

GRAYSCALE ETHEREUM CLASSIC TRUST (ETC)

A Delaware Trust

Sponsored by

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Primary Standard Industrial Code: 6221

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

8,942,600 Shares Issued and Outstanding as of September 30, 2019

OTCQX: ETCG

Grayscale Investments, LLC (the “Sponsor”), on behalf of Grayscale Ethereum Classic Trust (ETC) (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 Ethereum Classic Trust (ETC),” “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 8, 2019

TABLE OF CONTENTS

Item 1.	The exact name of the issuer and the address of its principal executive offices.	10
Item 2.	Shares outstanding.....	10
Item 3.	Unaudited interim financial statements.	11
Item 4.	Management’s discussion and analysis.	11
Item 5.	Legal proceedings.....	21
Item 6.	Defaults upon senior securities.	21
Item 7.	Other information.	21
Item 8.	Exhibits.	21
Item 9.	Issuer’s certifications.....	22

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

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 Ethereum Classic and blockchain technology;
- the inability to redeem Shares;
- the economic conditions in the ETC industry and market;
- general economic, market and business conditions;
- the use of technology by us and our vendors, including the 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 (and, should the Fund commence a redemption program, redemption) of Shares. Each Authorized Participant (i) is a registered broker-dealer, (ii) has entered into a Participant Agreement with the Sponsor and (iii) owns an Authorized Participant Self-Administered Account.

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

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

“Basket”—A block of 100 Shares.

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

“Blockchain” or “Ethereum Classic Blockchain”—The public transaction ledger of the Ethereum Classic Network on which miners or mining pools solve algorithmic equations allowing them to add records of recent transactions (called “blocks”) to the chain of transactions in exchange for an award of ETC from the Ethereum

Classic Network and the payment of transaction fees, if any, from users whose transactions are recorded in the block being added.

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

“Custodial Services” — The Custodian’s services that (i) allow digital assets to be deposited from a public blockchain address to the Trust’s Digital Asset Account and (ii) allow each Trust and the Sponsor to withdraw digital assets from each Trust’s ETC Account to a public blockchain address the Trust or the Sponsor controls pursuant to instructions the Trust or the Sponsor provides to the Custodian.

“Custodian”— Coinbase Custody Trust Company, LLC, the custodian of the Trust’s ETC.

“Custodian Agreement”— The Custodial Services Agreement by and between the Trust and the Sponsor and Custodian that governs the Trust’s and the Sponsor’s use of the Custodial Services provided by the Custodian as a fiduciary with respect to the Trust’s assets.

“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.

“ETC” or “Ether Classic”—Ether Classic tokens, which are a type of digital asset based on an open-source cryptographic protocol existing on the Ethereum Classic Network, comprising units that constitute the assets underlying the Trust’s Shares.

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

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

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

“ETC Holdings”—The aggregate value, expressed in U.S. dollars, of the Trust’s assets (other than U.S. dollars or other fiat currency), less its liabilities (which include estimated accrued but unpaid fees and expenses), calculated in the manner set forth under “Valuation of ETC and Determination of the Trust’s ETC 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.

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

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

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

“ETH”, “Ether” or “Ethereum”—Ethereum tokens, which are a type of digital asset based on an open source cryptographic protocol existing on the Ethereum Network, comprising units that constitute the assets underlying the Trust’s Shares.

“Ethereum Classic Network”—The online, end-user-to-end-user network hosting a public transaction ledger, known as the Blockchain, and the source code comprising the basis for the cryptographic and algorithmic protocols governing the Ethereum Classic Network.

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

“GAAP”—United States generally accepted accounting principles.

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

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

“Index”—The TradeBlock ECX Index.

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

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

“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.

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

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

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

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

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

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

“Participant Agreement”—An agreement entered into by an Authorized Participant with the Sponsor that provides the procedures for the creation of Baskets and for the delivery of ETC 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.

“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) fees for the Custodian and any other security vendor engaged by the Trust; (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.

“Sponsor’s Fee”—A fee, payable in ETC which accrues daily in U.S. dollars at an annual rate of 3.0% of the ETC Holdings Fee Basis Amount of the Trust as of 4:00 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 ETC Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor’s Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date.

“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 Ethereum Classic Trust (ETC), a Delaware statutory trust, formed on April 18, 2017 under the DSTA and pursuant to the Trust Agreement.

“Trust Agreement”—The Second Amended and Restated Declaration of Trust and Trust Agreement between the Trustee and the Sponsor establishing and governing the operations of the Trust, as 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.

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

The name of the trust is Grayscale Ethereum Classic Trust (ETC). The Trust was previously named Ethereum Classic Investment Trust and changed its name pursuant to a Certificate of Amendment to the Certificate of Trust of Ethereum Classic 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 "ETCG" and the CUSIP number for its Shares is 38963Q107.

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
(i) Number of Shares authorized	Unlimited	Unlimited	Unlimited
(ii) Number of Shares outstanding	8,942,600	5,073,700	3,646,400
(iii) Number of Shares freely tradable (public float)²	2,497,888	1,190,074	0
(iv) Number of beneficial holders owning at least 100 Shares¹	95	103	147
(v) Number of holders of record¹	95	103	147

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 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 2,497,888, 1,190,074 and 0 for the periods ending September 30, 2019, December 31, 2018 and December 31, 2017, respectively.

From April 18, 2017 (the inception of the Trust) 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.

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 April 24, 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.

<u>Period</u>	<u>Shares Offered</u>	<u>Shares Sold</u>	<u>No. of Purchasers</u>	<u>Avg.¹</u>	<u>High¹</u>	<u>Date</u>	<u>Low¹</u>	<u>Date</u>
April 24, 2017 (the first Creation Basket of the Trust) to December 31, 2017	Unlimited	3,646,400	152	\$ 15.77	\$ 39.31	12/19/17	\$ 3.81	4/24/17
Twelve months ended December 31, 2018	Unlimited	1,427,300	70	\$ 15.73	\$ 39.57	2/20/18	\$ 3.30	12/9/18
January 1, 2019 to September 30, 2019	Unlimited	3,868,900	59	\$ 5.55	\$ 8.92	6/3/19	\$ 3.51	2/6/19

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 ETC held by the Trust, as determined by reference to the ETC Index Price (based on ETC per Share), less the Trust’s expenses and other liabilities. As of September 30, 2019, each Share represents approximately 0.9295 of one ETC. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to ETC. A substantial direct investment in ETC may require expensive and sometimes complicated arrangements in connection with

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

the acquisition, security and safekeeping of ETC and may involve the payment of substantial fees to acquire such ETC from third-party facilitators through cash payments of U.S. dollars. Although the Shares will not be the exact equivalent of a direct investment in ETC, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in ETC markets through the securities market. Because the value of the Shares is correlated with the value of the ETC held by the Trust, it is important to understand the investment attributes of, and the market for, ETC.

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

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 ETC. 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 Custodian is responsible for holding the private key(s) that provide access to the Trust's digital wallets and vaults, whereas previously, the Key Maintainer was responsible for maintaining certain Security Factors that provided access to the Trust's digital assets.

The existing agreements that provided for the safekeeping of the Trust's ETC 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 ETC, generally through a fork in the Ethereum Classic Blockchain, an airdrop offered to holders of ETC or other similar event. Pursuant to the terms of the Trust Agreement, the Trust may take any lawful action necessary or desirable in connection with the Trust's ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the Trust Agreement. These actions include selling Incidental Rights and/or IR Virtual Currency and distributing the cash proceeds to Shareholders or distributing Incidental Rights and/or IR Virtual Currency in kind to Shareholders, or to an agent acting on behalf of the Shareholders if such distribution would otherwise be infeasible. The Trust may also use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee and Additional Trust Expenses, if any, as discussed below under "—Trust Expenses." However, the Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust's ETC Holdings, ETC 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 3.0% of the ETC 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 ETC Holdings Fee Basis Amount, from the most recent business day, reduced by the accrued and unpaid Sponsor's Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date. This dollar amount for each daily accrual will then be converted into ETC by reference to the same ETC Index Price used to determine such accrual. The Sponsor's Fee is payable in ETC to the Sponsor monthly in arrears.

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

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

In addition, in order to assist in the development of the Ethereum Classic Network, the Sponsor intends, but is not obligated, to direct up to one-third of the Sponsor's Fee (or an annual rate of 1.0% of the daily ETC Holdings of the Trust) towards initiatives that support the development, marketing and other community efforts relating to the Ethereum Classic Network at the sole discretion of the Sponsor for the first three years of the Trust's operations.

After the Trust's payment of the Sponsor's Fee to the Sponsor, the Sponsor may elect to convert the ETC, Incidental Rights and/or IR Virtual Currency received as payment of the Sponsor's Fee into U.S. dollars. The rate at which the Sponsor converts such ETC, Incidental Rights and/or IR Virtual Currency 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 ETC, 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 withdraw from the ETC Account ETC, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such ETC, Incidental Rights and/or IR Virtual Currency into U.S. dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the

Trust (or its delegate) to deliver such ETC, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses. However, the Trust may use Incidental Rights 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 ETC 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 ETC that would otherwise have been used to satisfy such payment will be correspondingly reduced.

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

Impact of Trust Expenses on the Trust's ETC Holdings

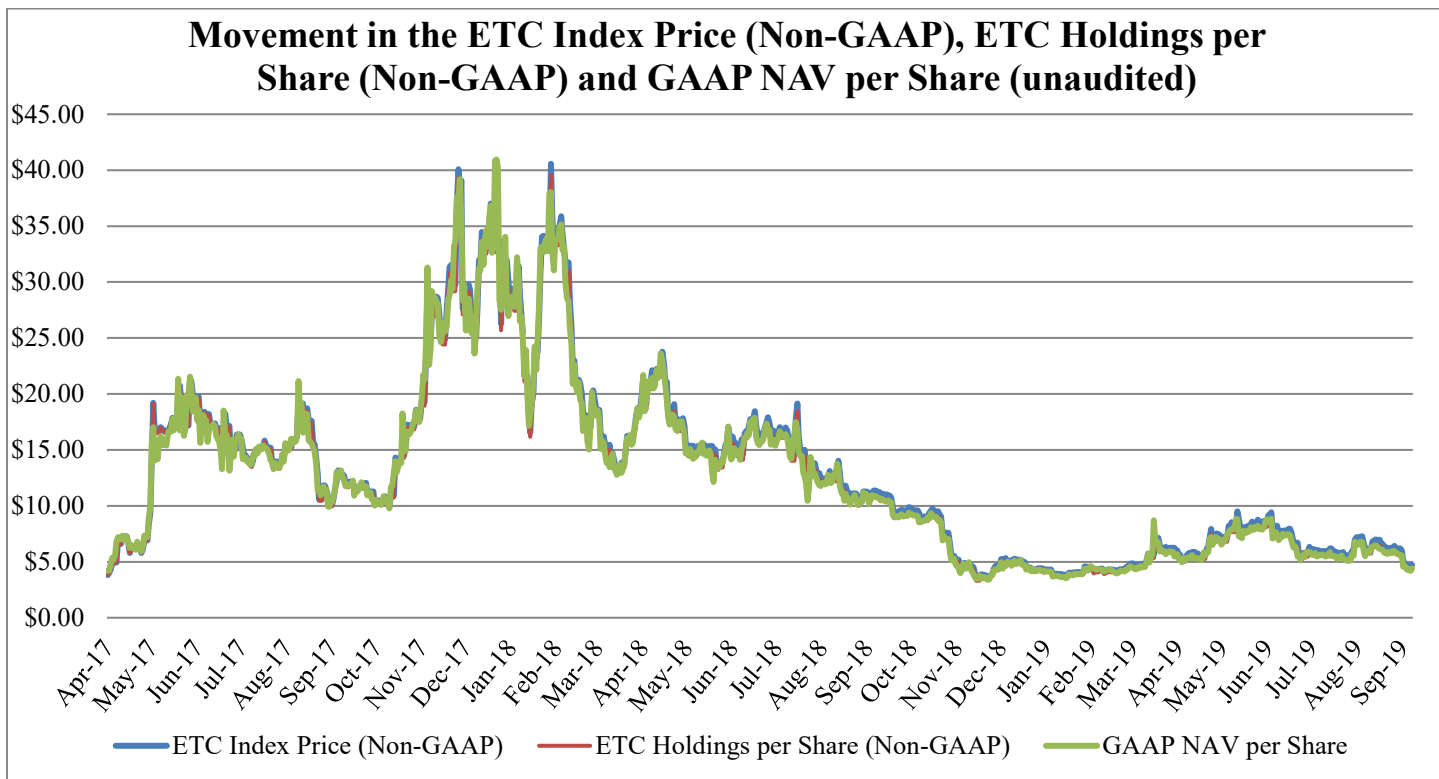
The Trust will pay the Sponsor's Fee to the Sponsor in ETC, Incidental Rights and/or IR Virtual Currency. In addition, the Trust will sell ETC, Incidental Rights and/or IR Virtual Currency to raise the funds needed for the payment of any Additional Trust Expenses or will pay Additional Trust Expenses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

Forms of Attack Against the Ethereum Classic Network

All networked systems are vulnerable to various kinds of attacks. As with any computer network, the Ethereum Classic Network contains certain flaws. For example, the Ethereum Classic Network is currently vulnerable to a "51% attack" where, if a mining pool were to gain control of more than 50% of the hash rate for a digital asset, a malicious actor would be able to gain full control of the network and the ability to manipulate the Ethereum Classic Blockchain. In January 2019, the Ethereum Classic Network was the target of a double-spend attack by an unknown actor that gained more than 50% of the processing power of the Ethereum Classic Network. The attack resulted in reorganizations of the Ethereum Classic Blockchain that allowed the attacker to reverse previously recorded transactions in excess of over \$1.0 million. The market capitalization of ETC also experienced a subsequent reduction following the attack, which resulted in a subsequent reduction in the value of the Shares. Although the value of Shares declined, the Trust did not suffer any direct losses as a result of the attack. There have since been discussions on how to mitigate future attacks by increasing the amount of block confirmations required to validate a transaction. The Ethereum Classic Network may be vulnerable to future 51% attacks.

Ethereum Classic

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 ETC Holdings per Share (non-GAAP) versus the ETC Index Price (non-GAAP) and the Trust's GAAP NAV per Share from April 24, 2017 to September 30, 2019:



For more information on the determination of the Trust's ETC Holdings, see "Grayscale Ethereum Classic Trust — Valuation of ETC and Determination of the Trust's ETC 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 increased unrealized losses by a de minimis amount and decreased 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 ETC for Share creations and the delivery of ETC for Share redemptions (if a redemption program were to be established) or for payment of expenses in ETC. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation or depreciation on investments. Realized gains and losses are calculated using the specific identification method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor's Fee in ETC.

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 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 ETC 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 ETC 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 ETC from the Authorized Participant and does not itself transact on any ETC Markets. Therefore, the Trust looks to the Authorized Participant when assessing entity specific and market-based volume and level of activity for ETC 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 ETC Markets on which it transacts to the Trust. In determining which of the eligible ETC Markets is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust reviews the list of ETC Markets and excludes any ETC Markets that are non-accessible to the Trust and the Authorized Participant(s). The Trust or the Authorized Participant does not have access to ETC Exchanges that do not have a BitLicense and has access only to ETC 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 ETC Markets from high to low by entity-specific and market-based volume and activity of ETC traded on each ETC Market in the trailing twelve months.

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

Fourth, the Trust then selects an ETC Market as its principal market based on the highest market volume, activity and price stability in comparison to the other ETC Markets on the list. Exchange Markets have the greatest volume and level of activity for the asset, based on information reasonably available to the Trust, the Trust 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 ETC Market's trading volume and level of activity in the trailing twelve months, (ii) if any ETC Markets have developed that the Trust has access to, or (iii) if recent changes to each ETC 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 ETC recorded by the Trust for financial reporting purposes is the fair value of ETC at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of the corresponding Shares to investors.

Investment Company Considerations

The Trust is an investment company for GAAP purposes and follows accounting and reporting guidance in accordance with the FASB Accounting Standards Codification (“ASC”) Topic 946, *Financial Services—Investment Companies*. The Trust uses fair value as its method of accounting for ETC 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, ETC and price per ETC 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 on investment in Ethereum Classic	<u>\$ (22,221)</u>	<u>\$ (21,435)</u>	<u>\$ (7,776)</u>	<u>\$ (60,376)</u>
Net decrease in net assets resulting from operations	<u>\$ (22,518)</u>	<u>\$ (21,931)</u>	<u>\$ (8,499)</u>	<u>\$ (62,075)</u>
Net assets	<u>\$ 39,306</u>	<u>\$ 53,141</u>	<u>\$ 39,306</u>	<u>\$ 53,141</u>

Net realized and unrealized loss on investment in ETC for the three months ended September 30, 2019 was (\$22,221), which includes a realized loss of (\$145) on the transfer of ETC to pay the Sponsor’s Fee, net change in unrealized depreciation on the Sponsor’s Fee payable of \$30, and net change in unrealized depreciation on investment in ETC of (\$22,106). Net realized and unrealized loss on investment in ETC for the period was driven by ETC price depreciation from \$7.95 per ETC as of June 30, 2019 to \$4.73 per ETC as of September 30, 2019. Net decrease in net assets resulting from operations was (\$22,518) for the three months ended September 30, 2019, which consisted of the net realized and unrealized loss on investment in ETC, plus the Sponsor’s Fee of \$297. Net assets decreased to \$39,306 at September 30, 2019, a 10% decrease for the three-month period. The decrease in net assets resulted from the aforementioned ETC price depreciation and the withdrawal of approximately 85,090 ETC to pay the foregoing Sponsor’s Fee, partially offset by the contribution of approximately 2,884,004 ETC with a value of \$18,294 to the Trust in connection with Share creations during the period.

Net realized and unrealized loss on investment in ETC for the three months ended September 30, 2018 was (\$21,435), which includes a realized gain of \$287 on the transfer of ETC to pay the Sponsor's Fee, net change in unrealized depreciation on the Sponsor's Fee payable of \$3, and net change in unrealized depreciation on investment in ETC of (\$21,725). Net realized and unrealized loss on investment in ETC for the period was driven by ETC price depreciation from \$15.73 per ETC as of June 30, 2018 to \$11.30 per ETC as of September 30, 2018. Net decrease in net assets resulting from operations was (\$21,931) for the three months ended September 30, 2018, which consisted of the net realized and unrealized loss on investment in ETC, plus the Sponsor's Fee of \$496. Net assets decreased to \$53,141 at September 30, 2018, a 22% decrease for the three-month period. The decrease in net assets resulted from the aforementioned ETC price depreciation and the withdrawal of approximately 33,760 ETC to pay the foregoing Sponsor's Fee, partially offset by the contribution of approximately 408,704 ETC with a value of \$6,973 to the Trust in connection with Share creations during the period.

Net realized and unrealized loss on investment in ETC for the nine months ended September 30, 2019 was (\$7,776), which includes a realized loss of (\$398) on the transfer of ETC to pay the Sponsor's Fee, net change in unrealized appreciation on the Sponsor's Fee payable of (\$84), and net change in unrealized depreciation on investment in ETC of (\$7,294). Net realized and unrealized loss on investment in ETC for the period was driven by ETC price depreciation from \$4.90 per ETC as of December 31, 2018 to \$4.73 per ETC as of September 30, 2019. Net decrease in net assets resulting from operations was (\$8,499) for the nine months ended September 30, 2019, which consisted of the net realized and unrealized loss on investment in ETC, plus the Sponsor's Fee of \$723. Net assets increased to \$39,306 at September 30, 2019, a 66% increase for the nine-month period. The increase in net assets resulted from the contribution of approximately 3,609,658 ETC with a value of \$24,174 to the Trust in connection with Share creations during the period, partially offset by the withdrawal of approximately 156,556 ETC to pay the foregoing Sponsor's Fee and the aforementioned ETC price depreciation.

Net realized and unrealized loss on investment in ETC for the nine months ended September 30, 2018 was (\$60,376), which includes a realized gain of \$1,088 on the transfer of ETC to pay the Sponsor's Fee, net change in unrealized depreciation on the Sponsor's Fee payable of \$184, and net change in unrealized depreciation on investment in ETC of (\$61,648). Net realized and unrealized loss on investment in ETC for the period was driven by ETC price depreciation from \$26.52 per ETC as of December 31, 2017 to \$11.30 per ETC as of September 30, 2018. Net decrease in net assets resulting from operations was (\$62,075) for the nine months ended September 30, 2018, which consisted of the net realized and unrealized loss on investment in ETC, plus the Sponsor's Fee of \$1,699. Net assets decreased to \$53,141 at September 30, 2018, a 44% decrease for the nine-month period. The decrease in net assets resulted from the aforementioned ETC price depreciation and the withdrawal of approximately 82,229 ETC to pay the foregoing Sponsor's Fee, partially offset by the contribution of approximately 1,221,140 ETC with a value of \$20,507 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 ETC, Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses, the Sponsor endeavors to sell the exact number of ETC, Incidental Rights and/or IR Virtual Currency needed to pay expenses in order to minimize the Trust's holdings of assets other than ETC. As a consequence, the Sponsor expects that the Trust will not record any cash flow from its operations and that its cash balance will be zero at the end of each reporting period.

In exchange for the Sponsor's Fee, the Sponsor has agreed to assume 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 ETC balances are rounded to the nearest whole ETC)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Ethereum Classic:				
Opening balance	5,512,858	4,357,466	4,858,670	3,593,499
Creations	2,884,004	408,704	3,609,658	1,221,140
Sponsor's Fee, related party	(85,090)	(33,760)	(156,556)	(82,229)
Closing balance	8,311,772	4,732,410	8,311,772	4,732,410
Accrued but unpaid Sponsor's Fee, related party	-	(29,685)	-	(29,685)
Net closing balance	<u>8,311,772</u>	<u>4,702,725</u>	<u>8,311,772</u>	<u>4,702,725</u>
Number of Shares:				
Opening balance	5,846,700	4,486,100	5,073,700	3,646,400
Creations	3,095,900	424,000	3,868,900	1,263,700
Closing balance	<u>8,942,600</u>	<u>4,910,100</u>	<u>8,942,600</u>	<u>4,910,100</u>

As of September 30,

	2019		2018
Price of ETC on principal market ¹	\$ 4.73	\$	11.30
NAV per Share ²	\$ 4.40	\$	10.82
ETC Index Price	\$ 4.73	\$	11.33
ETC Holdings per	\$ 4.40	\$	10.85

For the three months ended September 30, 2019, an additional 3,095,900 Shares (30,959 Baskets) were created in exchange for approximately 2,884,004 ETC and approximately 85,090 ETC were deducted from the Trust's ETC Holdings and used to pay the Sponsor's Fee. For the three months ended September 30, 2018, an additional 424,000 Shares (4,240 Baskets) were created in exchange for approximately 408,704 ETC and approximately 33,760 ETC were deducted from the Trust's ETC Holdings and used to pay the Sponsor's Fee.

For the nine months ended September 30, 2019, an additional 3,868,900 Shares (38,689 Baskets) were created in exchange for approximately 3,609,658 ETC and approximately 156,556 ETC were deducted from the Trust's ETC Holdings and used to pay the Sponsor's Fee. For the nine months ended September 30, 2018, an additional 1,263,700 Shares (12,637 Baskets) were created in exchange for 1,221,140 ETC and 82,229 ETC were deducted from the Trust's ETC Holdings and used to pay the Sponsor's Fee.

For accounting purposes, the Trust reflects creations and the ETC receivable with respect to such creations on the date of receipt of a notification of a creation but does not issue Shares until the requisite number of ETC is received. 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 closing balance of approximately 8,311,772 ETC, with a total value of \$39,314,683, based on the ETC Index Price of \$4.73 (non-GAAP methodology). As of September 30, 2018, the Trust had a closing balance of approximately 8,311,772 ETC with a total market value of \$39,306,371, based on the principal market price (Coinbase Pro) of \$4.73.

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 4,703,498 ETC, with a total value of \$53,478,768, based on the ETC Index Price of \$11.37 (non-GAAP methodology). As of September 30, 2018, the Trust had a net closing balance of approximately 4,702,725 ETC, with a value of \$53,281,868, based on the ETC Index Price of \$11.33 (non-GAAP methodology). As of September 30, 2018, the Trust had a net closing balance of approximately 4,702,725 ETC with a total market value of \$53,140,787, based on the principal market price (Coinbase Pro) of \$11.30.

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 ETC based on the price provided by Coinbase Pro, the ETC 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 ETC Holdings per Share is derived from the ETC Index Price as represented by the Index as of 4:00 p.m., New York time, on the valuation date. The Trust's ETC Holdings per Share is calculated using a non-GAAP methodology where the volume-weighted average price is derived from multiple ETC Exchanges. See the section entitled "Grayscale Ethereum Classic Trust (ETC) — Valuation of ETC and Determination of the Trust's ETC Holdings" in our Annual Report for a description of the Trust's ETC Holdings per Share. The ETC Exchanges used to calculate the ETC Index Price as of September 30, 2019 were Coinbase Pro, Kraken, Bittrex and Poloniex. As of September 30, 2019, the ETC Index Price was \$4.73 and the ETC Holdings per Share was \$4.40.

Historical Ethereum Classic Prices

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

During the period from April 24, 2017 (the first Creation Basket of the Trust) to September 30, 2019, the ETC price, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, traded between \$3.56 per ETC (December 15, 2018) and \$41.86 per ETC (January 14, 2018), the straight average was \$13.04, and the median was \$11.53. The annual average, high, low and end-of-period ETC prices for the two years ended September 30, 2019 and 2018, 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>
April 24, 2017 (the first Creation Basket of the Trust) to September 30, 2017	\$13.89	\$21.64	6/19/2017	\$4.18	4/24/2017	\$13.33	\$12.82
Twelve months ended September 30, 2018	\$19.43	\$41.86	1/14/2018	\$9.92	11/2/2017	\$11.30	\$11.28
Twelve months ended September 30, 2019	\$6.27	\$11.17	10/1/2018	\$3.56	12/15/2018	\$4.73	\$4.73
April 24, 2017 (the first Creation Basket of the Trust) to September 30, 2019	\$13.04	\$41.86	1/14/2018	\$3.56	12/15/2018	\$4.73	\$4.73

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 Ethereum Classic Trust (ETC);
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 8, 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 Ethereum Classic Trust (ETC);
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 8, 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 Ethereum Classic Trust (ETC)
For the Three and Nine Months Ended September 30, 2019
(Unaudited)



Grayscale Ethereum Classic Trust

**Grayscale Ethereum Classic Trust (ETC)
Index to Unaudited Financial Statements**

Statements of Assets and Liabilities at September 30, 2019 and December 31, 2018.....	3
Schedules of Investment at September 30, 2019 and December 31, 2018.....	4
Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018.....	5
Statements of Changes in Net Assets for the Three and Nine Months Ended September 30, 2019 and 2018	6
Notes to Unaudited Financial Statements.....	7

Grayscale Ethereum Classic Trust (ETC)
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 Ethereum Classic, at fair value (cost \$68,563,879 and \$45,771,269 as of September 30, 2019 and December 31, 2018, respectively)	\$ 39,306,370	\$ 23,807,484
Total assets	<u>\$ 39,306,370</u>	<u>\$ 23,807,484</u>
Liabilities:		
Sponsor's Fee payable, related party	\$ -	\$ 175,731
Total liabilities	<u>-</u>	<u>175,731</u>
Net assets	<u>\$ 39,306,370</u>	<u>\$ 23,631,753</u>
Net Assets consists of:		
Paid-in-capital	71,188,313	47,014,561
Accumulated net investment loss	(3,794,514)	(3,071,158)
Accumulated net realized gain on investment in Ethereum Classic	1,170,080	1,567,977
Accumulated net change in unrealized depreciation on Sponsor's Fee payable	-	84,158
Accumulated net change in unrealized depreciation on investment in Ethereum Classic	(29,257,509)	(21,963,785)
	<u>\$ 39,306,370</u>	<u>\$ 23,631,753</u>
Shares issued and outstanding, no par value (unlimited Shares authorized)	<u>8,942,600</u>	<u>5,073,700</u>
Net asset value per Share	<u>\$ 4.40</u>	<u>\$ 4.66</u>

See accompanying notes to unaudited financial statements.

Grayscale Ethereum Classic Trust (ETC)
Schedules of Investment
(Unaudited)

September 30, 2019

	<u>Quantity of Ethereum Classic</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Investment in Ethereum Classic	8,311,772.23261546	\$ 68,563,879	<u>\$ 39,306,370</u>	<u>100%</u>
Net assets			<u><u>\$ 39,306,370</u></u>	<u><u>100%</u></u>

December 31, 2018

	<u>Quantity of Ethereum Classic</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Investment in Ethereum Classic	4,858,670.23941074	\$ 45,771,269	\$ 23,807,484	101%
Total liabilities			<u>(175,731)</u>	<u>(1%)</u>
Net assets			<u><u>\$ 23,631,753</u></u>	<u><u>100%</u></u>

See accompanying notes to unaudited financial statements.

Grayscale Ethereum Classic Trust (ETC)
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	296,764	496,794	723,356	1,699,531
Net investment loss	<u>(296,764)</u>	<u>(496,794)</u>	<u>(723,356)</u>	<u>(1,699,531)</u>
Net realized and unrealized loss on investment in Ethereum Classic:				
Net realized (loss) gain on investment in Ethereum Classic	(144,588)	286,963	(397,897)	1,088,357
Net change in unrealized depreciation (appreciation) on Sponsor's Fee payable	29,752	3,194	(84,158)	183,919
Net change in unrealized depreciation on investment in Ethereum Classic	<u>(22,106,394)</u>	<u>(21,724,803)</u>	<u>(7,293,724)</u>	<u>(61,647,951)</u>
Net realized and unrealized loss on investment in Ethereum Classic	<u>(22,221,230)</u>	<u>(21,434,646)</u>	<u>(7,775,779)</u>	<u>(60,375,675)</u>
Net decrease in net assets resulting from operations	<u>\$ (22,517,994)</u>	<u>\$ (21,931,440)</u>	<u>\$ (8,499,135)</u>	<u>\$ (62,075,206)</u>

See accompanying notes to unaudited financial statements.

Grayscale Ethereum Classic Trust (ETC)
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 in net assets from operations:				
Net investment loss	\$ (296,764)	\$ (496,794)	\$ (723,356)	\$ (1,699,531)
Net realized (loss) gain on investment in Ethereum Classic	(144,588)	286,963	(397,897)	1,088,357
Net change in unrealized depreciation (appreciation) on Sponsor's Fee payable	29,752	3,194	(84,158)	183,919
Net change in unrealized depreciation on investment in Ethereum Classic	<u>(22,106,394)</u>	<u>(21,724,803)</u>	<u>(7,293,724)</u>	<u>(61,647,951)</u>
Net decrease in net assets resulting from operations	<u>(22,517,994)</u>	<u>(21,931,440)</u>	<u>(8,499,135)</u>	<u>(62,075,206)</u>
Increase in net assets from capital share transactions:				
Shares issued	<u>18,294,041</u>	<u>6,973,187</u>	<u>24,173,752</u>	<u>20,506,578</u>
Net increase in net assets resulting from capital share transactions	<u>18,294,041</u>	<u>6,973,187</u>	<u>24,173,752</u>	<u>20,506,578</u>
Total (decrease) increase in net assets from operations and capital share transactions	<u>(4,223,953)</u>	<u>(14,958,253)</u>	<u>15,674,617</u>	<u>(41,568,628)</u>
Net assets:				
Beginning of period	<u>43,530,323</u>	<u>68,099,040</u>	<u>23,631,753</u>	<u>94,709,415</u>
End of period	<u>\$ 39,306,370</u>	<u>\$ 53,140,787</u>	<u>\$ 39,306,370</u>	<u>\$ 53,140,787</u>
Change in Shares outstanding:				
Shares outstanding at beginning of period	<u>5,846,700</u>	<u>4,486,100</u>	<u>5,073,700</u>	<u>3,646,400</u>
Shares issued	<u>3,095,900</u>	<u>424,000</u>	<u>3,868,900</u>	<u>1,263,700</u>
Net increase in Shares	<u>3,095,900</u>	<u>424,000</u>	<u>3,868,900</u>	<u>1,263,700</u>
Shares outstanding at end of period	<u>8,942,600</u>	<u>4,910,100</u>	<u>8,942,600</u>	<u>4,910,100</u>

See accompanying notes to unaudited financial statements.

Grayscale Ethereum Classic Trust (ETC) Notes to Unaudited Financial Statements

1. Organization

Grayscale Ethereum Classic Trust (ETC) (the “Trust”) is a Delaware Statutory Trust that was formed on April 18, 2017 and commenced operations on April 24, 2017. In general, the Trust holds Ethereum Classic (“ETC”) and, from time to time, issues common units of fractional undivided beneficial interest (“Shares”) (in minimum baskets of 100 Shares, referred to as “Baskets”) in exchange for ETC. 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 ETC held by the Trust, less the Trust’s expenses and other liabilities. The Trust may also receive Incidental Rights and/or IR Virtual Currency as a result of the Trust’s investment in ETC, in accordance with the terms of the Trust Agreement.

Incidental Rights are rights to claim, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to the Trust’s ownership of ETC and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust; 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 Sponsor does not store, hold, or maintain custody or control of the Trust’s ETC but instead had previously entered into a Key Maintenance Agreement with the Key Maintainer and a Backup Security Factor Agreement with each of the Backup Maintainers to facilitate the security of the Trust’s ETC. Under these agreements, the Key Maintainer must have acted on valid instructions given to it by the Sponsor, and the Backup Maintainers, upon receipt of certain notice or court order, must have delivered the Backup Factors to a party identified by the Trust or a court. Each party to the agreement held a certain number of security passwords, keys or phrases (each, a “Security Factor”) that, together with other Security Factors, allowed transfers of ETC. Using its Security Factors, the Sponsor could not unilaterally effect any transfer of the Trust’s ETC. Instead, the Key Maintainer must have also used its Security Factors, in addition to the Sponsor’s Security Factors, to effect any transfer of the Trust’s ETC. Under certain circumstances, the Sponsor may have also been able to effect transactions by using its Security Factors together with the Security Factors of one or more of the Backup Maintainers. In addition, the Sponsor could not unilaterally and indefinitely prevent transfer of the Trust's ETC.

Grayscale Ethereum Classic Trust (ETC) Notes to Unaudited Financial Statements

1. Organization (continued)

Previously, the Key Maintainer since inception of the Trust was Ledger SAS, a third-party service provider. Since July 29, 2019, the custodian of the Trust has been Coinbase Custody Trust Company, LLC (the “Custodian”), a third-party service provider. The previous agreements that provided for the safekeeping of the Trust’s ETC were terminated following the conversion of the safekeeping role to Coinbase Custody Trust Company, LLC. The Custodian is responsible for safeguarding the ETC, Incidental Rights, and IR Virtual Currency held by the Trust, and holding the private key(s) that provide access to the Trust’s digital wallets and vaults, whereas previously, the Key Maintainer was responsible for maintaining certain Security Factors that provided access to the Trust’s digital assets. The Custodian Agreement is for an initial term of three years.

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.

On May 2, 2018, 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 “ETCG” and the CUSIP number for its Shares is 38963Q107.

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

Grayscale Ethereum Classic Trust (ETC)
Notes to Unaudited Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 ETC 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 ETC 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 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 ETC markets is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust reviews a list of ETC markets and excludes any ETC markets that are non-accessible to the Trust and the Authorized Participant(s). The Trust or the Authorized Participant does not have access to ETC markets that do not have a BitLicense and has access only to ETC 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 ETC markets from high to low by entity-specific and market-based volume and activity of ETC traded on each ETC market in the trailing twelve months.

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

Fourth, the Trust then selects an ETC market as its principal market based on the highest market volume, activity and price stability in comparison to the other ETC markets on the list. Exchange Markets have the greatest volume and level of activity for the asset, based on information reasonably available to the Trust, the Trust 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 ETC market's trading volume and level of activity in the trailing twelve months, (ii) if any ETC markets have developed that the Trust has access to, or (iii) if recent changes to each ETC 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.

Grayscale Ethereum Classic Trust (ETC) Notes to Unaudited Financial Statements

2. Summary of Significant Accounting Policies (continued)

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

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

Fair Value Measurement

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

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

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

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

Grayscale Ethereum Classic Trust (ETC)
Notes to Unaudited Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 ETC	<u>\$ 39,306,370</u>	<u>\$ -</u>	<u>\$ 39,306,370</u>	<u>\$ -</u>
December 31, 2018				
Assets				
Investment in ETC	<u>\$ 23,807,484</u>	<u>\$ -</u>	<u>\$ 23,807,484</u>	<u>\$ -</u>
Liabilities				
Sponsor's Fee payable, related party	<u>\$ 175,731</u>	<u>\$ -</u>	<u>\$ 175,731</u>	<u>\$ -</u>

3. Fair Value of Ethereum Classic

ETC is carried at fair value. As of September 30, 2019, and December 31, 2018, the Trust held 8,311,772.23261546 and 4,858,670.23941074 ETC, respectively.

The Trust determined the fair value per ETC to be \$4.73 on September 30, 2019 and \$4.90 on December 31, 2018 using the price provided at 4:00 p.m., New York time, by the ETC exchange considered to be the Trust's principal market (Coinbase Pro).

**Grayscale Ethereum Classic Trust (ETC)
Notes to Unaudited Financial Statements**

3. Fair Value of Ethereum Classic (continued)

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

	<u>Ethereum Classic</u>	<u>Fair Value</u>
Balance at January 1, 2018	3,593,499.15700104	\$ 95,288,818
ETC contributed	1,377,085.76155025	21,363,493
ETC distributed for Sponsor's Fee, related party	(111,914.67914055)	(2,159,840)
Net change in unrealized depreciation on investment in ETC	-	(91,890,097)
Net realized gain on investment in ETC	-	1,205,110
	<hr/>	<hr/>
Balance at December 31, 2018	4,858,670.23941074	23,807,484
	<hr/>	<hr/>
ETC contributed	3,609,657.87843346	24,173,752
ETC distributed for Sponsor's Fee, related party	(156,555.88522874)	(983,245)
Net change in unrealized depreciation on investment in ETC	-	(7,293,724)
Net realized loss on investment in ETC	-	(397,897)
	<hr/>	<hr/>
Balance at September 30, 2019	<u>8,311,772.23261546</u>	<u>\$ 39,306,370</u>

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 ETC to the Trust or the distribution of ETC by the Trust. The number of ETC required for each creation Basket or redemption Basket is determined by dividing (x) the number of ETC owned by the Trust at 4:00 p.m., New York time, on such trade date of a creation or redemption order, after deducting the number of ETC representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust, by (y) the number of Shares outstanding at such time and multiplying the quotient obtained by 100. Each Share represented approximately 0.9295 and 0.9506 of one ETC at September 30, 2019 and December 31, 2018, respectively.

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

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

Grayscale Ethereum Classic Trust (ETC) Notes to Unaudited Financial Statements

5. Income Taxes

The Sponsor takes the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial 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.

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, 2,667,064 and 2,577,970 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 the Key Maintainer that represents approximately 1.0% of the Key Maintainer's voting equity and also holds a minority interest in Coinbase, Inc., the parent company of the Custodian, that represents approximately 1% of Coinbase, Inc.'s ownership.

Grayscale Ethereum Classic Trust (ETC) Notes to Unaudited Financial Statements

6. Related Parties (continued)

In accordance with the Trust Agreement governing the Trust, the Trust pays a fee to the Sponsor, calculated as 3.0% of the aggregate value of the Trust's assets, less its liabilities (which include any accrued but unpaid expenses 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 ETC, monthly in arrears. The amount of ETC payable in respect of each daily U.S. dollar accrual will be determined by reference to the same U.S. dollar value of ETC used to determine such accrual. For purposes of these financial statements, the U.S. dollar value of ETC is determined by reference to the ETC 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; fees for the Key Maintainer, the Backup Maintainers and any other security vendor engaged by the Trust; 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.

The Trust may incur certain extraordinary, non-recurring expenses that are not Sponsor-paid Expenses, including, but not limited to, taxes and governmental charges, expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of the Trust to protect the Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), any indemnification of the Key Maintainer, Backup Maintainers, or other agents, 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 withdraw from the ETC account ETC, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such ETC, Incidental Rights and/or IR Virtual Currency into U.S. dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver ETC, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses.

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

Grayscale Ethereum Classic Trust (ETC) Notes to Unaudited Financial Statements

6. Related Parties (continued)

For the three months ended September 30, 2019 and 2018, the Trust incurred Sponsor's Fees of \$296,764 and \$496,794, respectively. For the nine months ended September 30, 2019 and 2018, the Trust incurred Sponsor's Fees of \$723,356 and \$1,699,531, respectively. As of September 30, 2019, and December 31, 2018, the fair market value of the accrued and unpaid Sponsor's Fee was \$0 and \$175,731, respectively. 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

Investments in ETC

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

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

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

There is currently no clearing house for ETC, nor is there a central or major depository for the custody of ETC. There is a risk that some or all of the Trust's ETC could be lost or stolen. Further, ETC transactions are irrevocable. Stolen or incorrectly transferred ETC may be irretrievable. As a result, any incorrectly executed ETC transactions could adversely affect an investment in the Shares.

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 ETC 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 ETC. For example, it may become more difficult for ETC 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 ETC and cause users to migrate to other digital assets. As such, any determination that ETC is a security under federal or state securities laws may adversely affect the value of ETC and, as a result, an investment in the Shares.

Grayscale Ethereum Classic Trust (ETC)
Notes to Unaudited Financial Statements

7. Risks and Uncertainties (continued)

To the extent that ETC 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 ETC at a time that is disadvantageous to Shareholders.

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

During the nine months ended September 30, 2019, the Ethereum Classic Network was the target of a double-spend attack by an unknown actor that gained more than 50% of the processing power of the Ethereum Classic Network. The attack resulted in reorganizations of the Ethereum Classic Blockchain that allowed the attacker to reverse previously recorded transactions in excess of over \$1.0 million. The market capitalization of ETC also experienced a reduction following the attack, which resulted in a reduction in the value of the Shares. Although the value of Shares declined, the Trust did not suffer any direct losses as a result of the attack. There have since been discussions on how to mitigate future attacks by increasing the amount of block confirmations required to validate a transaction. The Ethereum Classic Network may be vulnerable to future 51% attacks.

Grayscale Ethereum Classic Trust (ETC)
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	\$ 7.45	\$ 15.18	\$ 4.66	\$ 25.97
Net decrease in net assets from investment operations:				
Net investment loss	(0.04)	(0.10)	(0.08)	(0.41)
Net realized and unrealized losses	(3.01)	(4.26)	(0.18)	(14.74)
Net decrease in net assets resulting from operations	(3.05)	(4.36)	(0.26)	(15.15)
Net asset value, end of period	\$ 4.40	\$ 10.82	\$ 4.40	\$ 10.82
Total return	-87.27%	-73.08% ¹	-4.64%	-68.58% ¹
<i>Ratios to average net assets:</i>				
Net investment loss	-3.00%	-3.00%	-3.00%	-3.00%
Expenses	-3.00%	-3.00%	-3.00%	-3.00%

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.

¹Total 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.

Grayscale Ethereum Classic Trust (ETC)
Notes to Unaudited Financial Statements

10. Subsequent Events

As of the close of business on November 1, 2019 the fair value of ETC determined in accordance with the Trust's accounting policy was \$4.84 per ETC.

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.