

GRAYSCALE BITCOIN TRUST (BTC)

A Delaware Trust

Sponsored by

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QUARTERLY REPORT

For the quarterly period ended September 30, 2019

Shares Representing Common Units of Fractional Undivided Beneficial Interest

No Par Value Per Share

Unlimited Shares Authorized

244,951,500 Shares Issued and Outstanding as of September 30, 2019

OTCQX: GBTC

Grayscale Investments, LLC (the “Sponsor”), on behalf of Grayscale Bitcoin Trust (BTC) (the “Trust”), is responsible for the content of this quarterly report for the quarter ended September 30, 2019 (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,” “Grayscale Bitcoin Trust (BTC),” “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 November 14, 2019

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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 operations, the Sponsor’s plans and references to the Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially 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. You should specifically consider the numerous risks outlined under “Risk Factors” in our Annual Report. Whether or not actual results and developments will conform to the Sponsor’s expectations and predictions, however, is subject to a number of risks and uncertainties, including:

- the risk factors discussed in this Quarterly Report, including the particular risks associated with new technologies such as Bitcoin and blockchain technology;
- the inability to redeem Shares;
- the economic conditions in the Bitcoin industry and market;
- general economic, market and business conditions;
- the use of technology by us and our vendors, including the Custodian, in conducting our business, including disruptions in our computer systems and data centers and our transition to, and quality of, new technology platforms;
- changes in laws or regulations, including those concerning taxes, made by governmental authorities or regulatory bodies;
- the costs and effect of any litigation or regulatory investigations;
- our ability to maintain a positive reputation; and
- other world economic and political developments.

Consequently, all the forward-looking statements made in this Quarterly Report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust’s operations or the value of the Shares. Should one or more of the risks discussed under “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 Custodian 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 fee 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 year ended December 31, 2018.

“Authorized Participant”—Certain eligible financial institutions that have entered into an agreement with the Trust and the Sponsor concerning the creation 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”—A Bitcoin wallet address that is known to the Custodian as belonging to the Authorized Participant.

“Basket”—A block of 100 Shares.

“Basket Bitcoin Amount”—On any trade date, the number of Bitcoins required as of such trade date for each Creation Basket, as determined by dividing (x) the number of Bitcoins owned by the Trust at 4:00 p.m., New York time, on such trade date, after deducting the number of Bitcoins representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust (converted using the Bitcoin 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 Bitcoin (*i.e.*, carried to the eighth decimal place)), and multiplying such quotient by 100.

“Bitcoin” or “BTC”—A type of digital asset based on an open-source cryptographic protocol existing on the Bitcoin Network, units that constitute the assets underlying the Trust’s Shares.

“Bitcoin Account”—A segregated custody account controlled and secured by the Custodian to store private keys, which allow for the transfer of ownership or control of the Trust’s Bitcoins, on the Trust’s behalf.

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

“Bitcoin Exchange Market”—The global market for the trading of Bitcoin, which consists of transactions on electronic Bitcoin Exchanges.

“Bitcoin 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), calculated in the manner set forth under “Valuation of Bitcoin and Determination of the Trust’s Bitcoin Holdings” in our Annual Report. See also “Management’s Discussion and Analysis — Critical Accounting Policies — Principal Market and Fair Value Determination” for a description of the Trust’s NAV, as calculated in accordance with GAAP.

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

“Bitcoin Market” —A dealer market, brokered market, principal-to-principal market or exchange market on which Bitcoin is bought and sold.

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

“Bitcoin Network”—The online, end-user-to-end-user network hosting the public transaction ledger, known as the Blockchain, and the source code comprising the basis for the cryptographic and algorithmic protocols governing the Bitcoin Network. See “Overview of the Bitcoin Industry and Market” in our Annual Report.

“Bitcoin SegWit2X”—A type of digital asset based on an open source cryptographic protocol existing on the Bitcoin SegWit2X Network, which came into existence following the Bitcoin hard fork on December 28, 2017.

“Blockchain” or “Bitcoin Blockchain”—The public transaction ledger of the Bitcoin Network on which miners or mining pools solve algorithmic equations allowing them to add records of recent transactions (called “blocks”) to the chain of transactions in exchange for an award of Bitcoins from the Bitcoin Network and the payment of transaction fees, if any, from users whose transactions are recorded in the block being added.

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

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

“Custodian”—Coinbase Custody Trust Company, LLC. See “Trust Overview” below.

“Custodian Agreement”—The agreement between the Sponsor and the Custodian which sets forth the obligations and responsibilities of the Custodian in respect of the safekeeping of the Trust’s Bitcoins.

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

“DCG”—Digital Currency Group, Inc.

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

“DTC”—The Depository Trust Company. DTC is a limited purpose trust company organized under New York law, a member of the U.S. Federal Reserve System and a clearing agency registered with the SEC. DTC will act as the securities depository for the Shares.

“DTC Participant”—A direct participant in DTC, such as a bank, broker, dealer or trust company.

“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.

“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 Bitcoins and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust.

“Index”—The TradeBlock XBX 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 Bitcoin Index Price.

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

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

“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.

“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 of Baskets and for the delivery of Bitcoins required for Creation Baskets.

“Quarterly Report”—This Quarterly Report for the three and nine months ended September 30, 2019.

“Rule 144”—Rule 144 under the Securities Act.

“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.

“Service Providers”—Collectively, Grayscale Investments, LLC, Continental Stock Transfer & Trust Company, Genesis, TradeBlock, Inc., Coinbase Custody Trust Company, LLC 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.

“Share Split”—A 91-for-1 Share split of the Trust’s issued and outstanding Shares, which was effected on January 26, 2018 to Shareholders of record as of the close of business on January 22, 2018.

“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: (i) the Marketing Fee; (ii) the Administrator Fee, if any; (iii) the Custodian Fee; (iv) the Transfer Agent fee; (v) the Trustee fee; (vi) 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; (vii) ordinary course legal fees and expenses; (viii) audit fees; (ix) regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act; (x) printing and mailing costs; (xi) costs of maintaining the Trust’s website and (xii) applicable license fees, provided that any expense that qualifies as an Additional Trust Expense will be deemed to be an Additional Trust Expense and not a Sponsor-paid Expense.

“Sponsor’s Fee”—A fee, payable in Bitcoins, which accrues daily in U.S. dollars at an annual rate of 2.0% of the Bitcoin Holdings Fee Basis Amount of the Trust 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 of the Sponsor’s Fee will be based on the Bitcoin 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.

“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.

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

“Trust”—Grayscale Bitcoin Trust (BTC), a Delaware statutory trust, formed on September 13, 2013 under the DSTA and pursuant to the Trust Agreement.

“Trust Agreement”—The Fifth Amended and Restated Declaration of Trust and Trust Agreement between the Trustee and the Sponsor establishing and governing the operations of the Trust, as amended by Amendment No. 1 thereto and as the same may be further 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.

“Vault Account”—One or more cold storage accounts in the name of the Sponsor and of the Trust held for the safekeeping of the Trust’s Bitcoins.

“Wallet Account”—One or more wallets in the name of the Sponsor and of the Trust held for the deposit and withdrawal of Bitcoins.

Item 1. The exact name of the issuer and the address of its principal executive offices.

The name of the trust is Grayscale Bitcoin Trust (BTC). The Trust was previously named Bitcoin Investment Trust and changed its name pursuant to a Certificate of Amendment to the Certificate of Trust of Bitcoin Investment Trust filed with the Delaware Secretary of State on January 11, 2019.

The address of the Sponsor is: Grayscale Investments, LLC
250 Park Avenue South
New York, NY 10003

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, which contains general information about the Trust and the Sponsor. The reference to our website is an interactive textual reference only, and the information contained on our website shall not be deemed incorporated by reference herein.

Investor relations contact: Michael Sonnenshein
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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 "GBTC" and the CUSIP number for its Shares is 389637109.

On January 26, 2018, the Trust completed a 91-for-1 Share split (the "Share Split") of the Trust's issued and outstanding Shares. Each Shareholder of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held. The number of outstanding Shares and per-Share amounts disclosed for all periods presented have been retroactively adjusted to reflect the effects of the Share Split.

The following table shows the number of the Shares outstanding ¹:

	As of September 30, 2019	As of December 31, 2018	As of December 31, 2017 ²
(i) Number of Shares authorized	Unlimited	Unlimited	Unlimited
(ii) Number of Shares outstanding	244,951,500	206,559,100	174,283,200
(iii) Number of Shares freely tradable (public float)³	199,041,128	170,827,797	156,001,664
(iv) Number of beneficial holders owning at least 100 Shares¹	119	115	65
(v) Number of holders of record¹	119	115	65

From January 1, 2017 to September 30, 2019, 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. Furthermore, during the period ended September 30, 2019, the Trust amended its offering to offer Shares on a periodic basis at such times and for such periods as the Sponsor determines in its sole discretion (each such period, an “Offering Period”).

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 Trust. All Shares initially offered and sold by the Trust are restricted securities pursuant to Rule 144 under the Securities Act. Until any Shares sold by the Trust become unrestricted in accordance with Rule 144, the certificates or other documents evidencing such Shares will contain legends stating that such 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 such 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 such legends. From January 1, 2017 to September 30, 2019, 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.

Period	Shares Offered	Shares Sold	No. of Purchasers	Avg. ⁴	High ⁴	Date	Low ⁴	Date
Twelve months ended December 31, 2017	Unlimited	7,088,900	44	\$ 4.00	\$ 18.94	12/18/2017	\$ 0.80	1/12/2017
Twelve months ended December 31, 2018	Unlimited	32,275,900	91	\$ 7.50	\$ 15.87	1/5/2018	\$ 3.20	12/16/2018
January 1, 2019 to September 30, 2019	Unlimited	38,392,400	91	\$ 6.96	\$ 12.41	7/10/2019	\$ 3.32	2/7/2019

¹ Includes Cede & Co. as nominee for DTC for the Shares traded on OTCQX. Therefore, this number does not include the individual holders who have bought/sold Shares on OTCQX or transferred their eligible Shares to their brokerage account.

² Share amounts have been retroactively adjusted to reflect the 91-for-1 Share Split of the Trust’s issued and outstanding Shares completed on January 26, 2018.

³ Public float means the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding, or anyone who controls, is controlled by or is under common control with such person, or any immediate family members of officers, directors and control persons. Freely tradable shares inclusive of holders with more than 10 percent of total shares outstanding was 199,041,128, 170,827,797 and 156,001,664 for the periods ending September 30, 2019, December 31, 2018 and December 31, 2017, respectively.

⁴ The prices reflected represent the Bitcoin Index Price (non-GAAP methodology).

Item 3. Unaudited interim financial statements.

The Trust's unaudited interim financial statements as of and for the three and nine months ended September 30, 2019 are attached as Exhibit 1 to this Quarterly Report. The historical results presented herein and therein 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 together 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, which have been prepared in accordance with GAAP. The following discussion may contain forward-looking statements based on assumptions we believe to be reasonable. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, 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 Bitcoins held by the Trust, as determined by reference to the Bitcoin Index Price (based on Bitcoin per Share), less the Trust's expenses and other liabilities. As of September 30, 2019, each Share represents approximately 0.0010 of one Bitcoin. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to Bitcoin. A substantial direct investment in Bitcoins may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of the Bitcoins and may involve the payment of substantial fees to acquire such Bitcoins 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 Bitcoins, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in Bitcoin markets through the securities market. Because the value of the Shares is correlated with the value of the Bitcoins held by the Trust, it is important to understand the investment attributes of, and the market for, Bitcoins.

The activities of the Trust are limited to (i) issuing Baskets in exchange for Bitcoins transferred to the Trust as consideration in connection with the creations, (ii) transferring or selling Bitcoins, Incidental Rights and IR Virtual Currency as necessary to cover the Sponsor's Fee and/or any Additional Trust Expenses, (iii) transferring Bitcoins 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 Bitcoins, 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 Custodian Agreement, 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 Bitcoins.

On July 29, 2019, the Sponsor entered into an agreement with Coinbase Custody Trust Company, LLC (the "Custodian") to serve as custodian for the underlying asset of the Trust (the "Custodian Agreement"). The Custodian Agreement establishes the rights and responsibilities of the Custodian, the Sponsor, and the Trust with respect to the safekeeping of the Trust's Bitcoin. The Custodian Agreement is for an initial term of three years with a fee based on a percentage of assets under custody for each of the investment products sponsored or managed by the Sponsor and for which the Custodian serves as the custodian. The fee paid to the Custodian is a Sponsor-

paid Expense. During the initial term, either party may terminate for certain events described in the agreement, and after the initial term, either party may also terminate upon ninety days' prior written notice. The existing agreements that provided for the safekeeping of the Trust's BTC were terminated following the conversion of the safekeeping role to the Custodian.

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 Bitcoins, generally through a fork in the Blockchain, an airdrop offered to holders of Bitcoins 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 Bitcoin Holdings, the Bitcoin Holdings per Share, the NAV or the NAV per Share.

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 2.0% of the Bitcoin Holdings Fee Basis Amount of the Trust 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 of the Sponsor's Fee will be based on Bitcoin 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 Bitcoins by reference to the same Bitcoin Index Price used to determine such accrual. The Sponsor's Fee is payable in Bitcoins to the Sponsor monthly in arrears.

To cause the Trust to pay the Sponsor's Fee, the Sponsor will instruct the Custodian to (i) withdraw from the Bitcoin Account the number of Bitcoins equal to the accrued but unpaid Sponsor's Fee and (ii) transfer such Bitcoins 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. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm's-length basis. The Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Index Provider or, in the absence of such an index, by reference to the cascading set of rules described in "Description of the Trust—The Index and the Bitcoin Index Price" in our Annual Report. If the Trust pays the Sponsor's Fee in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of Bitcoin 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.

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

After payment of the Sponsor-paid Expenses for the Trust, the Sponsor may use the remaining portion of the Sponsor's Fee received from the Trust at its discretion, which may include the payment of fees from time to time for the referral of new investors in the Trust.

As partial 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 instruct the Custodian to withdraw from the Bitcoin Account Bitcoins, 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 Bitcoins, 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 Bitcoins, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses only if doing so does not conflict with the terms of the Trust Agreement. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm's-length basis. The Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Index Provider or, in the absence of such an index, by reference to the cascading set of rules described in "Description of the Trust—The Index and the Bitcoin Index Price" in our Annual Report. If the Trust pays the Additional Trust Expenses in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of Bitcoin that would otherwise have been used to satisfy such payment will be correspondingly reduced.

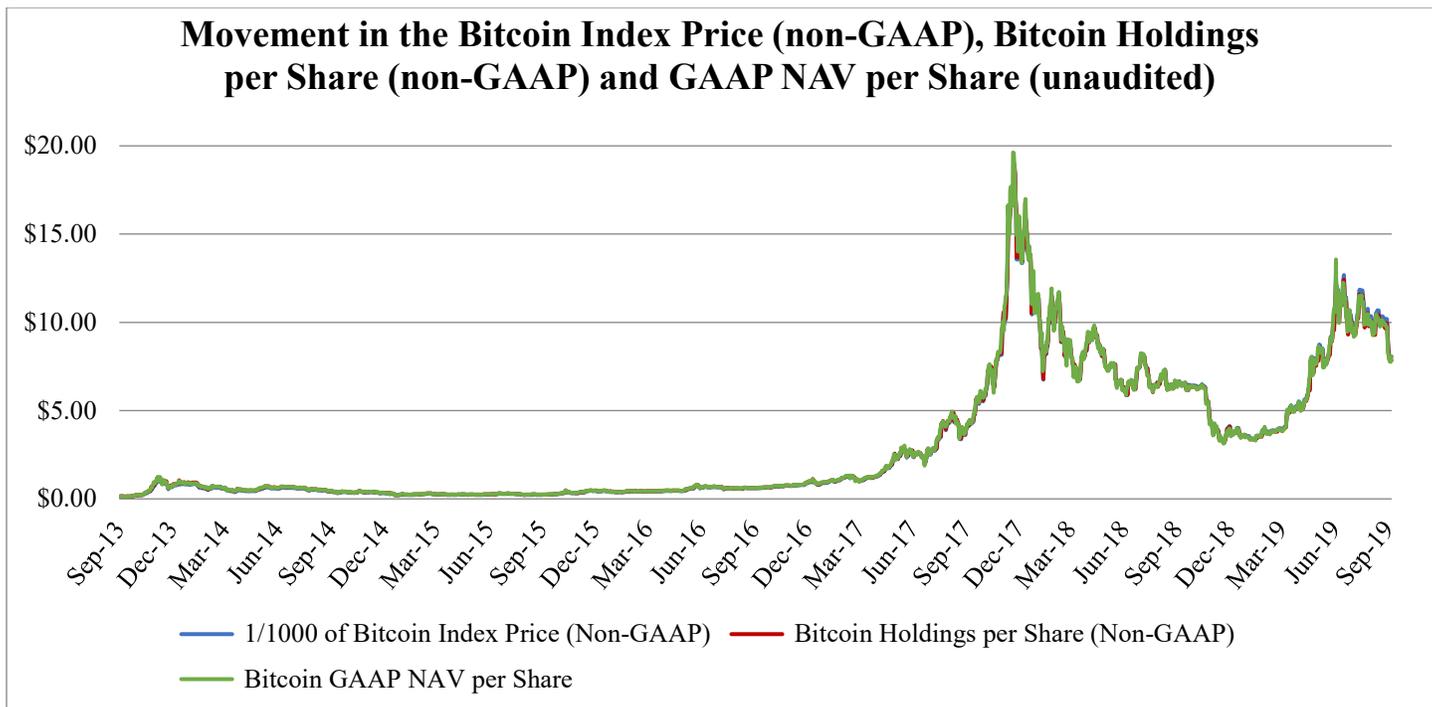
The number of Bitcoins represented by a Share will decline each time the Trust pays the Sponsor's Fee or any Additional Trust Expenses by transferring or selling Bitcoins.

Impact of Trust Expenses on the Trust's Bitcoin Holdings

The Trust will pay the Sponsor's Fee to the Sponsor in Bitcoins, Incidental Rights and/or IR Virtual Currency. In addition, the Trust will sell Bitcoins, 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 Bitcoins, Incidental Rights and/or IR Virtual Currency. The Trust's Bitcoin, Incidental Rights and IR Virtual Currency, and the purchase price received as consideration for such sales of Bitcoin, 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 Bitcoins held by the Trust will decrease when Bitcoins 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 Bitcoin 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 Bitcoins deposited into the Bitcoin Account in exchange for additional new Baskets issued by the Trust will not reverse this trend.

Bitcoin

Investing in the Shares does not insulate the investor from certain risks, including price volatility. The following chart illustrates the movement in the Trust's Bitcoin Holdings per Share (non-GAAP) (as adjusted for the Share Split for periods prior to January 26, 2018) versus the Bitcoin Index Price (non-GAAP) and the Trust's GAAP NAV per Share (as adjusted for the Share Split for periods prior to January 26, 2018) from September 25, 2013 to September 30, 2019:



For more information on the determination of the Trust’s Bitcoin Holdings, see “Grayscale Bitcoin Trust—Valuation of Bitcoin and Determination of the Trust’s Bitcoin Holdings” in our Annual Report.

Critical Accounting Policies

Correction of an Immaterial Misstatement

Subsequent to the issuance of the Trust’s quarterly financial statements for the three and six months ended June 30, 2019, the Trust determined that the calculation of realized gains and losses using an average cost method did not conform to GAAP. The Trust assessed the materiality of this misstatement both quantitatively and qualitatively and determined the correction of this misstatement was immaterial to the Trust’s prior financial statements taken as a whole. As a result, the Trust adjusted for this misstatement on July 1, 2019 by calculating realized gains and losses using the specific identification method and recording the out-of-period adjustment. Accordingly, the Trust decreased unrealized gains by a de minimis amount and increased realized losses to properly reflect the Trust’s calculation of realized gains and losses using the specific identification method.

Investment Transactions and Revenue Recognition

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

Principal Market and Fair Value Determination

To determine which market is the Trust’s principal market (or in the absence of a principal market, the most advantageous market) for purposes of calculating the Trust’s NAV, the Trust follows Accounting Standards Codification (“ASC”) 820-10, which outlines the application of fair value accounting. ASC 820-10 determines fair value to be the price that would be received for Bitcoin in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires the Trust to assume that Bitcoin is

sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact.

The Trust only receives Bitcoin from the Authorized Participant and does not itself transact on any Bitcoin Markets. Therefore, the Trust looks to the Authorized Participant when assessing entity specific and market based volume and level of activity for Bitcoin Markets. The Authorized Participant transacts in a Brokered Market, a Dealer Market, Principal-to-Principal Markets and Exchange Markets, each as defined in the Financial Accounting Standards Board (“FASB”) Master Glossary. The Authorized Participant, as a related party of the Sponsor, provides information about the Bitcoin Markets on which it transacts to the Trust. In determining which of the eligible Bitcoin Markets is the Trust’s principal market, the Trust reviews these criteria in the following order:

First, the Trust reviews the list of Bitcoin Markets and excludes any Bitcoin Markets that are non-accessible to the Trust and the Authorized Participant(s). The Trust or the Authorized Participant does not have access to Bitcoin Exchanges that do not have a BitLicense and has access only to Bitcoin Markets that the Authorized Participant reasonably believes are operating in compliance with applicable law, including federal and state licensing requirements, based upon information and assurances provided to it by each market.

Second, the Trust sorts the remaining Bitcoin Markets from high to low by entity-specific and market-based volume and activity of Bitcoin traded on each Bitcoin Market in the trailing twelve months.

Third, the Trust then reviews intra-day pricing fluctuations and the degree of variances in price on Bitcoin Markets to identify any material notable variances that may impact the volume or price information of a particular Bitcoin Market.

Fourth, the Trust then selects a Bitcoin Market as its principal market based on the highest market volume, activity and price stability in comparison to the other Bitcoin Markets on the list. Based on information reasonably available to the Trust, Exchange Markets have the greatest volume and level of activity for the asset. The Trust therefore looks to accessible Exchange Markets as opposed to the Brokered Market, Dealer Market and Principal-to-Principal Markets to determine its principal market. As a result of the analysis, an Exchange Market has been selected as the Trust’s principal market.

The Trust determines its principal market (or in the absence of a principal market the most advantageous market) annually and conducts a quarterly analysis to determine (i) if there have been recent changes to each Bitcoin Market’s trading volume and level of activity in the trailing twelve months, (ii) if any Bitcoin Markets have developed that the Trust has access to, or (iii) if recent changes to each Bitcoin Market’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.

The cost basis of the investment in Bitcoin recorded by the Trust for financial reporting purposes is the fair value of Bitcoin at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of the corresponding Shares to investors.

Investment Company Considerations

The Trust is an investment company for GAAP purposes and follows accounting and reporting guidance in accordance with the FASB ASC Topic 946, *Financial Services – Investment Companies*. The Trust uses fair value as its method of accounting for Bitcoin in accordance with its classification as an investment company for accounting purposes. 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.

Review of Financial Results (unaudited)

Financial Highlights for the Three and Nine Months Ended September 30, 2019 and 2018

(All amounts in the following table and the subsequent paragraphs, except Share, per Share, Bitcoin and price per Bitcoin amounts are in thousands of U.S. dollars)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net realized and unrealized (loss) gain on investment in Bitcoin	<u>\$ (708,082)</u>	<u>\$ 49,712</u>	<u>\$ 979,077</u>	<u>\$ (1,368,361)</u>
Net (decrease) increase in net assets resulting from operations	<u>\$ (720,450)</u>	<u>\$ 42,925</u>	<u>\$ 954,716</u>	<u>\$ (1,391,639)</u>
Net assets	<u>\$ 1,976,897</u>	<u>\$ 1,319,609</u>	<u>\$ 1,976,897</u>	<u>\$ 1,319,609</u>

Net realized and unrealized loss on investment in Bitcoin for the three months ended September 30, 2019 was (\$708,082), which includes a realized gain of \$9,451 on the transfer of Bitcoins to pay the Sponsor's Fee and net change in unrealized depreciation on investment in Bitcoin of (\$717,533). Net realized and unrealized loss on investment in Bitcoin for the period was driven by Bitcoin price depreciation from \$11,237.68 per Bitcoin as of June 30, 2019 to \$8,283.71 per Bitcoin as of September 30, 2019. Net decrease in net assets resulting from operations was (\$720,450) for the three months ended September 30, 2019, which consisted of the net realized and unrealized loss on investment in Bitcoin, plus the Sponsor's Fee of \$12,368. Net assets decreased to \$1,976,897 at September 30, 2019, a 22% decrease for the three-month period. The decrease in net assets resulted from the aforementioned Bitcoin price depreciation and the withdrawal of approximately 1,196 Bitcoin to pay the foregoing Sponsor's Fee, partially offset by the contribution of 14,418 Bitcoin with a value of \$164,068 to the Trust in connection with Share creations during the period.

Net realized and unrealized gain on investment in Bitcoin for the three months ended September 30, 2018 was \$49,712, which includes a realized gain of \$5,022 on the transfer of Bitcoins to pay the Sponsor's Fee and net change in unrealized appreciation on investment in Bitcoin of \$44,690. Net realized and unrealized gain on investment in Bitcoin for the period was driven by Bitcoin price appreciation from \$6,323.24 per Bitcoin as of June 30, 2018 to \$6,588.01 per Bitcoin as of September 30, 2018. Net increase in net assets resulting from operations was \$42,925 for the three months ended September 30, 2018, which consisted of the net realized and unrealized gain on investment in Bitcoin, less the Sponsor's Fee of \$6,787. Net assets increased to \$1,319,609 at September 30, 2018, an 8% increase for the three-month period. The increase in net assets resulted from the aforementioned Bitcoin price appreciation and the contribution of approximately 8,796 Bitcoin with a value of \$59,422 to the Trust in connection with Share creations during the period, partially offset by the withdrawal of approximately 997 Bitcoin to pay the foregoing Sponsor's Fee.

Net realized and unrealized gain on investment in Bitcoin for the nine months ended September 30, 2019 was \$979,077, which includes a realized gain of \$17,006 on the transfer of Bitcoins to pay the Sponsor's Fee and net change in unrealized appreciation on investment in Bitcoin of \$962,071. Net realized and unrealized gain on investment in Bitcoin for the period was driven by Bitcoin price appreciation from \$3,679.42 per Bitcoin as of December 31, 2018 to \$8,283.71 per Bitcoin as of September 30, 2019. Net increase in net assets resulting from operations was \$954,716 for the nine months ended September 30, 2019, which consisted of the net realized and unrealized gain on investment in Bitcoin, less the Sponsor's Fee of \$24,361. Net assets increased to \$1,976,897 at September 30, 2019, a 163% increase for the nine-month period. The increase in net assets resulted from the aforementioned Bitcoin price appreciation and the contribution of approximately 37,714 Bitcoin with a value of \$270,559 to the Trust in connection with Share creations during the period, partially offset by the withdrawal of approximately 3,342 Bitcoin to pay the foregoing Sponsor's Fee.

Net realized and unrealized loss on investment in Bitcoin for the nine months ended September 30, 2018 was (\$1,368,361), which includes a realized gain of \$19,061 on the transfer of Bitcoins to pay the Sponsor's Fee and net change in unrealized depreciation on investment in Bitcoin of (\$1,387,422). Net realized and unrealized loss on investment in Bitcoin for the period was driven by Bitcoin price depreciation from \$14,168.54 per Bitcoin as of December 31, 2017 to \$6,588.01 per Bitcoin as of September 30, 2018. Net decrease in net assets resulting from operations was (\$1,391,639) for the nine months ended September 30, 2018, which consisted of the net realized and unrealized loss on investment in Bitcoin, plus the Sponsor's Fee of \$23,278. Net assets decreased to \$1,319,609 at September 30, 2018, a 47% decrease for the nine-month period. The decrease in net assets resulted from the aforementioned Bitcoin price depreciation and the withdrawal of approximately 2,821 Bitcoin to pay the foregoing Sponsor's Fee, partially offset by the contribution of approximately 27,287 Bitcoin with a value of \$219,865 to the Trust in connection with Share creations during the period.

Off-Balance Sheet Arrangements

The Trust is not a party to any off-balance sheet arrangements.

Cash Resources and Liquidity

The Trust has not had a cash balance at any time since inception. When selling Bitcoins, Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses, the Sponsor endeavors to sell the exact number of Bitcoins, Incidental Rights and/or IR Virtual Currency needed to pay expenses in order to minimize the Trust's holdings of assets other than Bitcoin. 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 most of the 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.

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 derivative financial instruments and has no foreign operations or long-term debt instruments.

Selected Operating Data (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Bitcoins:				
Opening balance	225,427	192,506	204,277	175,839
Creations	14,418	8,796	37,714	27,287
Sponsor's Fee, related party	(1,196)	(997)	(3,342)	(2,821)
Closing balance	238,649	200,305	238,649	200,305
Accrued but unpaid Sponsor's Fee, related party	-	-	-	-
Net closing balance	238,649	200,305	238,649	200,305
Number of Shares:				
Opening balance	230,217,300	192,704,400	206,559,100	174,283,200
Creations	14,734,200	8,819,100	38,392,400	27,240,300
Closing balance	244,951,500	201,523,500	244,951,500	201,523,500

	As of September 30,	
	2019	2018
Price of Bitcoin on principal market ¹	\$ 8,283.71	\$ 6,588.01
NAV per Share ²	\$ 8.07	\$ 6.55
Bitcoin Index Price	\$ 8,065.08	\$ 6,586.74
Bitcoin Holdings per Share ³	\$ 7.86	\$ 6.55

For the three months ended September 30, 2019, an additional 14,734,200 Shares (147,342 Baskets) were created in exchange for approximately 14,418 Bitcoins and approximately 1,196 Bitcoins were deducted from the Trust's Bitcoin Holdings and used to pay the Sponsor's Fee. For the three months ended September 30, 2018, an additional 8,819,100 Shares (88,191 Baskets) were created in exchange for approximately 8,796 Bitcoins and approximately 997 Bitcoins were deducted from the Trust's Bitcoin Holdings and used to pay the Sponsor's Fee.

For the nine months ended September 30, 2019, an additional 38,392,400 Shares (383,924 Baskets) were created in exchange for approximately 37,714 Bitcoins and approximately 3,342 Bitcoins were deducted from the Trust's

¹ The Trust performed an assessment of the principal market at September 30, 2019 and 2018, and identified the principal market as Coinbase Pro.

² As of September 30, 2019 and 2018, the NAV per Share was calculated using the fair value of Bitcoin based on the price provided by Coinbase Pro, the Bitcoin Exchange the Trust currently considers its principal market, as of 4:00 p.m., New York time, on the valuation date.

³ The Trust's Bitcoin Holdings per Share is derived from the Bitcoin Index Price as represented by the Index as of 4:00 p.m., New York time, on the valuation date. The Trust's Bitcoin Holdings per Share is calculated using a non-GAAP methodology where the volume-weighted average price is derived from multiple Bitcoin Exchanges. See the section entitled "Grayscale Bitcoin Trust (BTC) – Valuation of Bitcoin and Determination of the Trust's Bitcoin Holdings" in our Annual Report for a description of the Trust's Bitcoin Holdings per Share. The Bitcoin Exchanges used to calculate the Bitcoin Index Price as of September 30, 2019 were Coinbase Pro, Bittrex, itBit, Kraken and Bitstamp. As of September 30, 2019, the Bitcoin Index Price was \$8,065.08 and the Bitcoin Holdings per Share was \$7.86.

Bitcoin Holdings and used to pay the Sponsor's Fee. For the nine months ended September 30, 2018, an additional 27,240,300 Shares (272,403 Baskets) were created in exchange for approximately 27,287 Bitcoins and approximately 2,821 Bitcoins were deducted from the Trust's Bitcoin Holdings and used to pay the Sponsor's Fee.

For accounting purposes, the Trust reflects creations and the Bitcoin receivable with respect to such creations on the date of receipt of a notification of a creation but does not issue Shares until the requisite number of Bitcoins is received. 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 September 30, 2019, the Trust had a net closing balance of approximately 238,649 Bitcoins, with a total value of \$1,924,721,610, based on the Bitcoin Index Price of \$8,065.08 (non-GAAP methodology). As of September 30, 2019, the Trust had a net closing balance of approximately 238,649 Bitcoins, with a total market value price of \$1,976,897,396, based on the principal market (Coinbase Pro) of \$8,283.71.

As of September 28, 2018, (the last business day on which a Creation Basket could have been originated), the Trust had a net closing balance of approximately 200,327 Bitcoins, with a total value of \$1,335,132,529, based on the Bitcoin Index Price of \$6,664.78 (non-GAAP methodology). As of September 30, 2018, the Trust had a net closing balance of approximately 200,305 Bitcoins, with a total value of \$1,319,354,445, based on the Bitcoin Index Price of \$6,586.74 (non-GAAP methodology). As of September 30, 2018, the Trust had a net closing balance of approximately 200,305 Bitcoins, with a total market value of \$1,319,608,832, based on the principal market price (Coinbase Pro) of \$6,588.01.

Historical Bitcoin Prices

As movements in the price of Bitcoins will directly affect the price of the Shares, investors should understand recent movements in the price of Bitcoin. Investors, however, should also be aware that past movements in the Bitcoin price are not indicators of future movements. Movements may be influenced by various factors, including, but not limited to, government regulation, security breaches experienced by Service Providers, as well as political and economic uncertainties around the world.

During the period from September 25, 2013 (the first Creation Basket of the Trust) to September 30, 2019 the Bitcoin price, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, traded between \$110.83 per Bitcoin (October 2, 2013) and \$19,433.21 per Bitcoin (December 16, 2017), the straight average was \$3,046.95 and the median was \$747.00. The annual average, high, low and end-of-period Bitcoin prices for the five years ended September 30, 2019, 2018, 2017, 2016 and 2015, and for the period from the first Creation Basket of the Trust until September 30, 2019, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, on the applicable dates were:

<u>Period</u>	<u>Average</u>	<u>High</u>	<u>Date</u>	<u>Low</u>	<u>Date</u>	<u>End of period</u>	<u>Last business day</u>
Twelve months ended September 30, 2015	\$275.62	\$424.94	11/12/2014	\$184.84	1/14/2015	\$237.33	\$237.33
Twelve months ended September 30, 2016	\$470.09	\$769.07	6/18/2016	\$237.68	10/2/2015	\$604.84	\$604.84
Twelve months ended September 30, 2017	\$1,792.56	\$4,871.83	9/1/2017	\$607.73	10/4/2016	\$4,332.53	\$4,168.33
Twelve months ended September 30, 2018	\$8,601.17	\$19,433.21	12/16/2017	\$4,208.00	10/4/2017	\$6,588.01	\$6,675.09
Twelve months ended September 30, 2019	\$6,637.57	\$13,849.81	6/26/2019	\$3,164.61	12/14/2018	\$8,283.71	\$8,283.71
September 25, 2013 (the first Creation Basket of the Trust) to September 30, 2019	\$3,046.95	\$19,433.21	12/16/2017	\$110.83	10/2/2013	\$8,283.71	\$8,283.71

Item 5. Legal proceedings.

There are no current, past, pending or, to the Trust's knowledge, 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.

None.

Item 8. Exhibits.

Exhibit 1 Unaudited Financial Statements for the Three and Nine Months ended September 30, 2019.

Item 9. Issuer's certifications.

Certification

I, Barry E. Silbert, certify that:

1. I have reviewed the Quarterly Report, exhibits, and all notes thereto of Grayscale Bitcoin Trust (BTC);
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: November 14, 2019

/s/ Barry E. Silbert

By: Barry E. Silbert

Title: Chief Executive Officer of
Grayscale Investments, LLC

Certification

I, Simcha Wurtzel, certify that:

1. I have reviewed the Quarterly Report, exhibits, and all notes thereto of Grayscale Bitcoin Trust (BTC);
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: November 14, 2019

/s/ Simcha Wurtzel

By: Simcha Wurtzel

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

Exhibit 1

Unaudited Financial Statements for the Three and Nine Months Ended September 30, 2019

FINANCIAL STATEMENTS

Grayscale Bitcoin Trust (BTC)

**For the Three and Nine Months Ended September 30, 2019
(Unaudited)**



Grayscale Bitcoin Trust

Grayscale Bitcoin Trust (BTC)
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Grayscale Bitcoin Trust (BTC)
Statements of Assets and Liabilities
(Unaudited)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
(Amounts in U.S. dollars, except Share amounts)		
Assets:		
Investment in Bitcoin, at fair value (cost \$650,947,803 and \$387,743,536 as of September 30, 2019 and December 31, 2018, respectively)	\$ 1,976,897,396	\$ 751,622,174
Total assets	<u>\$ 1,976,897,396</u>	<u>\$ 751,622,174</u>
Liabilities:		
Sponsor's Fee payable, related party	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
Net assets	<u>\$ 1,976,897,396</u>	<u>\$ 751,622,174</u>
Net Assets consists of:		
Paid-in-capital	669,137,511	398,578,756
Accumulated net investment loss	(70,465,434)	(46,104,815)
Accumulated net realized gain on investment in Bitcoin	52,275,726	35,269,595
Accumulated net change in unrealized appreciation on investment in Bitcoin	1,325,949,593	363,878,638
	<u>\$ 1,976,897,396</u>	<u>\$ 751,622,174</u>
Shares issued and outstanding, no par value (unlimited Shares authorized)	<u>244,951,500</u>	<u>206,559,100</u>
Net asset value per Share	<u>\$ 8.07</u>	<u>\$ 3.64</u>

See accompanying notes to unaudited financial statements

Grayscale Bitcoin Trust (BTC)
Schedules of Investment
(Unaudited)

September 30, 2019

	<u>Quantity of Bitcoin</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Investment in Bitcoin	238,648.79325898	\$ 650,947,803	\$ 1,976,897,396	100%
Net assets		<u>\$ 650,947,803</u>	<u>\$ 1,976,897,396</u>	<u>100%</u>

December 31, 2018

	<u>Quantity of Bitcoin</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Investment in Bitcoin	204,277.35165345	\$ 387,743,536	\$ 751,622,174	100%
Net assets		<u>\$ 387,743,536</u>	<u>\$ 751,622,174</u>	<u>100%</u>

See accompanying notes to unaudited financial statements

Grayscale Bitcoin Trust (BTC)
Statements of Operations
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
(Amounts in U.S. dollars)				
Investment income:				
Investment income	\$ -	\$ -	\$ -	\$ -
Expenses:				
Sponsor's Fee, related party	12,367,915	6,786,516	24,360,619	23,278,862
Net investment loss	<u>(12,367,915)</u>	<u>(6,786,516)</u>	<u>(24,360,619)</u>	<u>(23,278,862)</u>
Net realized and unrealized (loss) gain from:				
Net realized gain on investment in Bitcoin	9,451,178	5,021,671	17,006,131	19,061,540
Net change in unrealized (depreciation) appreciation on investment in Bitcoin	<u>(717,533,289)</u>	<u>44,690,067</u>	<u>962,070,955</u>	<u>(1,387,422,080)</u>
Net realized and unrealized (loss) gain on investment	<u>(708,082,111)</u>	<u>49,711,738</u>	<u>979,077,086</u>	<u>(1,368,360,540)</u>
Net (decrease) increase in net assets resulting from operations	<u>\$ (720,450,026)</u>	<u>\$ 42,925,222</u>	<u>\$ 954,716,467</u>	<u>\$ (1,391,639,402)</u>

See accompanying notes to unaudited financial statements

Grayscale Bitcoin Trust (BTC)
Statements of Changes in Net Assets
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September, 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
(Amounts in U.S. dollars, except change in Shares outstanding)				
(Decrease) increase in net assets from operations:				
Net investment loss	\$ (12,367,915)	\$ (6,786,516)	\$ (24,360,619)	\$ (23,278,862)
Net realized gain on investment in Bitcoin	9,451,178	5,021,671	17,006,131	19,061,540
Net change in unrealized (depreciation) appreciation on investment in Bitcoin	<u>(717,533,289)</u>	<u>44,690,067</u>	<u>962,070,955</u>	<u>(1,387,422,080)</u>
Net (decrease) increase in net assets resulting from operations	<u>(720,450,026)</u>	<u>42,925,222</u>	<u>954,716,467</u>	<u>(1,391,639,402)</u>
Increase in net assets from capital share transactions:				
Shares issued	<u>164,067,760</u>	<u>59,422,286</u>	<u>270,558,755</u>	<u>219,865,103</u>
Net increase in net assets resulting from capital share transactions	<u>164,067,760</u>	<u>59,422,286</u>	<u>270,558,755</u>	<u>219,865,103</u>
Total (decrease) increase in net assets from operations and capital share transactions	<u>(556,382,266)</u>	<u>102,347,508</u>	<u>1,225,275,222</u>	<u>(1,171,774,299)</u>
Net assets:				
Beginning of period	<u>2,533,279,662</u>	<u>1,217,261,324</u>	<u>751,622,174</u>	<u>2,491,383,131</u>
End of period	<u>\$ 1,976,897,396</u>	<u>\$ 1,319,608,832</u>	<u>\$ 1,976,897,396</u>	<u>\$ 1,319,608,832</u>
Change in Shares outstanding:				
Shares outstanding at beginning of period	<u>230,217,300</u>	<u>192,704,400</u>	<u>206,559,100</u>	<u>174,283,200</u>
Shares issued	<u>14,734,200</u>	<u>8,819,100</u>	<u>38,392,400</u>	<u>27,240,300</u>
Net increase in Shares	<u>14,734,200</u>	<u>8,819,100</u>	<u>38,392,400</u>	<u>27,240,300</u>
Shares outstanding at end of period	<u>244,951,500</u>	<u>201,523,500</u>	<u>244,951,500</u>	<u>201,523,500</u>

See accompanying notes to unaudited financial statements

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

1. Organization

Grayscale Bitcoin Trust (BTC) (the “Trust”) is a Delaware Statutory Trust that was formed on September 13, 2013 and commenced operations on September 25, 2013. In general, the Trust holds Bitcoin (“BTC”) 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 Bitcoin. The redemption of Shares is not currently contemplated and the Trust does not currently operate 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 Bitcoin 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 Bitcoin, 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 Bitcoin and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust; 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 pursuant to the provisions of the Trust Agreement. Grayscale is responsible for preparing and providing annual and quarterly reports on behalf of the Trust to investors and is also responsible for selecting and monitoring the Trust’s service providers. As partial consideration for the Sponsor’s services, the Trust pays Grayscale a Sponsor’s Fee as discussed in Note 6.

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 custodian of the Trust (the “Custodian”) is responsible for safeguarding the Bitcoin, Incidental Rights, and IR Virtual Currency held by the Trust. On July 29, 2019, the Sponsor entered into an agreement with Coinbase Custody Trust Company, LLC, a third-party service provider, to serve as custodian for the underlying assets of the Trust (the “Custodian Agreement”). Previously, the Custodian since August 9, 2015 was Xapo, Inc., a third-party service provider. The Custodian Agreement is for an initial term of three years. The previous agreements that provided for the safekeeping of the Trust’s Bitcoin were terminated following the conversion of the safekeeping role to Coinbase Custody Trust Company, LLC.

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 which are primarily held in book-entry form.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

1. Organization (continued)

On March 25, 2015, the Trust received notice that its Shares were qualified for public trading on the OTCQX U.S. Marketplace of the OTC Markets Group Inc. (“OTCQX”). The Trust’s trading symbol on OTCQX is “GBTC” and the CUSIP number for its Shares is 389637109.

On January 26, 2018, the Trust completed a 91-for-1 Share Split of the Trust’s issued and outstanding Shares. Each beneficial owner of a Share (a “Shareholder”) of record as of the close of business on January 22, 2018 received 90 additional Shares of the Trust for each Share held. The number of outstanding Shares and per-Share amounts disclosed for all periods presented have been retroactively adjusted to reflect the effects of the Share Split.

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 as of September 30, 2019 and December 31, 2018 and results of operations for the three and nine months ended September 30, 2019 and 2018 have been made. The results of operations for the periods presented 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 year ended December 31, 2018 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 uses fair value as its method of accounting for Bitcoin in accordance with its classification as an investment company for accounting purposes. 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 Bitcoin, including receiving Bitcoin for the creation of Shares and delivering Bitcoin for the redemption of Shares (if a redemption program were to be established) and for the payment of the Sponsor’s Fee. Since its inception, the Trust has not held cash or cash equivalents.

Principal Market and Fair Value Determination

To determine which market is the Trust’s principal market (or in the absence of a principal market, the most advantageous market) for purposes of calculating the Trust’s net asset value (“NAV”), the Trust follows ASC 820-10, which outlines the application of fair value accounting. ASC 820-10 determines fair value to be the price that would be received for Bitcoin in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires the Trust to assume that Bitcoin is sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

2. Summary of Significant Accounting Policies (continued)

The Trust only receives Bitcoin from the Authorized Participant and does not itself transact on any Bitcoin markets. Therefore, the Trust looks to the Authorized Participant when assessing entity specific and market based volume and level of activity for Bitcoin markets. The Authorized Participant transacts in a Brokered Market, a Dealer Market, Principal-to-Principal Markets and Exchange Markets, each as defined in the FASB Master Glossary. The Authorized Participant, as a related party of the Sponsor, provides information about the Bitcoin markets on which it transacts to the Trust. In determining which of the eligible Bitcoin markets is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust reviews a list of Bitcoin markets and excludes any Bitcoin markets that are non-accessible to the Trust and the Authorized Participant(s). The Trust or the Authorized Participant does not have access to Bitcoin markets that do not have a BitLicense and has access only to Bitcoin markets that the Authorized Participant reasonably believes are operating in compliance with applicable law, including federal and state licensing requirements, based upon information and assurances provided to it by each market.

Second, the Trust sorts the remaining Bitcoin markets from high to low by entity-specific and market-based volume and activity of Bitcoin traded on each Bitcoin market in the trailing twelve months.

Third, the Trust then reviews intra-day pricing fluctuations and the degree of variances in price on Bitcoin markets to identify any material notable variances that may impact the volume or price information of a particular Bitcoin market.

Fourth, the Trust then selects a Bitcoin market as its principal market based on the highest market volume, activity and price stability in comparison to the other Bitcoin markets on the list. Based on information reasonably available to the Trust, Exchange Markets have the greatest volume and level of activity for the asset. The Trust therefore looks to accessible Exchange Markets as opposed to the Brokered Market, Dealer Market and Principal-to-Principal Markets to determine its principal market. As a result of the analysis, an Exchange Market has been selected as the Trust's principal market.

The Trust determines its principal market (or in the absence of a principal market the most advantageous market) annually and conducts a quarterly analysis to determine (i) if there have been recent changes to each Bitcoin market's trading volume and level of activity in the trailing twelve months, (ii) if any Bitcoin markets have developed that the Trust has access to, or (iii) if recent changes to each Bitcoin market'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.

The cost basis of the investment in Bitcoin recorded by the Trust for financial reporting purposes is the fair value of Bitcoin at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of the corresponding Shares to investors.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

2. Summary of Significant Accounting Policies (continued)

Correction of an Immaterial Misstatement

Subsequent to the issuance of the Trust's quarterly financial statements for the three and six months ended June 30, 2019, the Trust determined that the calculation of realized gains and losses using an average cost method did not conform to GAAP. The Trust assessed the materiality of this misstatement both quantitatively and qualitatively and determined the correction of this misstatement was immaterial to the Trust's prior financial statements taken as a whole. As a result, the Trust adjusted for this misstatement on July 1, 2019 by calculating realized gains and losses using the specific identification method and recording the out-of-period adjustment. Accordingly, the Trust decreased unrealized gains by a de minimis amount and increased realized gains to properly reflect the Trust's calculation of realized gains and losses using the specific identification method.

Reclassifications

Certain balances in the prior year have been reclassified to conform to the presentation in the current year. In-kind distributions, and the related net realized gain, of Incidental Rights and IR Virtual Currencies have been reclassified to the Accumulated net investment loss line on the Statement of Assets and Liabilities.

Investment Transactions and Revenue Recognition

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

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.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

	<u>Amount at Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
September 30, 2019				
Assets				
Investment in Bitcoin	<u>\$ 1,976,897,396</u>	<u>\$ -</u>	<u>\$ 1,976,897,396</u>	<u>\$ -</u>
December 31, 2018				
Assets				
Investment in Bitcoin	<u>\$ 751,622,174</u>	<u>\$ -</u>	<u>\$ 751,622,174</u>	<u>\$ -</u>

3. Fair Value of Bitcoin

Bitcoin is carried at fair value. As of September 30, 2019, and December 31, 2018, the Trust held 238,648.79325898 and 204,277.35165345 Bitcoin, respectively.

The Trust determined the fair value per Bitcoin to be \$8,283.71 on September 30, 2019 and \$3,679.42 on December 31, 2018 using the price provided at 4:00 p.m., New York time, by the Bitcoin exchange considered to be the Trust's principal market (Coinbase Pro).

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

3. Fair Value of Bitcoin (continued)

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

	Bitcoin	Fair Value
Balance at January 1, 2018	175,839.08652196	\$ 2,491,383,131
Bitcoin contributed	32,281.46620657	246,150,767
Bitcoin distributed for Sponsor's Fee, related party	(3,843.20107508)	(28,524,092)
Net change in unrealized depreciation on investment in Bitcoin	-	(1,979,766,573)
Net realized gain on investment in Bitcoin	-	22,378,941
Balance at December 31, 2018	204,277.35165345	751,622,174
Bitcoin contributed	37,713.56868841	270,558,755
Bitcoin distributed for Sponsor's Fee, related party	(3,342.12708288)	(24,360,619)
Net change in unrealized appreciation on investment in Bitcoin	-	962,070,955
Net realized gain on investment in Bitcoin	-	17,006,131
Balance at September 30, 2019	238,648.79325898	\$ 1,976,897,396

4. Creations and Redemptions of Shares

At September 30, 2019 and December 31, 2018, 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 Bitcoin to the Trust or the distribution of Bitcoin by the Trust. The number of Bitcoin required for each creation Basket or redemption Basket is determined by dividing (x) the number of Bitcoin owned by the Trust at 4:00 p.m., New York time, on such trade date of a creation or redemption order, after deducting the number of BTC 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 0.0010 of one Bitcoin at September 30, 2019 and December 31, 2018, adjusted to reflect the Share Split.

The cost basis of investments in Bitcoin recorded by the Trust is the fair value of Bitcoin, as determined by the Trust, at 4:00 p.m., 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 Bitcoin.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

4. Creations and Redemptions of Shares (continued)

Effective October 28, 2014, the Trust suspended its redemption program, in which Shareholders were permitted to request the redemption of their Shares through Genesis, the sole Authorized Participant at the time out of concern that the redemption program was in violation of Regulation M under the Exchange Act, resulting in a settlement reached with the Securities Exchange Commission (“SEC”). 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.

During the period ended September 30, 2019, the Trust amended its offering to offer Shares on a periodic basis at such times and for such periods as the Sponsor determines in its sole discretion (each such period, an “Offering Period”).

5. Income Taxes

As of January 1, 2016, an amendment to the Trust Agreement was made to ensure that the Trust Agreement was consistent with the treatment of the Trust as a grantor trust. On February 9, 2017, the Court of Chancery of the State of Delaware ordered that the Original Trust Agreement be reformed so that the amendments made are retroactive to the original date of execution of the Trust Agreement. On September 11, 2017, the Trust received a private letter ruling from the IRS in which the IRS concluded, based on the facts at that time, that the Trust qualified as a grantor trust for U.S. federal income tax purposes as of the date of the private letter ruling. Furthermore, as of October 24, 2017, amendments to the Trust Agreement were made to permit the Trust to hold rights to acquire, or otherwise establish, dominion and control over, Incidental Rights and IR Virtual Currency in a manner consistent with the Trust’s continued treatment as a grantor trust for U.S. federal income tax purposes.

Accordingly, 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 owner of Shares 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 currencies, 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.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

5. 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 periods ended September 30, 2019 and December 31, 2018, 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 September 30, 2019 or December 31, 2018.

6. Related Parties

The Trust considers the following entities, their directors, and employees to be related parties of the Trust: DCG, Genesis, and Grayscale. As of September 30, 2019, and December 31, 2018, 11,246,547 and 10,542,352 Shares of the Trust were held by related parties of the Trust, respectively.

The Sponsor’s parent, an affiliate of the Trust, holds a minority interest in Xapo, the Trust’s former Custodian, that represents approximately 1% of Xapo’s ownership and also holds a minority interest in Coinbase, Inc., the parent company of the Custodian, that represents approximately 1% of Coinbase Inc.’s ownership.

In accordance with the Trust Agreement governing the Trust, the Trust pays a fee to the Sponsor, calculated as 2.0% of the aggregate value of the Trust’s assets, less its liabilities (which include any accrued but unpaid expenses up to, but excluding, the date of calculation), as calculated and published by the Sponsor or its delegates in the manner set forth in the Trust Agreement (the “Sponsor’s Fee”). The Sponsor’s Fee accrues daily in U.S. dollars and is payable in Bitcoin, monthly in arrears. The amount of Bitcoin payable in respect of each daily U.S. dollar accrual will be determined by reference to the same U.S. dollar value of Bitcoin used to determine such accrual. For purposes of these financial statements, the U.S. dollar value of Bitcoin is determined by reference to the Bitcoin exchange that the Trust considers its principal market as of 4:00 p.m., New York time, on each valuation date. The Trust currently holds no Incidental Rights or IR Virtual Currency, nor were any held during the period ended September 30, 2019. No Incidental Rights or IR Virtual Currencies have been distributed in payment of the Sponsor’s Fee during the three and nine months ended September 30, 2019 and 2018.

As partial consideration for receipt of the Sponsor’s Fee, the Sponsor is obligated under the Trust Agreement to assume and pay all fees and other expenses incurred by the Trust in the ordinary course of its affairs, excluding taxes, but including marketing fees; administrator fees, if any; custodian fees; transfer agent fees; trustee fees; 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; the costs of maintaining the Trust’s website and applicable license fees (the “Sponsor-paid Expenses”), provided that any expense that qualifies as an Additional Trust Expense will be deemed to be an Additional Trust Expense and not a Sponsor-paid Expense.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

6. Related Parties (continued)

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 Custodian or other agents, service 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 or its delegate (i) will instruct the Custodian to withdraw from the Bitcoin account Bitcoins, 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 Bitcoins, 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 Bitcoins, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses.

For the three months ended September 30, 2019 and 2018, the Trust incurred Sponsor’s Fees of \$12,367,915 and \$6,786,516, respectively. For the nine months ended September 30, 2019 and 2018, the Trust incurred Sponsor’s Fees of \$24,360,619 and \$23,278,862, respectively. As of September 30, 2019 and December 31, 2018, there were no accrued and unpaid Sponsor’s Fees. In addition, the Sponsor may pay Additional Trust Expenses on behalf of the Trust, which are reimbursable by the Trust to the Sponsor. For the three and nine months ended September 30, 2019 and 2018, the Sponsor did not pay any Additional Trust Expenses on behalf of the Trust.

7. Risks and Uncertainties

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

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

The Bitcoin held by the Trust are commingled and the Trust’s Shareholders have no specific rights to any specific Bitcoin. In the event of the insolvency of the Trust, its assets may be inadequate to satisfy a claim by its Shareholders.

There is currently no clearing house for Bitcoin, nor is there a central or major depository for the custody of Bitcoin. There is a risk that some or all of the Trust’s Bitcoin could be lost or stolen. There can be no assurance that the Custodian will maintain adequate insurance or that such coverage will cover losses with respect to the Trust’s Bitcoin. Further, transactions in Bitcoin are irrevocable. Stolen or incorrectly transferred Bitcoin may be irretrievable. As a result, any incorrectly executed Bitcoin transactions could adversely affect an investment in the Shares.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

7. Risks and Uncertainties (continued)

The Securities and Exchange Commission (the “SEC”) has stated that certain digital assets may be considered “securities” under the federal securities laws. The test for determining whether a particular digital asset is a “security” is complex and the outcome is difficult to predict. If Bitcoin is determined to be a “security” under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for BTC. For example, it may become more difficult for BTC to be traded, cleared and custodied as compared to other digital assets that are not considered to be securities, which could, in turn, negatively affect the liquidity and general acceptance of BTC and cause users to migrate to other digital assets. As such, any determination that BTC is a security under federal or state securities laws may adversely affect the value of Bitcoin and, as a result, an investment in the Shares.

To the extent that Bitcoin is determined to be a security, the Trust and the Sponsor may also be subject to additional regulatory requirements, including those under the Investment Company Act of 1940, and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act of 1940. 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 Bitcoin at a time that is disadvantageous to Shareholders.

To the extent a private key required to access a Bitcoin address is lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Trust may be unable to access the Bitcoin controlled by the private key and the private key will not be capable of being restored by the Bitcoin network. The processes by which Bitcoin transactions are settled are dependent on the peer-to-peer network, and as such, the Trust is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the value of Bitcoin.

Grayscale Bitcoin Trust (BTC)
Notes to Unaudited Financial Statements

8. Financial Highlights Per Share Performance

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Per Share Data:				
Net asset value, beginning of period	\$ 11.00	\$ 6.32	\$ 3.64	\$ 14.30
Net (decrease) increase in net assets from investment operations:				
Net investment loss	(0.05)	(0.03)	(0.11)	(0.12)
Net realized and unrealized (loss) gain	(2.88)	0.26	4.54	(7.63)
Net (decrease) increase in net assets resulting from operations	(2.93)	0.23	4.43	(7.75)
Net asset value, end of period	<u>\$ 8.07</u>	<u>\$ 6.55</u>	<u>\$ 8.07</u>	<u>\$ 6.55</u>
Total return	<u>-70.18%</u>	<u>17.67%¹</u>	<u>195.95%</u>	<u>-66.00%¹</u>
<i>Ratios to average net assets:</i>				
Net investment loss	<u>-2.00%</u>	<u>-2.00%</u>	<u>-2.00%</u>	<u>-2.00%</u>
Expenses	<u>-2.00%</u>	<u>-2.00%</u>	<u>-2.00%</u>	<u>-2.00%</u>

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

An individual Shareholder's return, ratios, and per Share performance may vary from those presented above based on the timing of Share transactions.

Total return is calculated assuming an initial investment made at the net asset value at the beginning of the period and assuming redemption on the last day of the period and has been annualized.

9. Indemnifications

In the normal course of business, the Trust enters into certain contracts that provide a variety of indemnities, including contracts with the Sponsor and affiliates of the Sponsor, DCG and its officers, directors, employees, subsidiaries and affiliates, and the Custodian as well as others relating to services provided to the Trust. The Trust's maximum exposure under these and its other indemnities is unknown. However, no liabilities have arisen under these indemnities in the past and, while there can be no assurances in this regard, there is no expectation that any will occur in the future. Therefore, the Sponsor does not consider it necessary to record a liability in this regard.

¹ Total return for the three and nine months ended September 30, 2018 has been corrected as compared to the previously reported amount and has now been annualized.

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10. Subsequent Events

As of the close of business on November 13, 2019 the fair value of Bitcoin determined in accordance with the Trust's accounting policy was \$8,745.00 per Bitcoin.

There are no known events that have occurred that require disclosure other than that which has already been disclosed in these notes to the financial statements.