number for the Shares is 297644106.

The following table shows the number of the Shares outstanding:

|   | <b>As of<br/>June 30, 2018</b> | <b>As of<br/>December 31, 2017</b> |
|---|--------------------------------|------------------------------------|
| <b>(i) Number of Shares authorized</b> .....                              | Unlimited                      | Unlimited                          |
| <b>(ii) Number of Shares outstanding</b> .....                            | 4,486,100                      | 3,646,400                          |
| <b>(iii) Number of Shares freely tradable (public float)</b> .....        | 607,181                        | 0                                  |
| <b>(iv) Number of beneficial holders owning at least 100 Shares</b> ..... | 134                            | 147                                |
| <b>(v) Number of holders of record</b> .....                              | 134                            | 147                                |

From January 1, 2018 to June 30, 2018, the Trust offered the Shares pursuant to Rule 506 of the Regulation D under the Securities Act. The Shares offered by the Trust have not been registered under the Securities Act, or any state or other securities laws, and were offered and sold only to “accredited investors” within the meaning of Rule 501(a) of Regulation D under the Securities Act, and in compliance with any applicable state or other securities laws.

The table below describes the Shares offered, the Shares sold and the average and range of prices at which the Shares were offered and sold by the issuer. All Shares initially offered and sold by the Trust are restricted securities pursuant to Rule 144 under the Securities Act. Until the Shares sold by the issuer become unrestricted in accordance with Rule 144, the certificates or other documents evidencing the Shares will contain legends stating that the Shares have not been registered under the Securities Act and referring to the restrictions on transferability and sale of the Shares under the Securities Act. Such legends are removed upon the Shares becoming unrestricted in accordance with Rule 144 and after they have been presented to outside counsel, who may instruct the Transfer Agent to remove the transfer restriction legends from the Shares. From January 1, 2018 to June 30, 2018, no Shares, other securities of the Trust, or options to acquire such other securities were issued in exchange for services provided by any person or entity.

| <u>Period</u>                     | <u>Shares Offered</u> | <u>Shares Sold</u> | <u>No. of Purchasers</u> | <u>Avg.<sup>1</sup></u> | <u>High<sup>1</sup></u> | <u>Date</u> | <u>Low<sup>1</sup></u> | <u>Date</u> |
|-----------------------------------|-----------------------|--------------------|--------------------------|-------------------------|-------------------------|-------------|------------------------|-------------|
| January 1, 2018 to March 31, 2018 | Unlimited             | 149,200            | 17                       | \$26.41                 | \$39.57                 | 2/20/18     | \$15.03                | 3/31/18     |
| April 1, 2018 to June 30, 2018    | Unlimited             | 690,500            | 16                       | \$16.27                 | \$23.05                 | 5/7/18      | \$12.12                | 6/11/18     |
| January 1, 2018 to June 30, 2018  | Unlimited             | 839,700            | 33                       | \$21.31                 | \$39.57                 | 2/20/18     | \$12.12                | 6/11/18     |

### **Item 3. Unaudited Interim Financial Statements.**

The Trust’s unaudited interim financial statements as of and for the three and six months ended June 30, 2018 are attached as Exhibit 1 to this Quarterly Report. The historical results presented

<sup>1</sup> The prices reflected represent the ETC Index Price (non-GAAP methodology).

herein are not necessarily indicative of financial results to be achieved in future periods. The Trust's unaudited financial statements attached as Exhibit 1 to this Quarterly Report are incorporated herein by reference and are considered as part of this Quarterly Report.

#### **Item 4. Management's Discussion and Analysis.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by reference to, our unaudited financial statements and related notes attached as an exhibit to this Quarterly Report. The following discussion may contain forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other sections of our Annual Report, and under "Cautionary Note Regarding Forward-Looking Statements."*

#### **Trust Overview**

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

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

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

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

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

### ***Trust Expenses***

The Trust's only ordinary recurring expense is expected to be the Sponsor's Fee. The Sponsor's Fee will accrue daily in U.S. Dollars at an annual rate of 3.0% of the ETC Holdings Fee Basis Amount as of 4:00 p.m., New York time, on each day; provided that for a day that is not a business day, the calculation will be based on the ETC Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor's Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date. This dollar amount for each daily accrual will then be converted into ETC by reference to the same ETC Index Price used to determine such accrual. The Sponsor's Fee is payable to the Sponsor monthly in ETC in arrears.

To cause the Trust to pay the Sponsor's Fee, the Sponsor will, by instructing the Key Maintainer and Backup Maintainers as necessary, withdraw from the ETC Account the number of ETC equal to the accrued but unpaid Sponsor's Fee and transfer such ETC to the Sponsor's account at such times as the Sponsor determines in its absolute discretion.

If the Trust holds any Incidental Rights and/or IR Virtual Currency at any time, the Trust may also pay the Sponsor's Fee, in whole or in part, with such Incidental Rights and/or IR Virtual Currency by entering into an agreement with the Sponsor and transferring such Incidental Rights and/or IR Virtual Currency to the Sponsor at a value to be determined pursuant to such agreement. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee only if such agreement and transfer do not otherwise conflict with the terms of the Trust Agreement. If the Trust pays the Sponsor's Fee in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of ETC that would otherwise have been used to satisfy such payment will be correspondingly reduced. The Sponsor, from time to time, may temporarily waive all or a portion of the Sponsor's Fee in its discretion for stated periods of time. Presently, the Sponsor does not intend to waive any of the Sponsor's Fee.

In addition, in order to assist in the development of the Ethereum Classic Network, the Sponsor intends, but is not obligated, to direct up to one-third of the Sponsor's Fee (or an annual rate of 1.0% of the daily ETC Holdings of the Trust) towards initiatives that support the development,

marketing and other community efforts relating to the Ethereum Classic Network at the sole discretion of the Sponsor for the first three years of the Trust's operations.

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

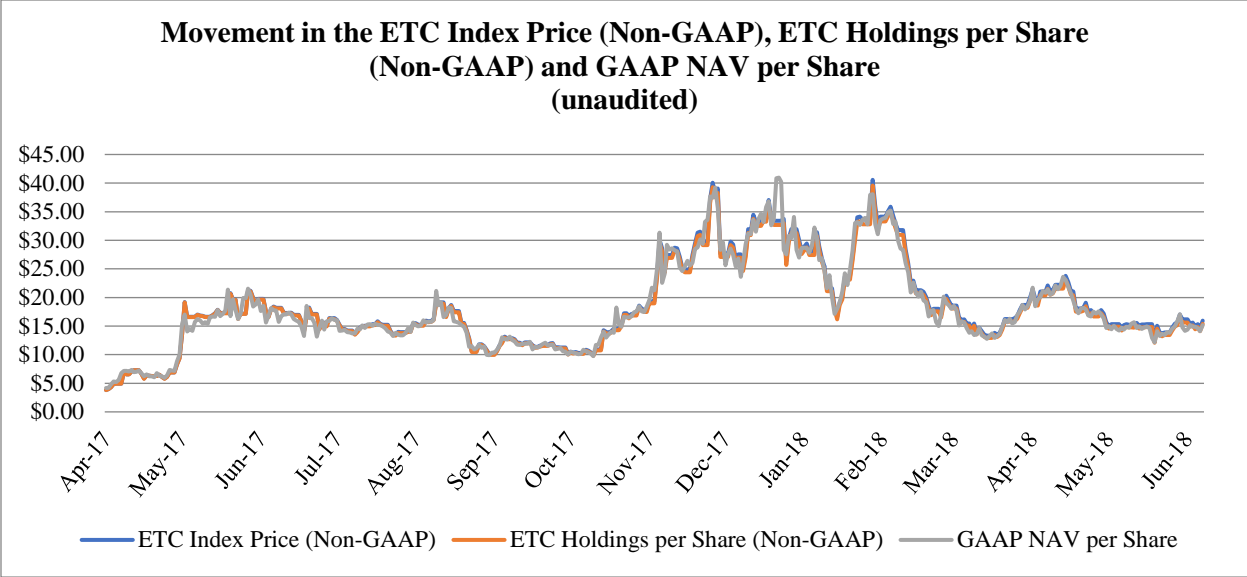
As consideration for its receipt of the Sponsor's Fee, the Sponsor has assumed the obligation to pay the Sponsor-paid Expenses. The Sponsor has not assumed the obligation to pay Additional Trust Expenses. If Additional Trust Expenses are incurred, the Sponsor (i) will withdraw from the ETC Account ETC, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such ETC, Incidental Rights and/or IR Virtual Currency into U.S. Dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver such ETC, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses. However, the Trust may use Incidental Rights or IR Virtual Currency to pay Additional Trust Expenses only if doing so does not conflict with the terms of the Trust Agreement. If the Trust pays the Additional Trust Expenses in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of ETC that would otherwise have been used to satisfy such payment will be correspondingly reduced.

The number of ETC represented by a Share will decline each time the Trust pays the Sponsor's Fee or any Additional Trust Expenses by transferring or selling ETC.

The Trust will pay the Sponsor's Fee to the Sponsor in ETC, Incidental Rights and/or IR Virtual Currency. In addition, the Trust will sell ETC, Incidental Rights and/or IR Virtual Currency to raise the funds needed for the payment of any Additional Trust Expenses or will pay Additional Trust Expenses in ETC, Incidental Rights and/or IR Virtual Currency. The Trust's ETC, Incidental Rights and IR Virtual Currency, and the purchase price received as consideration for sales of ETC, Incidental Rights and IR Virtual Currency, will be the Trust's sole source of funds to cover the Sponsor's Fee and any Additional Trust Expenses. Because the number of ETC held by the Trust will decrease when ETC are used to pay the Sponsor's Fee or Additional Trust Expenses or are sold to permit the payment of Additional Trust Expenses, it is expected that the fractional number of ETC represented by each Share will gradually decrease over the life of the Trust. Accordingly, the Shareholders will bear the cost of the Sponsor's Fee and Additional Trust Expenses. New ETC that is transferred into the ETC Account in exchange for additional new Baskets issued by the Trust will not reverse this trend.

## **Ethereum Classic**

Investing in the Shares does not insulate the investor from certain risks, including price volatility. The following table illustrates the movement in the ETC Holdings per Share (Non-GAAP), which equals the ETC Holdings of the Trust divided by the number of outstanding Shares since April 24, 2017 (date of the first Creation Basket of the Trust) through June 30, 2018, as well as the ETC Index Price (Non-GAAP) and the GAAP NAV per Share.



For more information about how we determine the ETC Holdings per Share, see the section entitled “Ethereum Classic Investment Trust — Valuation of ETC and Determination of the Trust’s ETC Holdings” in our Annual Report.

**Airdrop(s)**

An “airdrop” is the process in which a blockchain project team distributes tokens of a new virtual currency directly to holders of a different, existing virtual currency on a different existing blockchain. Airdrops can occur as a result of a marketing strategy to establish early interest and ownership in a new virtual currency. At a predetermined date, the project team behind an airdrop event takes a “snapshot” of an existing blockchain. Holders of the tokens on the original existing blockchain will receive a number of tokens on a new network at a ratio declared by the project team. Generally, the only prerequisite to be a recipient of these new tokens is that users hold tokens on the original blockchain. However, there are instances in which existing users are tasked with satisfying project-specific eligibility requirements in order to claim the “airdropped” tokens on the new network.

**Callisto Airdrop on March 5, 2018**

*Background and Measurement*

In the case of the Callisto airdrop on March 5, 2018, a snapshot of the Ethereum Classic Network occurred at block 5,500,000. This established a separate blockchain and native currency with the intent of acting as a “sidechain” for Ethereum Classic. This separate chain of the Ethereum Classic Network was rebranded as Callisto and allows the features to take advantage of the ETC Network’s effects and test those applications.

Immediately following the airdrop on March 5, 2018, holders of Ethereum Classic passively received an Incidental Right to obtain an equal number of Callisto tokens. At that time, the Trust held approximately 3,602,511 ETC. The newly created Callisto was initially inaccessible to the Trust as the Callisto “mainnet” was not launched immediately following the balance snapshot. On the date of the airdrop, the Incidental Rights to Callisto were determined to have no value as there were insufficient observable market inputs to determine the fair value of Callisto.

Furthermore, on March 5, 2018, the Sponsor of the Trust announced that it had declared a distribution and established a record date for the in-kind distribution of the Incidental Right to Callisto to Shareholders of record as of the close of business on March 8, 2018.

#### *Subsequent Measurement and Distribution of Incidental Rights to Callisto*

Subsequent to the date of the airdrop, active trading markets for Callisto had not yet developed. On March 5, 2018, the Trust declared a distribution and established a record date for the in-kind distribution of the Incidental Rights to obtain 3,602,511 Callisto tokens held by the Trust to Shareholders of record (“Callisto Record Date Shareholders”) as of the close of business on March 8, 2018 (the “Callisto Record Date” and such distribution, “Incidental Rights to Callisto Distribution”). The Trust determined the fair value per Incidental Right to Callisto to be \$0 as of March 5, 2018.

On the Callisto Record Date, the Trust, acting on behalf of the Callisto Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Callisto Record Date Shareholders and distributed the Incidental Rights to Callisto tokens held by the Trust to the Callisto Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no ownership interest in the distributed Incidental Rights to Callisto, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Callisto or the disposition thereof or of the underlying Callisto from the Callisto Record Date Shareholders, their Agent or any other person.

As of the Callisto Record Date, prior to the time of the Incidental Rights to Callisto Distribution, the Trust noted that Callisto was still not trading on an online platform that published transaction price and volume data publicly. Therefore, the Trust determined the fair value per Incidental Right of Callisto to be \$0 as of the Callisto Record Date, and no gain or loss was recognized as part of the Incidental Rights to Callisto Distribution.

### **Critical Accounting Policies**

#### *Investment Transactions and Revenue Recognition*

The Trust considers its investment transactions to be the receipt of ETC for Share creations and the delivery of ETC for Share redemptions (if a redemption program were to be established) or payment of expenses in ETC. At this time, the Trust is not accepting redemption requests from Shareholders. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation or depreciation on investments. Realized gains and losses are calculated using an average cost method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor’s Fee in ETC.

#### *Valuation of Ethereum Classic*

ETC is held by the Key Maintainer on behalf of the Trust and is carried, for financial statement purposes, at fair value. Unlike the procedure used for determining the ETC Index Price and the Trust’s ETC Holdings, which are calculated using a weighted average calculated across multiple ETC exchanges, the fair value of ETC and NAV presented in the financial statements are calculated in accordance with GAAP based on the price provided by the ETC exchange that the Trust considers its principal market as of 4:00 PM, New York time on the valuation date. As of

June 30, 2018 and December 31, 2017, the Trust held 4,357,466.49820792 and 3,593,499.15700104 ETC, respectively.

The Trust determined the fair value per ETC to be \$15.73 and \$26.52 on June 30, 2018 and December 31, 2017 using the price provided at 4:00 PM, New York time, by the ETC Exchange considered to be the Trust's principal market (Bitfinex).

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

In determining which of the eligible ETC Exchanges is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust prepares a list of eligible ETC Exchanges and determines if any meet all of the following three criteria: (i) the ETC Exchange has ETC/USD pairing to allow for USD liquidation to U.S. based customers, (ii) the Authorized Participant has access to the exchange as a U.S. based customer and can legally open an account on the exchange platform, and (iii) the exchange complies with federal and state licensing requirements and practices regarding anti-money laundering procedures that are applicable to the Trust and the Authorized Participant.

From the list of eligible ETC Exchanges prepared in accordance with the eligibility criteria noted above, the Trust selects the exchange with the highest trading volume for ETC/USD pairing for the trailing twelve months, taking into consideration intra-day pricing fluctuations and the degree of variances in price on ETC Exchanges.

Second, if no ETC Exchange meets all of the above criteria, the Trust will filter each exchange that has an ETC/USD pairing, regardless of whether it is accessible to U.S. based customers.

From this list, the Trust selects the exchange with the highest trading volume for ETC/USD pairing for the trailing twelve months, taking into consideration intra-day pricing fluctuations and the degree of variances in price on ETC Exchanges.

Third, if there are no exchanges with an ETC/USD pairing, the Trust will assess exchanges for compliance with federal and state licensing requirements that are applicable to the Trust and the Authorized Participant. The Trust also assesses each exchange's practices regarding anti-money laundering procedures. The Trust then identifies the pairing with the highest trading volume of ETC to the digital currency with the highest market capitalization for the prior trailing twelve months, taking into consideration intra-day pricing fluctuations and the degree of variances in price on ETC Exchanges.

The Trust determines its principal market annually and conducts a quarterly analysis to determine if (i) there have been recent changes to each ETC Exchange's transaction volume in the prior



trailing twelve months, (ii) if any ETC Exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if there have been any Exchanges that have added an ETC/USD pairing, (iv) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make ETC Exchanges previously inaccessible to the Trust now accessible, (v) if recent changes to each ETC Exchange's price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market, or (vi) if the principal market is included in the TradeBlock ECX Index (the "Index").

The Trust performed an assessment of the principal market on December 31, 2017. Based on the Trust's assessment, no exchanges met step one described above. Therefore, the Trust proceeded to step two and identified its principal market as Bitfinex. As of June 30, 2018, the Trust conducted its quarterly analysis and Bitfinex remained the principal market. The cost basis of the investment in ETC recorded by the Trust for financial reporting purposes is the fair value of ETC 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 and Significant Estimates*

The Trust qualifies as an investment company for accounting purposes pursuant to the accounting and reporting guidance under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946, *Financial Services – Investment Companies*. The Trust is not registered under the Investment Company Act of 1940. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and the difference could be material.

#### *In-kind IR Virtual Currency and Incidental Rights Distributions*

The Trust accounts for in-kind distributions of IR Virtual Currency and Incidental Rights in accordance with FASB ASC Topic 845, *Nonmonetary Transactions*, pursuant to which a transfer of a nonmonetary asset to a Shareholder or to another entity in a nonreciprocal transfer is recorded at the fair value of the asset transferred and a gain or loss is recognized on the disposition of the asset by the Trust.

## Review of Financial Results (unaudited)

### *Financial Highlights*

(All amounts in the following table and the subsequent paragraphs, except per Share, are in thousands of US\$)

|   | <b>Three Months<br/>Ended<br/>June 30, 2018</b> | <b>Six Months<br/>Ended<br/>June 30, 2018</b> | <b>From April 18, 2017<br/>(the inception of the<br/>Trust) to June 30, 2017</b> |
|---|---|---|--|
| Net realized and unrealized gain (loss) on investment in Ethereum Classic | <u>\$ 4,484</u>                                 | <u>\$ (38,941)</u>                            | <u>\$ 38,387</u>   |
| Net increase (decrease) in net assets resulting from operations           | <u>\$ 4,009</u>                                 | <u>\$ (40,144)</u>                            | <u>\$ 38,176</u>   |
| Net assets  | <u>\$ 68,099</u>                                | <u>\$ 68,099</u>                              | <u>\$ 58,670</u>   |

Net realized and unrealized gain on investment in ETC for the three months ended June 30, 2018 was \$4,484, which includes a realized gain of \$482 on the transfer of ETC to pay the Sponsor's Fee, \$271 net change in unrealized appreciation on the Sponsor's Fee payable, and \$4,273 net change in unrealized appreciation on investment in ETC. Net assets increased to \$68,099 at June 30, 2018, a 27% increase for the three-month period. The increase in net assets resulted primarily from ETC price appreciation and creation of Shares.

Net realized and unrealized loss on investment in ETC for the six months ended June 30, 2018 was \$38,941, which includes a realized gain of \$801 on the transfer of ETC to pay the Sponsor's Fee, \$181 net change in unrealized depreciation on the Sponsor's Fee payable, and \$39,923 net change in unrealized depreciation on investment in ETC. Net assets decreased to \$68,099 at June 30, 2018, a 28% decrease for the six-month period. The decrease in net assets resulted primarily from ETC price depreciation.

Net realized and unrealized gain on investment in ETC for the period from April 18, 2017 (the inception of the Trust) to June 30, 2017 was \$38,387, which includes a realized gain of \$36 on the transfer of ETC to pay the Sponsor's Fee, \$2 net change in unrealized depreciation on the Sponsor's Fee payable, and \$38,349 net change in unrealized appreciation on investment in ETC. Net assets increased to \$58,670 at June 30, 2017. The increase in net assets resulted primarily from ETC price appreciation and creation of Shares.

### *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 ETC, Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses, the Sponsor endeavors to sell the exact number of ETC, Incidental Rights and/or IR Virtual Currency needed to pay expenses in order to minimize the Trust's holdings of assets other than ETC. As a consequence, the Sponsor expects that the Trust will not record any cash flow from its operations and that its cash balance will be zero at the end of each reporting period.

In exchange for the Sponsor's Fee, the Sponsor has agreed to assume all of the ordinary expenses incurred by the Trust. As a result, the only ordinary expense of the Trust during the periods covered by this Quarterly Report was the Sponsor's Fee. The Trust is not aware of any trends, demands, conditions or events that are reasonably likely to result in material changes to its liquidity needs.

The Trust may incur certain extraordinary, non-recurring expenses and indemnification expenses that are not Sponsor-paid Expenses, including expenses incurred in connection with any Incidental Rights or IR Virtual Currency (collectively "Additional Trust Expenses"). In such circumstances, the Sponsor will convert ETC, Incidental Rights or IR Virtual Currency into U.S. Dollars or other fiat currencies at the Actual Exchange Rate or deliver ETC, Incidental Rights or IR Virtual Currency in kind, in each case, in such quantity as may be necessary to pay such Additional Trust Expenses.

The quantity of ETC, Incidental Rights or IR Virtual Currency to be delivered to the Sponsor in payment of the Sponsor's Fee or any Additional Trust Expenses, or sold to permit payment of Additional Trust Expenses, will vary from time to time depending on the level of the Trust's expenses and the value of ETC, Incidental Rights or IR Virtual Currency held by the Trust. Assuming that the Trust is a grantor trust for U.S. federal income tax purposes, each delivery or sale of ETC, Incidental Rights and IR Virtual Currency by the Trust for the payment of expenses will be a taxable event to the Shareholders.

### **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. From time to time, the Trust may come into possession of Incidental Rights and/or IR Virtual Currency by virtue of its ownership of ETC, generally through a fork in the Blockchain, an airdrop offered to holders of ETC or other similar event. Pursuant to the terms of the Trust Agreement, the Trust may take any lawful action necessary or desirable in connection with the Trust's ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the Trust Agreement.

## Selected Supplemental Data (unaudited)

(All ETC balances are rounded to the nearest whole ETC)

|  | <u>Three Months<br/>Ended<br/>June 30, 2018</u> | <u>Six Months<br/>Ended<br/>June 30, 2018</u> | <u>From April 18, 2017<br/>(the inception of the<br/>Trust) to June 30, 2017</u> |
|--|---|---|--|
| <b>ETC:</b>  |   |   |  |
| Opening balance                                    | 3,716,421                                       | 3,593,499                                     | -  |
| Creations  | 667,077   | 812,436                                       | 3,319,809  |
| Sponsor's Fee, related party                       | <u>(26,032)</u>                                 | <u>(48,469)</u>                               | <u>(8,675)</u>   |
| Closing balance                                    | 4,357,466                                       | 4,357,466                                     | 3,311,134  |
| Accrued but unpaid Sponsor's<br>Fee, related party | <u>(28,220)</u>                                 | <u>(28,220)</u>                               | <u>(7,650)</u>   |
| Net closing balance                                | <u><u>4,329,246</u></u>                         | <u><u>4,329,246</u></u>                       | <u><u>3,303,484</u></u>  |
| <b>Number of Shares:</b>                           |   |   |  |
| Opening balance                                    | 3,795,600                                       | 3,646,400                                     | -  |
| Creations  | <u>690,500</u>                                  | <u>839,700</u>                                | <u>3,322,000</u>   |
| Closing balance                                    | <u><u>4,486,100</u></u>                         | <u><u>4,486,100</u></u>                       | <u><u>3,322,000</u></u>  |

|   | <u>As of June 30, 2018</u> | <u>As of June 30, 2017</u> |
|---|----------------------------|----------------------------|
| Price of ETC on principal market <sup>1</sup> | <u>\$ 15.73</u>            | <u>\$ 17.76</u>            |
| NAV per Share <sup>2</sup>                    | <u>\$ 15.18</u>            | <u>\$ 17.66</u>            |
| ETC Index Price                               | <u>\$ 15.94</u>            | <u>\$ 18.20</u>            |
| ETC Holdings per Share <sup>3</sup>           | <u>\$ 15.38</u>            | <u>\$ 18.10</u>            |

<sup>1</sup> The Trust conducted a quarterly analysis of the principal market at June 30, 2018 and 2017 and identified the principal market as Bitfinex.

<sup>2</sup> As of June 30, 2018 and 2017, the NAV per Share was calculated using the fair value of ETC based on the price provided by Bitfinex, the ETC Exchange that the Trust currently considers its principal market, as of 4:00 PM, New York time on the valuation date.

<sup>3</sup> The Trust's ETC Holdings per Share is derived from the ETC Index Price as represented by the Index as of 4:00 PM, New York time on the valuation date. The Trust's ETC Holdings per Share is calculated using a non-GAAP methodology where the volume-weighted average price is derived from multiple ETC Exchanges. See the section entitled "Ethereum Classic Investment Trust — Valuation of ETC and Determination of the Trust's ETC Holdings" in our Annual Report for a description of the Trust's ETC Holdings per Share. The ETC Exchanges used to calculate the ETC Index Price as of June 30, 2018 and 2017 were Bitfinex, Kraken and Poloniex. As of June 29, 2018 (the last business day a Creation Basket could have been originated during the period), the ETC Index Price was \$14.62, and the ETC Holdings per Share was \$14.11.

For the three months ended June 30, 2018, an additional 690,500 Shares (6,905 Baskets) were created in exchange for approximately 667,077 ETC, no redemptions occurred, approximately 26,032 ETC were deducted from the Trust's holdings and used by the Sponsor to settle the Sponsor's Fee and approximately 28,220 ETC were accrued and unpaid related to the Sponsor's Fee.

For the six months ended June 30, 2018, an additional 839,700 Shares (8,397 Baskets) were created in exchange for approximately 812,436 ETC, no redemptions occurred, approximately 48,469 ETC were deducted from the Trust's holdings and used by the Sponsor to settle the Sponsor's Fee and approximately 28,220 ETC were accrued and unpaid related to the Sponsor's Fee.

For the period from April 18, 2017 (the inception of the Trust) to June 30, 2017, an additional 3,322,000 Shares (33,220 Baskets) were created in exchange for approximately 3,319,809 ETC, no redemptions occurred, approximately 8,675 ETC were deducted from the Trust's holdings and used by the Sponsor to settle the Sponsor's Fee and approximately 7,650 ETC were accrued and unpaid related to the Sponsor's Fee.

For accounting purposes, the Trust reflects creations and the ETC 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 ETC is received. In connection with Share redemptions, if permitted, the Trust delivers ETC upon receipt of Shares. At this time, the Trust is not operating a redemption program and is not accepting redemption requests from Shareholders. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program.

As of June 29, 2018 (the last business day on which a Creation Basket could have been originated), the Trust had a net closing balance of approximately 4,329,602 ETC, with a value of \$63,298,779, based on the ETC Index Price of \$14.62 on June 29, 2018 (non-GAAP methodology). As of June 30, 2018, the Trust had a net closing balance of approximately 4,329,246 ETC, with a value of \$69,008,181, based on the ETC Index Price of \$15.94 on June 30, 2018 (non-GAAP methodology). As of June 30, 2018, the Trust had a net closing balance of approximately 4,329,246 ETC, with a market value of \$68,099,040, based on the principal market (Bitfinex) of \$15.73 on June 30, 2018 (GAAP methodology).

### **Historical Ethereum Classic Prices**

As movements in the price of ETC will directly affect the price of the Shares, investors should understand recent movements in the price of ETC. Investors, however, should also be aware that past movements in the ETC 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 April 24, 2017 (the first Creation Basket of the Trust) and June 30, 2018, the ETC price, based on the price reported by the Trust's principal market as of 4:00 PM, New York time, traded between \$4.18 per ETC (April 24, 2017) and \$41.86 (January 14, 2018), the average was \$18.51, and the median was \$16.26. The average, high, low and end-of-period ETC prices for the twelve months ended June 30, 2018, and for the period from the first Creation

Basket of the Trust until June 30, 2018, based on the price reported by the Trust's principal market as of 4:00 PM, New York time, on the applicable dates were:

| <b>Period</b>   | <b>Average</b> | <b>High</b> | <b>Date</b> | <b>Low</b> | <b>Date</b> | <b>End of period</b> | <b>Last business day</b> |
|---|----------------|-------------|-------------|------------|-------------|----------------------|--------------------------|
| Twelve Months Ended June 30, 2018.....  | \$19.60        | \$41.86     | 1/14/2018   | \$9.92     | 11/2/2017   | \$15.73              | \$14.63                  |
| April 24, 2017 (the first Creation Basket of the Trust) to June 30, 2018..... | \$18.51        | \$41.86     | 1/14/2018   | \$4.18     | 4/24/2017   | \$15.73              | \$14.63                  |

## **Item 5. Legal Proceedings**

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.

## **Item 6. Defaults Upon Senior Securities**

None.

## **Item 7. Other Information.**

*The risk factors included in our Annual Report continue to apply to us, and describe risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. In addition to such risk factors, investors should consider carefully the risks described below before making an investment decision.*

### ***Amendments to Articles of Incorporation or Bylaws***

On February 28, 2018, the Trust amended the Trust Agreement.

### ***Appointment of Principal Officers – Vice President, Finance***

On April 19, 2018, the Sponsor appointed Samantha McDonald as Vice President, Finance. Prior to joining the Sponsor, Ms. McDonald was the Chief Financial Officer and Treasurer of SPDR<sup>®</sup> Gold Trust, from March 2015 to January 2018. SPDR<sup>®</sup> Gold Trust is an investment trust that offers investors an innovative, relatively cost efficient and secure way to access the gold market and is the largest physically backed gold exchange traded fund in the world. She was also the Chief Financial Officer and Treasurer of SPDR<sup>®</sup> Long Dollar Gold Trust. Ms. McDonald joined SPDR<sup>®</sup> Gold Trust in October 2013 as Finance and Operations Manager. Prior to joining SPDR<sup>®</sup> Gold Trust, Ms. McDonald was employed by Roubini Global Economics, or RGE, from November 2011 until October 2013. RGE is a global economic and financial analysis firm that provides economic analysis to portfolio managers, chief investment officers, analysts and bankers, among others. During her tenure at RGE, Ms. McDonald was the VP of Finance and was responsible for the planning, operating performance and leadership of the financial accounting and administrative functions. Prior to this, Ms. McDonald was Controller at GTIS Partners, a global real estate investment firm, from December 2009 to November 2011. She has also been the CFO for Software Technology, Inc., a provider of Education Data Management solutions to the K-12 market from

June 2002 to May 2008 and a finance manager responsible for regulatory reporting and performing financial analysis at Kaplan Test Prep and Admissions, a firm that provides preparatory courses for standardized tests, from May 2008 to December 2009. Ms. McDonald holds a Bachelor of Science degree in Accounting from Auburn University and received her Master in Accounting degree from University of South Alabama. She is a Certified Public Accountant.

**Item 8. Exhibits.**

Exhibit 1 Unaudited Financial Statements for the Three and Six Months ended June 30, 2018.

**Item 9. Certifications.**

**Certification**

I, Barry E. Silbert, certify that:

1. I have reviewed the Quarterly Report, exhibits, and all notes thereto of Ethereum Classic Investment Trust;
2. Based on my knowledge, this Quarterly 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 Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly 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 Quarterly Report.

Dated: August 6, 2018

/s/ Barry E. Silbert

By: Barry E. Silbert

Title: Chief Executive Officer of  
Grayscale Investments, LLC



## Certification

I, Samantha McDonald, certify that:

1. I have reviewed the Quarterly Report, exhibits, and all notes thereto of Ethereum Classic Investment Trust;
2. Based on my knowledge, this Quarterly 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 Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly 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 Quarterly Report.

Dated: August 6, 2018

/s/ Samantha McDonald

By: Samantha McDonald

Title: Vice President, Finance (Principal Financial Officer) of  
Grayscale Investments, LLC

Exhibit 1

Unaudited Financial Statements for the Three and Six Months Ended June 30, 2018

**FINANCIAL STATEMENTS**

**Ethereum Classic Investment Trust**  
**For the Three and Six Months Ended June 30, 2018**  
**(Unaudited)**

Ethereum Classic Investment Trust™

**Ethereum Classic Investment Trust**  
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**Ethereum Classic Investment Trust**  
**Statements of Assets and Liabilities**  
**(Unaudited)**

|   | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|---|----------------------|--------------------------|
| (Amounts in U.S. dollars, except Share amounts)   |                      |                          |
| <b>Assets:</b>  |                      |                          |
| Investment in Ethereum Classic, at fair value (cost \$38,539,784 and \$25,362,506 as of June 30, 2018, and December 31, 2017, respectively) | \$ 68,542,948        | \$ 95,288,818            |
| <b>Total assets</b>   | <u>\$ 68,542,948</u> | <u>\$ 95,288,818</u>     |
| <b>Liabilities:</b>   |                      |                          |
| Sponsor Fee payable, related party  | \$ 443,908           | \$ 579,403               |
| <b>Total liabilities</b>  | <u>443,908</u>       | <u>579,403</u>           |
| <b>Net assets</b>   | <u>\$ 68,099,040</u> | <u>\$ 94,709,415</u>     |
| <b>Net Assets consists of:</b>  |                      |                          |
| Paid-in-capital   | 39,184,459           | 25,651,068               |
| Accumulated net investment loss   | (2,317,251)          | (1,114,514)              |
| Accumulated net realized gain on investment in Ethereum Classic   | 1,164,261            | 362,867                  |
| Accumulated net change in unrealized depreciation (appreciation) on Sponsor Fee payable   | 64,407               | (116,318)                |
| Accumulated net change in unrealized appreciation on investment in Ethereum Classic   | 30,003,164           | 69,926,312               |
|   | <u>\$ 68,099,040</u> | <u>\$ 94,709,415</u>     |
| Shares issued and outstanding, no par value (unlimited Shares authorized)   | <u>4,486,100</u>     | <u>3,646,400</u>         |
| Net asset value per Share   | <u>\$ 15.18</u>      | <u>\$ 25.97</u>          |

*See accompanying notes to unaudited financial statements*

**Ethereum Classic Investment Trust**  
**Schedules of Investment**  
**(Unaudited)**

**June 30, 2018**

|                                   | <u>Number of<br/>Ethereum Classic</u> | <u>Cost</u>   | <u>Fair Value</u>    | <u>% of Net<br/>Assets</u> |
|-----------------------------------|---------------------------------------|---------------|----------------------|----------------------------|
| Investment in<br>Ethereum Classic | 4,357,466.49820792                    | \$ 38,539,784 | \$ 68,542,948        | 101%                       |
| Total liabilities                 |                                       |               | <u>(443,908)</u>     | <u>(1%)</u>                |
| Net assets                        |                                       |               | <u>\$ 68,099,040</u> | <u>100%</u>                |

**December 31, 2017**

|                                   | <u>Number of<br/>Ethereum Classic</u> | <u>Cost</u>   | <u>Fair Value</u>    | <u>% of Net<br/>Assets</u> |
|-----------------------------------|---------------------------------------|---------------|----------------------|----------------------------|
| Investment in<br>Ethereum Classic | 3,593,499.15700104                    | \$ 25,362,506 | \$ 95,288,818        | 101%                       |
| Total liabilities                 |                                       |               | <u>(579,403)</u>     | <u>(1%)</u>                |
| Net assets                        |                                       |               | <u>\$ 94,709,415</u> | <u>100%</u>                |

*See accompanying notes to unaudited financial statements*

**Ethereum Classic Investment Trust**  
**Statements of Operations**  
**(Unaudited)**

| (Amounts in U.S. dollars)  | <b>Three Months<br/>Ended<br/>June 30, 2018</b> | <b>Six Months<br/>Ended<br/>June 30, 2018</b> | <b>From<br/>April 18, 2017<br/>(the inception of<br/>the Trust) to<br/>June 30, 2017 <sup>(1)</sup></b> |
|--|---|---|---|
| <b>Investment income:</b>  |   |   |   |
| Investment income  | \$ -  | \$ -  | \$ -  |
| <b>Expenses:</b>   |   |   |   |
| Sponsor Fee, related party   | 474,800   | 1,202,737                                     | 211,165   |
| <b>Net investment loss</b>   | <u>(474,800)</u>                                | <u>(1,202,737)</u>                            | <u>(211,165)</u>  |
| <b>Net realized and unrealized gain (loss) on investment in Ethereum Classic:</b>      |   |   |   |
| Net realized gain on investment in Ethereum Classic                                    | 481,622   | 801,394                                       | 35,729  |
| Net change in unrealized (appreciation) depreciation on Sponsor Fee payable            | (270,504)                                       | 180,725                                       | 1,553   |
| Net change in unrealized appreciation (depreciation) on investment in Ethereum Classic | 4,272,995                                       | (39,923,148)                                  | 38,349,577  |
| <b>Net realized and unrealized gain (loss) on investment in Ethereum Classic</b>       | <u>4,484,113</u>                                | <u>(38,941,029)</u>                           | <u>38,386,859</u>   |
| <b>Net increase (decrease) in net assets resulting from operations</b>                 | <u>\$ 4,009,313</u>                             | <u>\$ (40,143,766)</u>                        | <u>\$ 38,175,694</u>  |

(1) Limited comparative information has been provided as the inception of the Trust was April 18, 2017

*See accompanying notes to unaudited financial statements*

**Ethereum Classic Investment Trust**  
**Statements of Changes in Net Assets**  
**(Unaudited)**

| (Amounts in U.S. dollars, except change in Shares outstanding)                         | <b>Six Months Ended<br/>June 30, 2018</b> | <b>From April 18, 2017 (the<br/>inception of the Trust) to<br/>December 31, 2017</b> |
|--|---|--|
| <b>Increase (decrease) in net assets from operations:</b>                              |   |  |
| Net investment loss  | \$ (1,202,737)                            | \$ (1,114,514)   |
| Net realized gain on investment in Ethereum Classic                                    | 801,394                                   | 362,867  |
| Net change in unrealized depreciation (appreciation) on Sponsor Fee payable            | 180,725                                   | (116,318)  |
| Net change in unrealized (depreciation) appreciation on investment in Ethereum Classic | <u>(39,923,148)</u>                       | <u>69,926,312</u>  |
| Net (decrease) increase in net assets resulting from operations                        | <u>(40,143,766)</u>                       | <u>69,058,347</u>  |
| <b>Increase in net assets from capital share transactions:</b>                         |   |  |
| Shares issued  | <u>13,533,391</u>                         | <u>25,651,068</u>  |
| Net increase in net assets resulting from capital share transactions                   | <u>13,533,391</u>                         | <u>25,651,068</u>  |
| Total (decrease) increase in net assets  | <u>(26,610,375)</u>                       | <u>94,709,415</u>  |
| <b>Net assets:</b>   |   |  |
| Beginning of period  | <u>94,709,415</u>                         | <u>-</u>   |
| End of period  | <u>\$ 68,099,040</u>                      | <u>\$ 94,709,415</u>   |
| <b>Change in Shares outstanding:</b>   |   |  |
| Shares outstanding at beginning of period  | <u>3,646,400</u>                          | <u>-</u>   |
| Shares issued  | <u>839,700</u>                            | <u>3,646,400</u>   |
| Net increase in Shares   | <u>839,700</u>                            | <u>3,646,400</u>   |
| Shares outstanding at end of period  | <u>4,486,100</u>                          | <u>3,646,400</u>   |

*See accompanying notes to unaudited financial statements*



## **Ethereum Classic Investment Trust**

### **Notes to Unaudited Financial Statements**

#### **1. Organization**

The Ethereum Classic Investment Trust (the “Trust”), a Delaware Trust that commenced operations on April 18, 2017, is an investment trust that invests in Ethereum Classic (“ETC”). The Trust holds ETC and, from time to time, issues common units of fractional undivided beneficial interest (“Shares”) (in minimum baskets of 100 Shares, referred to as “Baskets”) in exchange for deposits of ETC. The first Basket was created on April 24, 2017. At this time, the Trust is not operating a redemption program and is not accepting redemption requests. Subject to receipt of regulatory approval and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program. The investment objective of the Trust is for the Shares to reflect the value of ETC held by the Trust, less the Trust’s expenses and other liabilities. The Trust may also receive Incidental Rights and/or IR Virtual Currency as a result of the Trust’s investment in ETC, in accordance with the terms of the Trust Agreement.

Incidental Rights are rights to claim, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to the Trust’s ownership of ETC and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust; while IR Virtual Currency is any virtual currency tokens, or other asset or right, received by the Trust through the exercise (subject to the applicable provisions of the Trust Agreement) of any Incidental Right.

Grayscale Investments LLC (“Grayscale” or the “Sponsor”) acts as the sponsor of the Trust and is a wholly owned subsidiary of Digital Currency Group, Inc. (“DCG”). The Sponsor is responsible for the day-to-day administration of the Trust. Grayscale is responsible for preparing and providing annual and quarterly reports on behalf of the Trust to investors. Grayscale is also responsible for selecting and monitoring the Trust’s service providers. As payment for its services, Grayscale charges the Trust a Sponsor Fee as discussed in Note 7.

Authorized Participants of the Trust are the only entities who may place orders to create or, if permitted, redeem Baskets. Genesis Global Trading, Inc. (“Genesis” or the “Authorized Participant”), a registered broker-dealer and wholly owned subsidiary of DCG, is the only Authorized Participant and is party to a participant agreement with the Sponsor and the Trust. Additional Authorized Participants may be added at any time, subject to the discretion of the Sponsor.

The Sponsor does not store, hold, or maintain custody or control of the Trust’s ETC but instead has entered into the Key Maintenance Agreement with the Key Maintainer and a Backup Security Factor Agreement with each of the Backup Maintainers to facilitate the security of the Trust’s ETC. Under these agreements, the Key Maintainer must act on valid instructions given to it by the Sponsor, and the Backup Maintainers, upon receipt of certain notice or court order, must deliver the Backup Factors to a party identified by the Trust or a court. Each party to the agreement holds a certain number of security passwords, keys or phrases (each, a “Security Factor”) that, together with other Security Factors, allows transfers of ETC. Using its Security Factors, the Sponsor cannot unilaterally effect any transfer of the Trust’s ETC. Instead the Key Maintainer must also use its Security Factors, in addition to the Sponsor’s Security Factors, to effect any transfer of the Trust’s ETC. Under certain circumstances, the Sponsor may also be able to effect transactions by using its Security Factors together with the Security Factors of one or more of the Backup Maintainers. In addition, the Sponsor cannot unilaterally and indefinitely prevent transfer of the Trust’s ETC. The Key Maintainer since inception of the Trust has been Ledger SAS (“Ledger”), a third-party service provider.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**1. Organization (continued)**

The transfer agent for the Trust (the “Transfer Agent”) is Continental Stock Transfer & Trust Company. The responsibilities of the transfer agent are to maintain creations, redemptions, transfers, and distributions of the Trust’s Shares in book-entry form.

On May 2, 2018 the Trust received notice that its Shares were qualified for public trading on the OTCQX U.S. Premier Marketplace of the OTC Markets Group Inc. (“OTCQX”). The Trust’s trading symbol on OTCQX is “ETCG” and the CUSIP number for its Shares is 297644106.

**2. Summary of Significant Accounting Policies**

In the opinion of management of the Sponsor of the Trust, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations for the three and six months ended June 30, 2018 and for the period from April 18, 2017 (the inception of the Trust) to June 30, 2017, and changes in net assets for the six months ended June 30, 2018 and for the period from April 18, 2017 (the inception of the Trust) to December 31, 2017 have been made. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results of operations expected for the full year. These unaudited financial statements should be read in conjunction with the audited financial statements for the period of April 18, 2017 (the inception of the Trust) to December 31, 2017 included in the Company’s Annual Report.

The following is a summary of significant accounting policies followed by the Trust:

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The Trust qualifies as an investment company for accounting purposes pursuant to the accounting and reporting guidance under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946, *Financial Services – Investment Companies*. The Trust is not registered under the Investment Company Act of 1940. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and these differences could be material.

The Trust conducts its transactions in ETC, including receiving ETC for the creation of Shares and delivering ETC for the redemption of Shares (if a redemption program were to be established) and for the payment of the Sponsor Fee. Since its inception, the Trust has not held cash or cash equivalents.

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

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

**Investment Transactions and Revenue Recognition**

The Trust considers investment transactions to be the receipt of ETC for Share creations and the delivery of ETC for Share redemptions (if a redemption program were to be established) or for payment of expenses in ETC. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation or depreciation on investments. Realized gains and losses are calculated using an average cost method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor Fee in ETC.

**In-kind IR Virtual Currency and Incidental Rights Distributions**

The Trust accounts for in-kind distributions of IR Virtual Currency and Incidental Rights in accordance with FASB ASC Topic 845, *Nonmonetary Transactions*, pursuant to which a transfer of a nonmonetary asset to a Shareholder or to another entity in a non-reciprocal transfer is recorded at the fair value of the asset transferred and a gain or loss is recognized on the disposition of the asset by the Trust.

**Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the ‘exit price’) in an orderly transaction between market participants at the measurement date.

GAAP utilizes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Trust. Unobservable inputs reflect the Trust’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, these valuations do not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in markets that are not active or for which significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary by investment. To the extent that valuations are based on sources that are less observable or unobservable in the market, the determination of fair value requires more judgment. Fair value estimates do not necessarily represent the amounts that may be ultimately realized by the Trust.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

|                                    | <u>Amount at<br/>Fair Value</u> | <u>Fair Value Measurement Using</u> |                |                |
|------------------------------------|---------------------------------|-------------------------------------|----------------|----------------|
|                                    |                                 | <u>Level 1</u>                      | <u>Level 2</u> | <u>Level 3</u> |
| <b>June 30, 2018</b>               |                                 |                                     |                |                |
| <b>Assets</b>                      |                                 |                                     |                |                |
| Investment in ETC                  | \$ 68,542,948                   | \$ -                                | \$ 68,542,948  | \$ -           |
| <b>Liabilities</b>                 |                                 |                                     |                |                |
| Sponsor Fee payable, related party | \$ 443,908                      | \$ -                                | \$ 443,908     | \$ -           |
| <br>                               |                                 |                                     |                |                |
|                                    | <u>Amount at<br/>Fair Value</u> | <u>Fair Value Measurement Using</u> |                |                |
|                                    |                                 | <u>Level 1</u>                      | <u>Level 2</u> | <u>Level 3</u> |
| <b>December 31, 2017</b>           |                                 |                                     |                |                |
| <b>Assets</b>                      |                                 |                                     |                |                |
| Investment in ETC                  | \$ 95,288,818                   | \$ -                                | \$ 95,288,818  | \$ -           |
| <b>Liabilities</b>                 |                                 |                                     |                |                |
| Sponsor Fee payable, related party | \$ 579,403                      | \$ -                                | \$ 579,403     | \$ -           |

**3. Fair Value of Ethereum Classic**

ETC is held by the Key Maintainer on behalf of the Trust and is carried at fair value. As of June 30, 2018 and December 31, 2017, the Trust held 4,357,466.49820792 and 3,593,499.15700104 ETC, respectively.

The Trust determined the fair value per ETC to be \$15.73 on June 30, 2018 and \$26.52 on December 31, 2017, respectively, using the price provided at 4:00 PM New York time by the ETC exchange considered to be the Trust's principal market (Bitfinex).

To determine which exchange is the Trust's principal market for purposes of calculating the Trust's net asset value ("NAV"), the Trust considers only ETC exchanges that have an online platform and publish transaction price and volume data publicly. Based on these requirements, the Trust prepares a list of eligible ETC exchanges and considers the following criteria to select its principal market: (i) ETC/United States dollar ("USD") pairing to allow for liquidation of assets (ii) the volume of ETC traded on an ETC exchange in the prior trailing twelve months, (iii) an ETC exchange's regulatory compliance with applicable federal and state licensing requirements and practices regarding anti-money laundering procedures and (iv) the degree of intra-day price fluctuations an ETC exchange experiences as well as the degree of variance in prices across ETC exchanges.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**3. Fair Value of Ethereum Classic (continued)**

In determining which of the eligible ETC exchanges is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust prepares a list of eligible ETC exchanges and determines if any meet all of the following three criteria: (i) the ETC exchange has ETC/USD pairing to allow for USD liquidation to U.S. based customers, (ii) the Authorized Participant has access to the exchange as a U.S. based customer and can legally open an account on the exchange platform, and (iii) the exchange complies with federal and state licensing requirements and practices regarding anti-money laundering procedures that are applicable to the Trust and the Authorized Participant.

From the list of eligible ETC exchanges prepared in accordance with the eligibility criteria noted above, the Trust selects the exchange with the highest trading volume for ETC/USD pairing for the trailing twelve months, taking into consideration intra-day pricing fluctuations and the degree of variances in price on ETC exchanges.

Second, if no ETC exchange meets all of the above criteria, the Trust will filter each exchange that has an ETC/USD pairing, regardless of whether it is accessible to U.S. based customers.

From this list, the Trust selects the exchange with the highest trading volume for ETC/USD pairing for the trailing twelve months, taking into consideration intra-day pricing fluctuations and the degree of variances in price on ETC exchanges.

Third, if there are no exchanges with an ETC/USD pairing, the Trust will assess exchanges for compliance with federal and state licensing requirements that are applicable to the Trust and the Authorized Participant. The Trust also assesses each exchange's practices regarding anti-money laundering procedures. The Trust then identifies the pairing with the highest trading volume of ETC to the digital currency with the highest exchange capitalization for the prior trailing twelve months, taking into consideration intra-day pricing fluctuations and the degree of variances in price on ETC exchanges.

The Trust determines its principal market annually and conducts a quarterly analysis to determine if (i) there have been recent changes to each ETC exchange's transaction volume in the prior trailing twelve months, (ii) if any ETC exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if there have been any exchanges that have added an ETC/USD pairing, (iv) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make ETC exchanges previously inaccessible to the Trust now accessible, (v) if recent changes to each ETC exchange's price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market, or (vi) if the principal market is included in the TradeBlock ECX Index (the "Index").

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**3. Fair Value of Ethereum Classic (continued)**

The Trust performed an assessment of the principal market on December 31, 2017. Based on the Trust’s assessment, no exchanges met step one described above. Therefore, the Trust proceeded to step two and identified its principal market as Bitfinex. As of June 30, 2018, the Trust conducted its quarterly analysis and Bitfinex remained the principal market. The cost basis of the investment in ETC recorded by the Trust for financial reporting purposes is the fair value of ETC 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.

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

|   | <b>Ethereum Classic</b>   | <b>Fair Value</b>    |
|---|---------------------------|----------------------|
| <b>Balance at April 18, 2017 (the inception of the Trust)</b> | -                         | \$ -                 |
| ETC contributed   | 3,640,510.22790978        | 25,651,068           |
| ETC distributed for Sponsor Fee payable, related party        | (47,011.07090874)         | (651,429)            |
| Net change in unrealized appreciation on investment in ETC    | -                         | 69,926,312           |
| Net realized gain on investment in ETC                        | -                         | 362,867              |
|   | <b>3,593,499.15700104</b> | <b>95,288,818</b>    |
| <b>Balance at December 31, 2017</b>                           |                           |                      |
| ETC contributed   | 812,436.33767415          | 13,533,391           |
| ETC distributed for Sponsor Fee payable, related party        | (48,468.99646727)         | (1,157,507)          |
| Net change in unrealized depreciation on investment in ETC    | -                         | (39,923,148)         |
| Net realized gain on investment in ETC                        | -                         | 801,394              |
|   | <b>4,357,466.49820792</b> | <b>\$ 68,542,948</b> |
| <b>Balance at June 30, 2018</b>                               |                           |                      |

**4. Distributions**

An “airdrop” is the process in which a blockchain project team distributes tokens of a new virtual currency directly to holders of a different, existing virtual currency on a different, existing blockchain. Airdrops can occur as a result of a marketing strategy to establish early interest and ownership in a new virtual currency. At a predetermined date, the project team behind an airdrop event takes a “snapshot” of an existing blockchain. Holders of the tokens on the original existing blockchain will receive a number of tokens on a new network at a ratio declared by the project team. Generally, the only prerequisite to be a recipient of these new tokens is that users hold tokens on the original blockchain. However, there are instances in which existing users are tasked with satisfying project-specific eligibility requirements in order to claim the “airdropped” tokens on the new network.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**4. Distributions (continued)**

**Callisto Airdrop on March 5, 2018**

*Background and Measurement*

In the case of the Callisto airdrop on March 5, 2018, a snapshot of the Ethereum Classic Network occurred at block 5,500,000. This established a separate blockchain and native currency with the intent of acting as a sidechain for Ethereum Classic. This version of the Ethereum Classic Network was rebranded as Callisto.

Immediately following the airdrop on March 5, 2018, holders of Ethereum Classic passively received an Incidental Right to obtain an equal number of Callisto tokens. At that time, the Trust held approximately 3,602,511 ETC. The newly created Callisto was initially inaccessible to the Trust as the Callisto “mainnet” or blockchain was not launched immediately following the balance snapshot. On the date of the airdrop, the Incidental Rights to Callisto were determined to have no value as there were insufficient observable market inputs to determine the fair value of Callisto.

Furthermore, on March 5, 2018, the Sponsor of the Trust announced that it had declared a distribution and established a record date for the in-kind distribution of the Incidental Right to Callisto to Shareholders of record as of the close of business on March 8, 2018.

*Subsequent Measurement and Distribution of Incidental Rights to Callisto*

Subsequent to the date of the airdrop, active trading markets for Callisto had not yet developed. On March 5, 2018, the Trust declared a distribution and established a record date for the in-kind distribution of the Incidental Rights to obtain 3,602,511 Callisto tokens held by the Trust to the Shareholders of record (“Callisto Record Date Shareholders”) as of the close of business on March 8, 2018 (the “Callisto Record Date” and such distribution, “Incidental Rights to Callisto Distribution”). The Trust determined the fair value per Incidental Right to Callisto to be \$0 as of March 5, 2018.

On the Callisto Record Date, the Trust, acting on behalf of the Callisto Record Date Shareholders and pursuant to the terms of the Trust Agreement governing the Trust, appointed Grayscale as Agent of the Callisto Record Date Shareholders and distributed the Incidental Rights to Callisto tokens held by the Trust to the Callisto Record Date Shareholders by transferring such Incidental Rights to the Agent. The Trust has no ownership interest in the distributed Incidental Rights to Callisto, no ability to control the actions of the Agent and no right to receive any information about the distributed Incidental Rights to Callisto or the disposition thereof or of the underlying Callisto from the Callisto Record Date Shareholders, their Agent or any other person.

As of the Callisto Record Date, prior to the time of the Incidental Rights to Callisto Distribution, the Trust noted that Callisto was still not trading on an online platform that published transaction price and volume data publicly. Therefore, the Trust determined the fair value per Incidental Right of Callisto to be \$0 as of the Callisto Record Date, and no gain or loss was recognized as part of the Incidental Rights to Callisto Distribution.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**5. Creations and Redemptions of Shares**

At June 30, 2018 and December 31, 2017, there were an unlimited number of Shares authorized by the Trust. The Trust creates (and, should the Trust commence a redemption program, redeems) Shares from time to time, but only in one or more Baskets. The creation and redemption of Baskets on behalf of investors are made by the Authorized Participant in exchange for the delivery of ETC to the Trust or the distribution of ETC by the Trust. The number of ETC required for each creation Basket or redemption Basket is determined by dividing (x) the number of ETC owned by the Trust at such time, after deducting the number of ETC representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust, by (y) the number of Shares outstanding at such time and multiplying the quotient obtained by 100. Each Share represented approximately 0.9650 and 0.9795 of one ETC at June 30, 2018 and December 31, 2017, respectively.

The cost basis of investments in ETC recorded by the Trust is the fair value of ETC, as determined by the Trust, at 4:00 PM New York time on the date of transfer to the Trust by the Authorized Participant based on the creation Baskets. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of each Share to investors. The Authorized Participant may realize significant profits buying, selling, creating, and, if permitted, redeeming Shares as a result of changes in the value of Shares or ETC.

At this time, the Trust is not operating a redemption program and is not accepting redemption requests. Subject to receipt of regulatory approval and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program.

**6. Income Taxes**

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

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



**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**6. Income Taxes (continued)**

In accordance with GAAP, the Trust has defined the threshold for recognizing the benefits of tax return positions in the financial statements as “more-likely than-not” to be sustained by the applicable taxing authority and requires measurement of a tax position meeting the “more-likely than not” threshold, based on the largest benefit that is more than 50% likely to be realized. Tax positions not deemed to meet the “more-likely than-not” threshold are recorded as a tax benefit or expense in the current period. As of and during the period ended June 30, 2018 and for the period from April 18, 2017 (the inception of the Trust) to December 31, 2017, the Trust did not have a liability for any unrecognized tax amounts. However, the Sponsor’s conclusions concerning its determination of “more-likely than-not” tax positions may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance, and on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Sponsor of the Trust has evaluated whether or not there are uncertain tax positions that require financial statement recognition and has determined that no reserves for uncertain tax positions related to federal, state and local income taxes existed as of June 30, 2018 and December 31, 2017, respectively.

**7. Related Parties**

The Trust considers the following entities and their directors to be related parties of the Trust: DCG, Genesis, and Grayscale. As of June 30, 2018 and December 31, 2017, 2,754,698 and 2,654,805 Shares of the Trust were held by related parties of the Trust, respectively.

DCG, holds a minority interest in the Key Maintainer that represents approximately 1.0% of the Key Maintainer’s voting equity.

In accordance with the Trust Agreement governing the Trust, the Trust pays a fee to the Sponsor, calculated as 3.0% of the aggregate value of the Trust’s assets, less its liabilities (which include any accrued but unpaid expenses), as calculated and published by the Sponsor or its delegates (the “Sponsor Fee”). The Sponsor Fee accrues daily in U.S. dollars and is payable in ETC, monthly in arrears. The amount of ETC payable in respect of each daily U.S. dollar accrual will be determined by reference to the same U.S. dollar value used to determine such accrual. Incidental Rights and IR Virtual Currencies have been excluded from the value of the Trust’s assets for purposes of calculation of the Sponsor Fee and have not been distributed in payment of Sponsor Fee through June 30, 2018.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**7. Related Parties (continued)**

As consideration for its receipt of the Sponsor's Fee, the Sponsor is obligated under the Trust Agreement to assume and pay the following fees and expenses incurred by the Trust in the ordinary course of its affairs, excluding taxes, but including marketing fees, administrator fees, if any, fees for the Key Maintainer, the Backup Maintainers and any other security vendor engaged by the Trust, transfer agent fees, trustee fees, fees and expenses related to the listing, quotation or trading of the Shares on any secondary market (including customary legal, marketing and audit fees and expenses) in an amount up to \$600,000 in any given fiscal year, ordinary course legal fees and expenses, audit fees, regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act, printing and mailing costs, the costs of maintaining the Trust's website, and applicable license fees (the "Sponsor-paid Expenses"). The Trust may incur certain extraordinary, non-recurring expenses that are not Sponsor-paid Expenses, including but not limited to, taxes and governmental charges, expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of the Trust to protect the Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), any indemnification of the Key Maintainer, Backup Maintainers or other agents, services providers or counterparties of the Trust, the fees and expenses related to the listing, quotation or trading of the Shares on any secondary market (including legal, marketing and audit fees and expenses) to the extent exceeding \$600,000 in any given fiscal year and extraordinary legal fees and expenses, including any legal fees and expenses incurred in connection with litigation, regulatory enforcement or investigation matters (collectively "Additional Trust Expenses"). In such circumstances, the Sponsor will either convert ETC, Incidental Rights or IR Virtual Currency into U.S. Dollars or other fiat currencies or deliver ETC, Incidental Rights or IR Virtual Currency in kind, in each case, in such quantity as may be necessary to pay such Additional Trust Expenses.

In order to assist in the development of the Ethereum Classic Network, the Sponsor intends, but is not obligated, to direct up to one-third of the Sponsor's Fee towards initiatives that support the development, marketing and other community efforts relating to the Ethereum Classic Network at the sole discretion of the Sponsor for the first three years of the Trust's operations.

For the three months ended June 30, 2018 and for the period from April 18, 2017 (the inception of the Trust) to June 30, 2017, the Trust incurred Sponsor Fees of \$474,800 and \$211,165, respectively, which were paid in ETC. For the six months ended June 30, 2018, the Trust incurred Sponsor Fees of \$1,202,737, which were paid in ETC. As of June 30, 2018 and December 31, 2017, the fair market value of the accrued and unpaid Sponsor Fees were \$443,908 and \$579,403, respectively.

**8. Risks and Uncertainties**

*Investments in ETC*

The Trust is subject to various risks including market risk, liquidity risk, and other risks related to its concentration in a single asset, ETC. Investing in ETC is currently unregulated, highly speculative, and volatile.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**8. Risks and Uncertainties (continued)**

The net asset value of the Trust relates primarily to the value of ETC held by the Trust, and fluctuations in the price of ETC could materially and adversely affect an investment in the Shares of the Trust. The price of ETC has a limited history. During such history, ETC prices have been volatile and subject to influence by many factors including the levels of liquidity. If ETC exchanges continue to experience significant price fluctuations, the Trust may experience losses. Several factors may affect the price of ETC, including, but not limited to, global ETC supply and demand, theft of ETC from global exchanges or vaults, and competition from other forms of digital currency or payment services.

The ETC held by the Trust are commingled and the Trust's Shareholders have no specific rights to any specific ETC. 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 ETC, nor is there a central or major depository for the custody of ETC. There is a risk that some or all of the Trust's ETC could be lost or stolen. The Trust does not have insurance protection on its ETC which exposes the Trust and its Shareholders to the risk of loss of the Trust's ETC. Further, ETC transactions are irrevocable. Stolen or incorrectly transferred ETC may be irretrievable. As a result, any incorrectly executed ETC transactions could adversely affect an investment in the Trust.

If ETC is determined to be a security under federal or state securities laws by the U.S. Securities and Exchange Commission or any other agency, or in a proceeding in a court of law or otherwise, it may adversely affect the value of ETC and the Shares. The Trust and the Sponsor may also be subject to additional regulatory requirements, including those under the Investment Company Act, and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act. 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 ETC at a time that is disadvantageous to Shareholders. Public statements by senior officials at the SEC, including a June 2018 speech by the director of the SEC's division of Corporation Finance, indicate that the SEC does not intend to take the position that Bitcoin or Ethereum are currently securities. Such statements cannot be generalized to any other digital currency, including ETC, and are not official policy statements by the SEC and reflect only the speaker's views, which are not binding to the SEC or any other agency or court.

To the extent private keys for ETC addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Trust may be unable to access the ETC held in the associated address and the private key will not be capable of being restored by the ETC network. The processes by which ETC transactions are settled are dependent on the ETC 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 ETC.

As of the close of business on August 3, 2018 the fair value of ETC determined in accordance with the Trust's accounting policy was \$14.75 per ETC.

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**8. Risks and Uncertainties (continued)**

*Incidental Rights and IR Virtual Currencies*

During the six months ended June 30, 2018, the Trust came into possession of Incidental Rights by virtue of the Trust's investment in ETC. The Sponsor intends to evaluate each fork or airdrop on a case-by-case basis in consultation with the Trust's legal advisors, tax consultants, Key Maintainer and Backup Maintainer, and may decide to abandon any Incidental Rights or IR Virtual Currency resulting from a hard fork or airdrop should the Sponsor conclude, in its discretion, that such abandonment is in the best interests of the Trust. Any inability to realize the economic benefit of a hard fork or airdrop could adversely impact an investment in the Shares.

The markets that develop subsequent to each fork or airdrop have very limited trading history, are unregulated in nature and are subject to significant volatility. Fluctuations in the value of Incidental Rights and IR Virtual Currencies may be significant. Furthermore, the network participants could stop supporting and using the forked networks at any time which could result in a significant impairment of the value of Incidental Rights and IR Virtual Currencies. There can be no assurances that Shareholders will receive any benefit from a distribution of Incidental Rights or IR Virtual Currencies.

**9. Financial Highlights Per Share Performance**

|  | <b>Three Months<br/>Ended<br/>June 30, 2018</b> | <b>Six Months<br/>Ended<br/>June 30, 2018</b> | <b>From April 18, 2017<br/>(the inception of the<br/>Trust) to June 30, 2017</b> |
|--|---|---|--|
| <b>Per Share Data:</b>   |   |   |  |
| Net asset value, beginning of period                             | \$ 14.12  | \$ 25.97                                      | \$ -   |
| Net increase (decrease) in net assets from investment operation: |   |   |  |
| Net investment loss  | (0.12)  | (0.32)  | (0.38)   |
| Net realized and unrealized gains (losses)                       | 1.18  | (10.47)                                       | 18.04  |
| Net increase (decrease) in net assets resulting from operations  | 1.06  | (10.79)                                       | 17.66  |
| Net asset value, end of period                                   | <u>\$ 15.18</u>                                 | <u>\$ 15.18</u>                               | <u>\$ 17.66</u>  |
| <br>Total return   | <br><u>7.51%</u>                                | <br><u>-41.55%</u>                            | <br><u>418.46%</u>   |
| <br><i>Ratios to average net assets:</i>                         |   |   |  |
| Net investment loss  | <u>-3.00%</u>                                   | <u>-3.00%</u>                                 | <u>-3.00%</u>  |
| Expenses   | <u>-3.00%</u>                                   | <u>-3.00%</u>                                 | <u>-3.00%</u>  |

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

**Ethereum Classic Investment Trust**  
**Notes to Unaudited Financial Statements**

**9. Financial Highlights Per Share Performance (continued)**

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 and has been annualized.

**10. Indemnifications**

In the normal course of business, the Trust enters into certain contracts that provide a variety of indemnities, including contracts with the Sponsor and affiliates of the Sponsor, DCG and its officers, directors, employees, subsidiaries and affiliates, and the Key Maintainer as well as other service providers to the Trust. More specifically, under the Key Maintenance Agreement, the Key Maintainer's monetary liability is capped at the greater of \$1 million or 10% of the loss caused by and directly attributable to a breach of the Key Maintainer's obligations as defined in the Key Maintenance Agreement. 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.