Crypto Currency Partners

~ Investor Update ~

Crypto Currency Partners, L.P.

October 2014

Confidential – Proprietary – Do Not Forward

www.Blockchain.capital

[redacted] ([redacted]

Crypto Currency Partners

Dear CCP Investors,

The Bitcoin ecosystem is one the most exciting investment landscapes that we have seen in our 20 years as venture capitalists and hedge fund managers. Bitcoin is better, faster, cheaper, programmable money. Bitcoin is simultaneously a digital currency, a computer protocol, a financial transaction processing network, a store of value, and a self-protecting global peer-to-peer network. For the first time in human history, Bitcoin enables the near instantaneous and irreversible utilization of a payment technology (i.e. cash, Visa or Gold) that doesn't require an incumbent financial intermediary such as a bank or a sovereign nation. And it is virtually free. We could send you 1/100 of a penny (1.7 bits) or $10 million dollars (17,670 Bitcoins) using a smart phone, or a paper-based physical "wallet" containing bitcoins. Hedge fund managers can use crypto currencies like Bitcoin to store value in a liquid, globally available asset that is negatively correlated to traditional financial assets. Yet Bitcoin also enables a migrant farm worker in California to send money back to his family in Mexico and save the 5-10% charged by traditional cash remittance companies like Western Union. Bitcoin allows for cash to be sent world-wide without the high fixed costs associated with credit card transactions. We have all seen the hand written-signs at the checkout register that say "minimum credit card purchase $5." This is because merchants have to share 2-2.5% of credit card purchases with Visa/MasterCard/American Express. Merchants accepting Bitcoin get to keep that 2.-2.5%. The fixed costs of the Bitcoin ecosystem are orders of magnitude cheaper than legacy payment networks. Extrapolating the inherent low costs of the Bitcoin network on a global basis means that 3 billion of the world's population who are currently "unbanked" could become consumers of financial products and services.

From a global macro perspective, Bitcoin is interesting because it is experiencing rapid user growth and is at the same time transnational and super-sovereign. Like the Internet in the mid-1990s. Gold is also super-sovereign, but it is hard to move physically, and you can't split it and spend it online for goods and services like you can with Bitcoin. Bitcoin can be thought of as a start-up technology company that is competing in the world of global financial institutions and governments. The old adage that "necessity is the mother of invention" applies to Bitcoin. It was invented in the direct aftermath of the global financial crisis of 2008, which showed the world that financial institutions are dangerously interconnected, too big to fail, and over-leveraged. These same financial institutions are still largely unreformed and manage financial assets like stocks, bonds, and currencies. The prices of these financial assets have been massively supported, in a coordinated fashion, by sovereign nations and central banks. The debt and liquidity problems of the global banking system were "solved" with more debt and liquidity by central bankers. History tells us that currency devaluations and/or inflation will be the result of these policy decisions. A central tenant of our Bitcoin investment thesis is that Bitcoin is structurally designed to be anti-inflationary. Baked into the Bitcoin protocol, a "law of Bitcoin" if you will, is that there will only be 21 million bitcoins ever created by the system (there are approximately 13 million bitcoins in circulation as of August 2014).

The core invention underpinning Bitcoin is a powerful idea and novel technology called The Blockchain. The Blockchain enables two parties to exchange value without knowing, or necessarily trusting each other. This is similar to physically exchanging cash, except the two parties can be located anywhere in the world. The Blockchain technology has many applications and Bitcoin is just the first in the vertical industry of finance. To name a few beyond finance, the Blockchain could be used as an escrow service, for enabling smart contracts and titles, or to manage elections in emerging and/or unstable nation states. It could also be used as a decentralized certificate authority for identification and authorization, or to cheaply manage legal disputes.

We see a massively attractive risk/reward profile for those companies that can leverage Blockchain technology to disrupt bloated legacy systems like financial services, legal services, and government. In the Bitcoin ecosystem, we like companies that are creating the financial infrastructure to connect crypto currencies like Bitcoin to the global capital markets. We see excellent investment opportunities in sub-sectors of Bitcoin like Blockchain based SaaS for enterprises, mobile apps, mining/pools, security, global remittance, gaming, and rest-of-world consumer financial products and services.

Bitcoin is complex, hard to understand, and confusing. As a result, it is often misunderstood and frequently mis-reported… And therein lies the investment opportunity at this nascent stage in the development of this organically growing ecosystem.

We created Crypto Currency Partners, LP (CCP) to bring the discipline of professional investors to the Wild West of crypto currencies, of which Bitcoin is our favorite and primary focus. The limited partners invited into the investment partnership are Bitcoin thought leaders, Bitcoin entrepreneurs, professional VC's personal accounts, hedge fund managers, and technology company operating executives. The start-up companies that receive capital from CCP are companies that are leaders in their respective Bitcoin sub-sectors. Our mission, as stewards of capital and Bitcoin venture capitalists, is to help CCP companies grow. We speak at Bitcoin conferences around the world and are constantly interacting with operating companies, start-ups, regulators, venture capital firms, and institutional investors. All of whom are learning and getting more exposed to Bitcoin. These are the early days. Stay tuned and strap in.

Deal Flow

We have seen tremendous deal flow throughout the year originating from our founding partners, managing partners and limited partners. Through our partners, we believe we have been able to take a look at nearly every Bitcoin investment opportunity possible, with a few high profile exceptions that pre-date the fund's inception. As interest in the Bitcoin ecosystem from traditional top tier venture capitalists grows, it may become more difficult to maintain access to all deals. However, we are continuing to cultivate relationships with all thought leaders and Bitcoin-interested venture firms. Our goal is to be viewed as a sector specific venture fund, that generalist venture funds will bring into their deals for due diligence, industry expertise, sales leads, and domain expertise.

Our Kieretsu

We have been working hard to cultivate the inter-connected relationships of our portfolio companies. Many of them are utilizing the products or services of other CCP companies. We encourage our companies to work together and to enact best business practices of the Bitcoin ecosystem. This network of companies supporting each other, and enabling best-of-breed specialization, has been very positive for many of our investments. It boosts early revenues and time-to-market.

Nothing frustrates us more than to see a handful of companies waste time and resources, all trying to recreate the same service that is not core to their business. We are very early in the rise of crypto currencies, and speed to market and specialization within targeted markets is paramount to success. The Bitcoin ecosystem is also evolving in an accelerated fashion, thereby magnifying mistakes by start-up companies in the sector. We hope to guide our companies and help them grow by providing capital, assisting them with hiring, bringing customer leads, offering strategic advice, and access to the CCP network of companies and people.

Capital Calls

The stated goal of this fund was to make roughly 20 investments in the Bitcoin ecosystem in 2014. We believe that CCP is the only fund in the world that accepts capital calls in either fiat currency or Bitcoin and that can also fund companies in fiat or Bitcoin.

We have been very active investing in the first nine months of the year, investing the majority of the capital in 27 Bitcoin start-ups. We will not be making any additional investments from the fund.

How You Can Help

We will continue to leverage the collective network of the general partners, limited partners and CCP operating company executives to help all of our companies grow and thrive.

A quarter of the portfolio is well capitalized with financing for at least the next year of operations. Another quarter of the portfolio will be raising capital in early to mid-2015. The remaining 50% of portfolio companies will be raising capital in Q4 2014. In the near term, much of our focus will be on assisting these companies with capital needs. As CCP companies seek funding, we may be reaching out to the limited partners of the fund for specific introductions to venture capital firms if we don't have existing relationships. We endeavor to keep our limited partners informed of ongoing capital raises, and if you believe you can be helpful, please speak up. Also, many of our CCP companies' financings will have opportunities for direct co-investments by CCP limited partners. If this is something you are interested in, please let us know.

We welcome any comments or feedback,

Brad Stephens
Bart Stephens
Brock Pierce

Portfolio Companies

Authy – Two-factor authentication platform
Co-investors: Y Combinator

Bex.io – White label Bitcoin exchange as a service
Co-investors: Plug and Play, BoostVC

BitAccess– Bitcoin Teller Machine
Co-investors: Y Combinator, Pantera Capital

BitFury – World's largest Bitcoin miner
Co-investors: Binary Financial, Georgian Co-Investment Fund

BitGo – Enterprise focused, multi-signature secure wallet platform
Co-investors: Redpoint, Radar Partners, Founders Fund

BitPesa – Money Remittance to Africa
Co-investors: Pantera

Blade Financial (fka PayPay)– White-label Bitcoin debit card
Co-investors: Angels

BlockCypher – Powering Blockchains in the Cloud
Co-investors: Foundation Capital, Tim Draper

BlockStream – Enabling the creation of Side-chains
Co-investors: Reid Hoffman, Khosla Ventures, Ribbit Capital

BTC China – Leading Chinese Exchange, Mobile Apps and Payments
Co-investors: Lightspeed Venture Partners

Chain.com – Enterprise Bitcoin Infrastructure
Co-investors: Khosla Ventures, RRE Ventures, SV Angel, 500 Startups

ChangeCoin – Platform for receiving and sending online tips
Co-investors: AngelList

Coinsetter – Institutional grade, low latency Bitcoin exchange and ECN
Co-investors: Second Market, Tribeca Venture Fund

Expresscoin – A simple and safe way for consumers to buy Bitcoin
Co-investors: Bitcoin Shop (OTC: NTCS), Angels

FreshPay – Enabling ease of payments for individuals

Co-investors: Future Perfect Ventures, Angels

Gem (fka BitVault) – Bank-grade security for developer apps
Co-investors: Amplify.LA, RRE, First Round Capital

GoCoin – Multi-currency payment gateway for merchants
Co-investors: Bitcoin Shop (OTC: NTCS), Angels

Koinify – Crypto meets crowdfunding
Co-investors: IDG Capital Partners, zPark Venture, Danhua Capital

Kraken – European crypto currency exchange
Co-investors: Hummingbird Ventures, SecondMarket

LedgerX – Self-clearing Bitcoin derivatives platform
Co-investors: Lightspeed Venture Partners, SV Angel, Google Ventures

Noble Markets– Financial services focused crypto-exchange
Co-investors: Clearstone Venture Partners, Tally Capital

PeerNova – Crypto infrastructure as a Service and Cloud-hashing
Co-investors: Mosaik Partners, Pierre Lamond, Ashar Aziz

SFOX – Algorithmic Bitcoin exchange
Co-investors: Y Combinator, Khosla Ventures, Tech Accelerator

SnapCard – Spend your Bitcoin on any web site
Co-investors: Boost.VC

Texas Bitcoin Conference – Industry trade show
Co-investors: Angels

Xapo – Bitcoin focused consumer financial services
Co-investors: Pantera, Ribbit, Greylock, Benchmark, Fortress

ZenBox – Bitcoin ATM operator
Co-investors: Angels

ZipZap – global digital currency payment network
Co-investors: 500 Startups, Triple Point Capital, Blumberg Capital