

five or fewer individuals or some tax-exempt organizations), to the amount for which the Member is considered to be "at risk" with respect to EDGE196™'s activities, if that is less than his tax basis. A Member subject to these limitations must recapture losses deducted in previous years to the extent that distributions cause his at-risk amount to be less than zero at the end of any taxable year. Losses disallowed to a Member or recaptured as a result of these limitations will carry forward and will be allowable as a deduction to the extent that his at-risk amount is subsequently increased, provided such losses do not exceed such unitholders' tax basis in his digital assets. Upon the taxable disposition of a Class A DIGITAL ASSET, any gain recognized by a Member can be offset by losses that were previously suspended by the at-risk limitation but may not be offset by losses suspended by the basis limitation.

Any loss previously suspended by the at-risk limitation in excess of that gain would no longer be utilizable.

In general, a member will be at risk to the extent of the tax basis of his digital assets, excluding any portion of that basis attributable to his share of EDGE196™'s nonrecourse liabilities, reduced by (i) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or other similar arrangement and (ii) any amount of money he borrows to acquire or hold his digital assets, if the lender of those borrowed funds owns an interest in EDGE196™, is related to the member or can look only to the digital assets for repayment. A member's at-risk amount will increase or decrease as the tax basis of the member's digital assets increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of EDGE196™'s nonrecourse liabilities.

In addition to the basis and at-risk limitations on the deductibility of losses, the passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally trade or business activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. Subject to certain limitations and conditions, passive losses EDGE196™ generates may be available to offset EDGE196™'s passive income generated in the future and/or income from other passive activities. Passive losses that are not deductible because they exceed a member's share of income EDGE196™ generated may be deducted in full when he disposes of his entire purchase in EDGE196™ in a fully taxable transaction with an unrelated party.

The passive loss limitations are applied after other applicable limitations on deductions, including the at-risk rules and the basis limitation. Subject to certain limitations and conditions, a member's share of EDGE196™'s net income may be offset by any of EDGE196™'s suspended passive losses and may be offset by any other current or carryover losses from other passive activities.

An additional loss limitation may apply to certain of EDGE196™'s members for taxable years beginning after December 31, 2017, and before January 1, 2026.