Gymnázium Zlín



Bitcoin basics

https://crocs.fi.muni.cz/papers/btc

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Centre for Research on Cryptography and Security

www.fi.muni.cz/crocs

WHY BITCOIN?

Especially if you are not interested in Bitcoin.

"Bitcoin fixes everything!"

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fixes this

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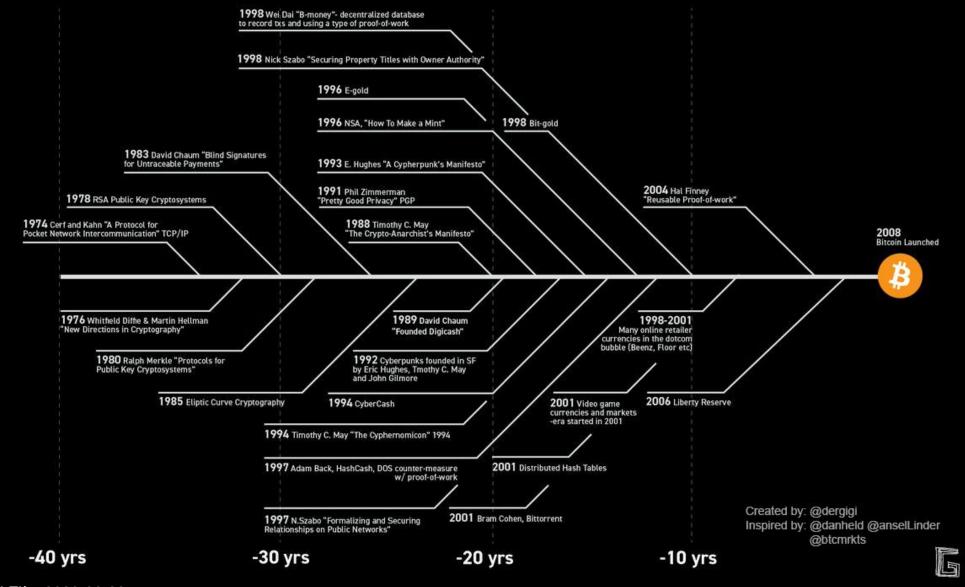
Goals for this tutorial

Important questions we will NOT cover: Lighting network, mining enviro impact, OP_RETURN, price volatility, altcoins tech... – great topics for chat afterwards!

- Bitcoin does not fix everything, but is on a frontline
 - No safety net, no chargeback, attacker anonymous => security technique must really work, great for battle-testing security ideas, natural "bug bounty program"
- 6 main tech pieces we will cover (also usable outside Bitcoin world)
 - 1. How to backup key(s) (single seed, BIP39, Shamir)
 - 2. How to make always fresh keys (derivation via BIP32, also address privacy)
 - 3. How to protect signing key against malware
 - (multisig, hardware wallet, airgap pc + tx b
 - 4. How to introduce restricted signing policy (ti
 - 5. How to protect your financial privacy (CoinJo
 - 6. How to use hardware wallet with secure element

If interested in more details about Bitcoin usage tutorial, visit https://crocs.fi.muni.cz/papers/btc

Bitcoin prehistory - It's the result of 40 years of research, development and demand



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Overview

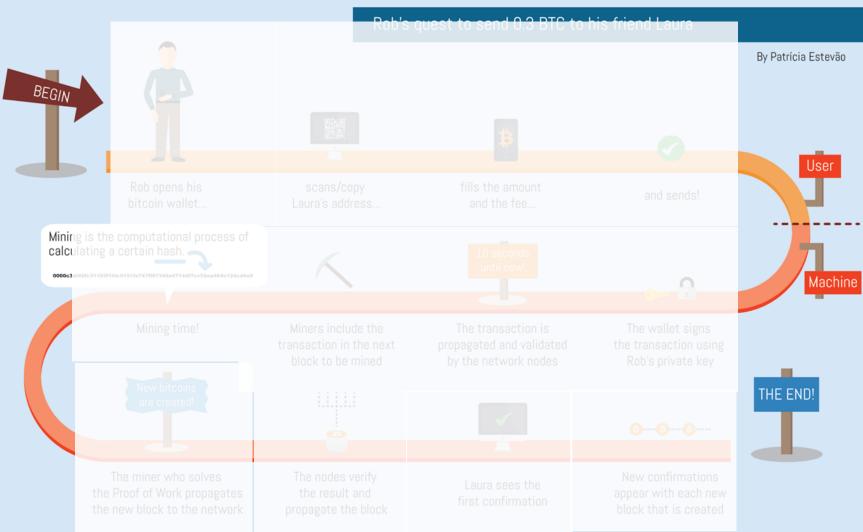
- 1. Using Bitcoin Core full node (mainnet)
 - Start downloading blocks, investigate connected peers, network
- 2. Using Bitcoin Core full node locally (regtest)
 - cli, mining, sending, transactions
- 3. Group discussions basic Bitcoin questions
- 4. Getting and sending some (testnet) bitcoins using SparrowWallet
- 5. Getting some real sats

BASICS

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https://livebitnews.com/wp-content/uploads/2017/09/bitcoin-transaction-life-cycle-high-resolution-1.png

THE BITCOIN TRANSACTION LIFE CYCLE



Wallet

- Address
- Fee
- Transaction
- Signing
- Network nodes
- Block
- Mining
- Proof of Work
- Verification
- Block reward
- Tx confirmation
- And many more...

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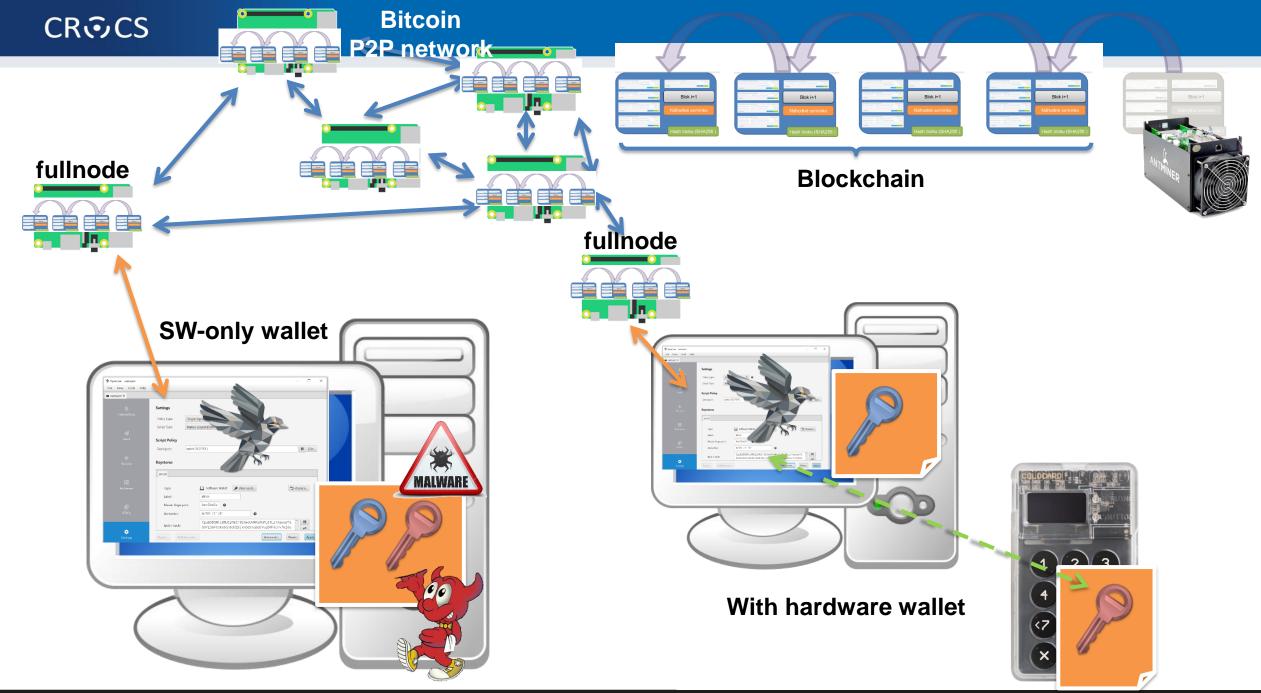
Main design goals of the Bitcoin

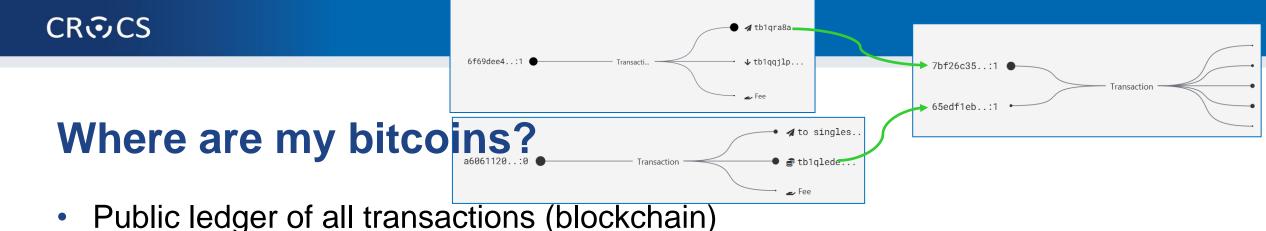
1. Decentralization

- No central authority or intermediary (=> no single point of failure), possibility of self-custody
- No limitation on network participants (no permission to join is required)
- Applies to executing a transaction, but also development, infrastructure, mining...

2. Transparency

- All transactions recorded on public ledger; validity of every "bitcoin" easy to verify
- Total number of bitcoins in circulation easy to assess (monetary policy, fixed supply)
- 3. Security based on cryptography (mainly signature, hash functions)
 - Ownership of bitcoins proved only cryptographically (no "chargeback" based on human decision)
 - Protection of bitcoins reduced to protection of private key(s)
- 4. Pseudonymity of participants
 - bitcoins connected to public keys, not usernames (does not automatically mean anonymity!)





- Propagated between Bitcoin fullnodes (P2P network)
- "Bitcoin holdings" sum of values of not-yet-spent transactions control
 - Unspent Transaction Output (UTXO)
- "Bitcoin send" take "your" UTXO and use it as input to new one
 - Specify recipient by script specifying what must be done int future send (lockscript)
 - Typical lockscript is "prove that you can sign with private key corresponding to THIS public key"
- "Bitcoin receive" generate variable part of lockscript (public) and share with sender + monitor blockchain for my transaction
- Protection and handling of private keys is paramount
 - "Not your keys, not your bitcoin! "

UTXO set = all currently valid "bitcoins"



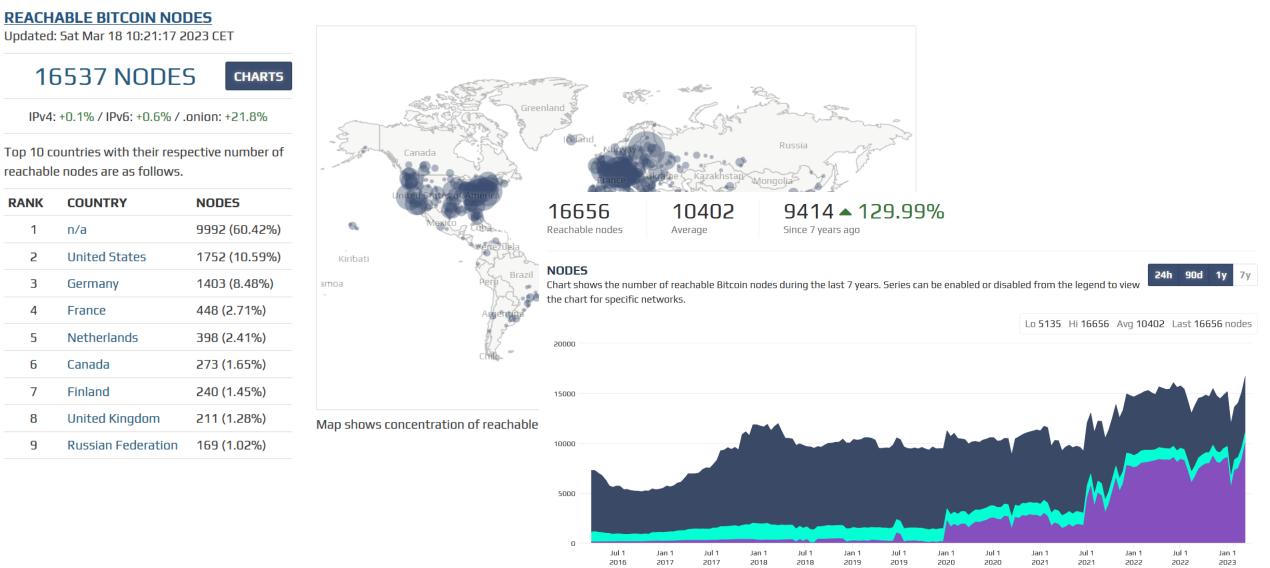
https://statoshi.info/d/00000009/unspent-transaction-output-set?orgId=1&refresh=10m&from=148322520000&to=now

Networks in Bitcoin (Mainnet, Testnet, Regtest)

- Mainnet main. alobal production network
- Testnet testing network (global, some mining happens...)
 - Restarted from time to time, contains many different types and versions of TXs
- Regtest local instance of Bitcoin network
 - Used for local testing (integration, regression, debugging)
 - Blockchain started from block 0, you are the only miner
 - (mined bitcoins unusable on Mainnet)
 - You can insert own transactions, decide on mining new blocks, debug...
- Lighting second layer network of payment channels atop of mainnet
 - Practically instant and very low fees independently from mainnet

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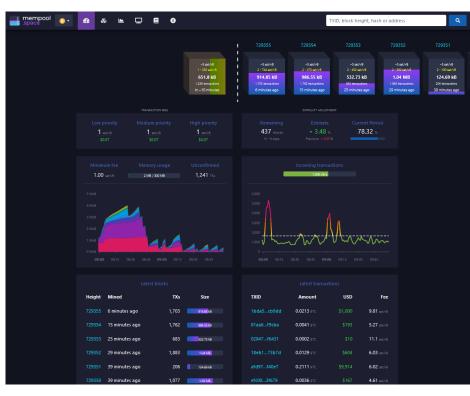
P2P Bitcoin network map https://bitnodes.io/

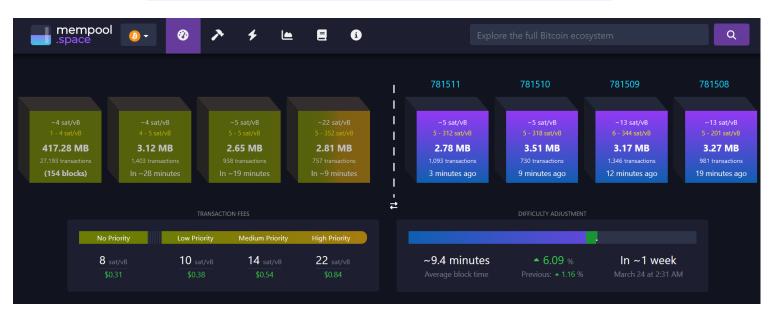


IPv6 📕 .onior

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Popular mempool explorer – <u>https://mempool.space</u>





- Can be run on your own fullnode (privacy improvement)
- Testnet version <u>https://mempool.space/testnet</u>

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Lighting network https://explorer.acinq.co/

LIGHTNING NETWORK EXPLORER	18,410	82,128		FAQ	Supported by ACINQ.	Q. Filter	
	NODES	CHANNELS				ACINQ	2787 channel(s)
						1ML.com node ALPHA	2115 channel(s)
						CoinGate	1904 channel(s)
AS THE REAL OF						WalletOfSatoshi.com	1875 channel(s)
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						OpenNode.com	939 channel(s)
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						southxchange.com	795 channel(s)
						gameb_2	784 channel(s)
Powered by						Boltz	779 channel(s)
						bfx-Ind0	770 channel(s)

- Frequent issue Sparrow not started with –testnet switch
- Make breakout rooms (3 people per room)
- Ask them to perform some mutual transactions
- Connect to groups and discuss:
 - Why is tx as unconfirmed? Where it is?
 - Why are we waiting some minutes?
 - How to cheat on someone who will sell us car right after tx is in mempool?
 - double spent with higher fee => Invalidation of original tx
 - Doublespent tx can be prepared into file as binary blob
 - If already mined, it is more difficult, but still somewhat possible (chain reorg)

INTRO

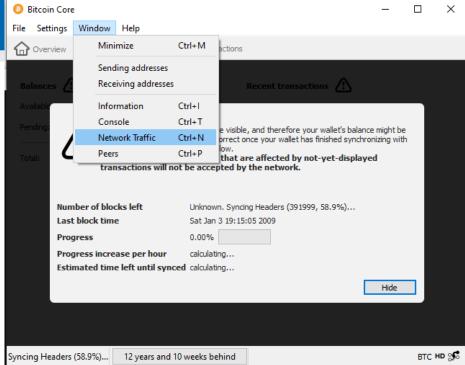
TASK: USING BITCOIN CORE

- Ask people to run GUI, see the connected nodes, locate block files
- Explain how "Chancellor ... " got there (coinbase data, used to randomize block during mining, pool info...)
- 100 blocks / file
- Importance of small blockchain => more fullnodes possible to be run => better decentralization

CROCS

Own work: Using API of full node

- Get Bitcoin full node 24.0.1 (pick .zip or .gz)
 - https://github.com/bitcoin/bitcoin/releases
 - https://bitcoincore.org/bin/bitcoin-core-24.0.1/
 - Download and unpack .zip or .gz
- Download few blocks from real Bitcoin P2P network
 - Run bitcoin-qt, Window → Network Traffic (Ctrl+N), Peers (Ctrl+P)
 - Observe and document peers to which you connected (number, version, IP)
- Analyze first few blocks from blockchain
 - Look into Bitcoin/blocks/blk00000.dat (e.g., C:/Bitcoin/blocks/blk00000.dat)
 - If on Windows, Look for bitcoin folder also in your profile
 - c:\Users\your_name\AppData\Roaming\Bitcoin\blocks\



Questions

- Why is your full node connecting to other nodes?
- For how long is the Bitcoin network running now?
- What is the content of first block?
- What is the privacy advantage of sending/querying TXs using your full node?
- How can you compute the current supply of bitcoins?

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Lister - [c:\Bitcoin\blocks\blk00000.dat]

File Edit Options Encoding Help

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Run strings on already downloaded blocks

- strings command on Linux
- strings on Windows: https://docs.microsoft.com/en-us/sysinternals/downloads/strings
- c:\Bitcoin\blocks>strings -n 20 *.dat

TASK: USING BITCOIN-CLI (REGTEST)

- Check before seminar the commands (frequent change of API)
 - 0.21.0 requires min fee etc (settxfee 0.00002)
- Explain why generatetoaddress 101
 - Consensus rule: coinbase can be spent only after 100 blocks => less motivation for miners to fiddle with chain reorg
- Explain halving (210000 blocks on mainnet, 150 on regtest)
- Explain why after sending 10 to other, resulting balance is 49.999...
 - Mining fee subtracted (but we are miners! But we will get fee only in 100 blocks)



>bitcoin-cli -regtest getbalance 50.00000000

Using API: Bitcoin -regtest

- Optional: regtest network blocks are stored in \Bitcoin\regtest\ (Windows) or ~/.bitcoin/regtest (Linux)
 - Run "del /S /Q "%APPDATA%\Bitcoin\regtest\" to erase previous one (on LINUX, remove ~/.bitcoin/regtest)
- Run local network (bitcoin daemon)
 - bitcoind -regtest
- Open one additional terminal (Win->cmd; Linux->terminal)
- Create new wallet
 - bitcoin-cli -regtest createwallet "testwallet"
- Obtain new address for future mined bitcoins (=> miner_address)
 - bitcoin-cli -regtest getnewaddress
- Mine 101 blocks: bitcoin-cli -regtest generatetoaddress 101 miner_address
- Check your balance: bitcoin-cli -regtest getbalance

Note: on Windows, do not use PowerShell

This is necessary from 0.20.0 and higher

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Using API: Bitcoin -regtest

- Set desired transaction fee BTC/kvB (wallets typically auto computing for you)
 bitcoin-cli -regtest settxfee 0.00002
- - bitcoin-cli -regtest sendtoaddress new_address 10.00
- Display info about transaction:
 - bitcoin-cli -regtest gettransaction txid
- Mine additional to block to include new TX into blockchain...
 - https://bitcoin.org/en/developer-examples, https://bitcoin.org/en/developer-reference#bitcoin-core-apis
- Verify total supply: bitcoin-cli -regtest gettxoutsetinfo

Questions A.

- What type of address you get via **getnewaddress** command?
- How you can distinguish between addresses for mainnet, testnet and regtest?
- Can you send mined regtest bitcoins to mainnet address (e.g., bc1xxxx...)?
- How many bitcoins you are supposed to have after mining 150 blocks? Why getbalance is showing only 2500 btc?
- How the block reward changes on mainnet? How it changes on regtest net?

TASK: BITCOIN QUESTIONS

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Questions B (you and ChatGPT)

- Answer the question below with your peers
 - How can I pay you 1btc if I have only one UTXO worth of 5btc?
 - What will happen if I will try send double-spending transaction to Bitcoin network?
 - Why should you use fresh new address for every receive transaction?
 - What will happen if you create pull request to increasing total number of bitcoins from 21M to 100M at https://github.com/bitcoin/bitcoin?
- Ask ChatGPT the question below, then discuss the answer provided critically
 - What attacks are possible if I'm using Bitcoin wallet which is not connected to my trusted full node?

TASK: USING SIGNATURE COORDINATOR



SINGLE-SIGNATURE WALLET (SW-ONLY)

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Sparrow wallet (v1.6.6)

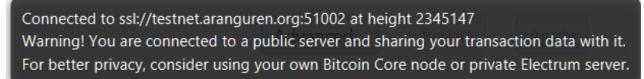


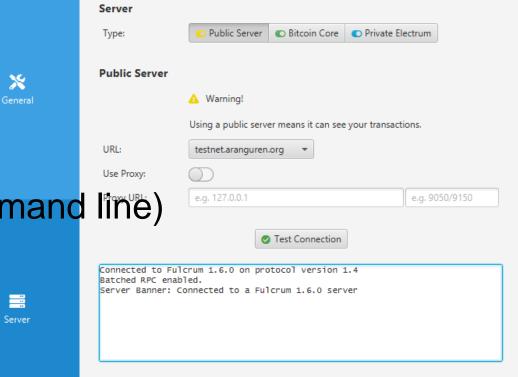
- <u>https://www.sparrowwallet.com/download/</u>
- For serious work, always verify binary releases (gpg --verify)
- Well-known and maintained, Java-based, minimum other dependencies, focus on medium and advanced users
- Sparrow is "signing coordinator" private keys can inside or elsewhere
- Basic functionality
 - Open-source wallet, non-custodial wallet
 - Support for software and hardware wallets, multisignature coordinator
 - Whirlpool CoinJoin client
 - Supports also advanced features (PayJoin, Taproot addresses...)

(Examples created for Sparrow 1.6.6) **Starting Sparrow wallet**

- Run your wallet with testnet switch (command
 - ./sparrow -n testnet
 - Sparrow.exe -n testnet
- Use Public Server option if asked
 - Test Connection to verify connectivity
 - Can be changed later File \rightarrow Settings
- (Bitcoin Core and Private Electrum are more private options)
 - You would be connecting to your own fullhode (but you must have one \odot)
- Check that you are online
 - (right bottom)

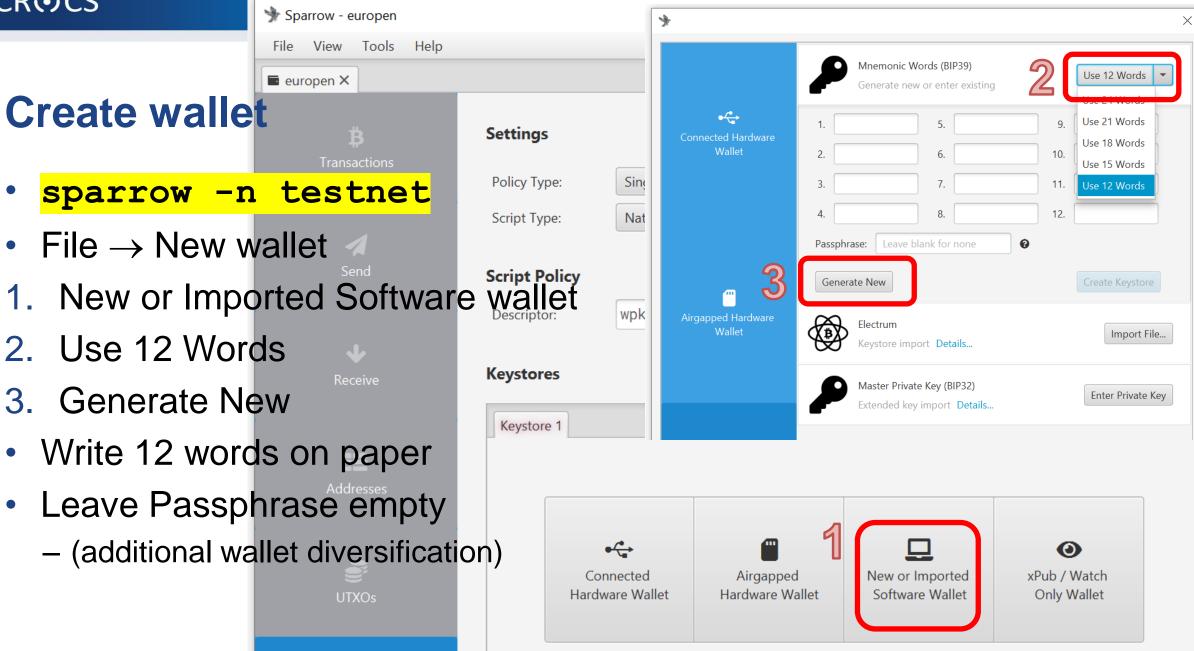
Server





Generating new "wallet"

- A "wallet" is key management software controlling your private and public keys (ECDSA, Schnorr)
- The most important part of wallet is random number called root seed (128 or 256 bits)
- Root seed is used to deterministically generate practically unlimited number of keypairs
 - Specified in BIP32, "root seed" and "derivation path" used to derive next private key => next public key => next address
- Clever construction allowing to compute future public keys (and only public keys) for specified derivation path without the need for root seed (aka xpub or extended public key)
 - Knowledge of xpub allows to compute all future public keys, but not private keys
 - Owner of root seed can compute all future private keys and their corresponding public keys
 - xpub allows to pay someone to fresh addresses noninteractively (no interaction with owner of root seed required), receiver will only later compute candidate private keys and their public keys to check for total balance (== set of UTXOs)
- Wallet software is monitoring blockchain for addresses corresponding to stored root seed (or xpub)
- Root seed can be stored:
 - 1. Directly in software wallet (file on harddisk, optionally encrypted) == aka hot wallet, least secure against malware
 - 2. Loaded every time before use (e.g., from QR code), still vulnerable to malware during use
 - 3. On external hardware signing device called hardware wallet (the most secure option)

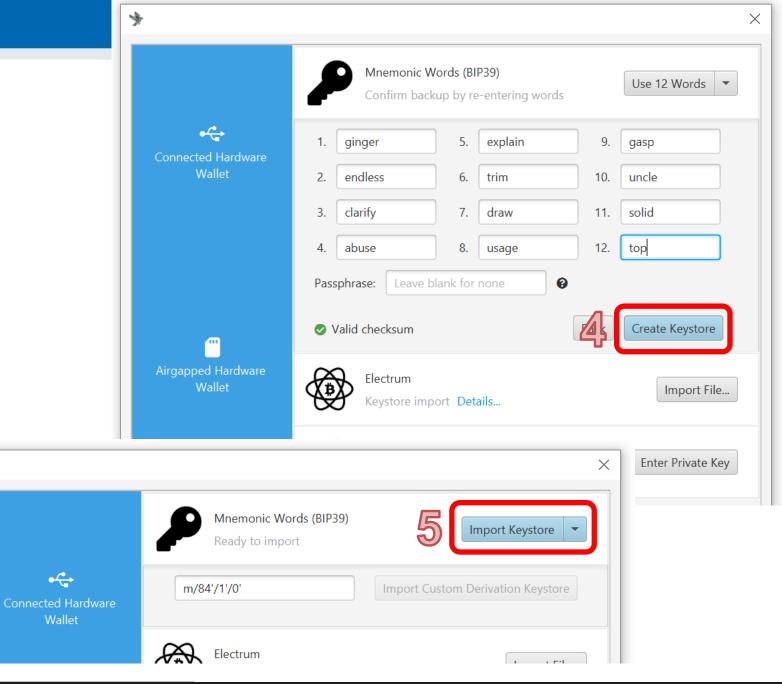


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Create wallet

- 4. Create Keystore
- Confirm backup
- Reenter words
- 5. Import Keystore

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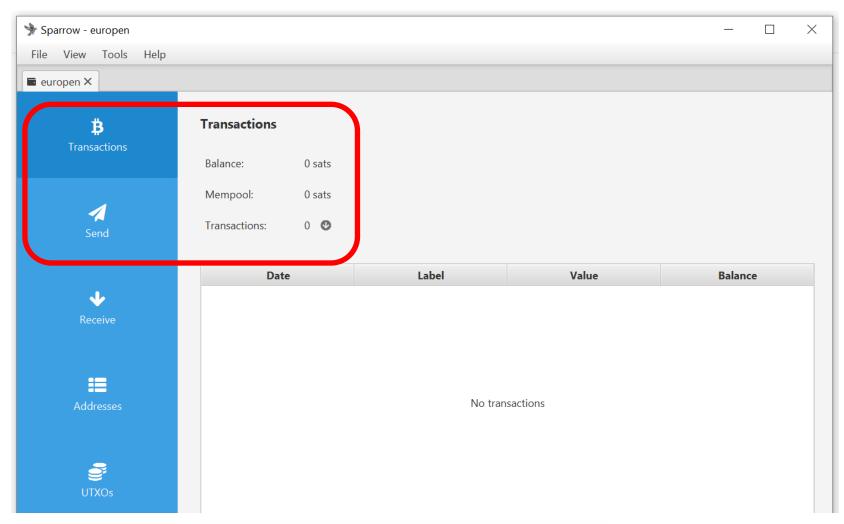
Create wallet

- 6. Apply
- 7. Set password or leave emptyipt Polic
 - (encryption of local wallet file)
- Local wallet contains seed
 - *.mv.db file
 - File→Open wallet



📌 Sparrow - europen				- 🗆 X
File View Tools Help				-
europen ×			У Wallet Password	×
B Transactions	Settings Policy Type: Single S	Signature 🔻 🚱	Add a password to the wallet? Leave empty for no password:	
1		Segwit (P2WPKH) 🔹		
or leave emp	Sevipt Policy		Password Confirmation	
cal wallet file)	Descriptor: wpkh(E	3IP39)	7 No Password	Cancel
tains seed	Keystores		INO Password	Cancer
	BIP39			
Addresses	Туре:	🖵 Software Wallet 🚺	View Seed	C Replace
	Label:	BIP39		
Ű	Master fingerprint:	bec2be2c		
UTXOs	Derivation:	m/84'/1'/0'	0	
*	tpub / vpub:		19i4eoUvWAyDnPL81Lp1Aayuwfs 26jxh5d2nabdsYuq5MF9JHv7kZ6e	
Settings	Export Add Account		Advanced	Apply

Wallet created (but empty ③)



Receiving (testnet) bitcoins

- You generate new "address"
 - deterministically derived from your root seed and fresh derivation path (path + counter) => new ECDSA keypair [BIP32]
 - public key X is pasted into locking script ("who can sign with private key verifiable with X can move bitcoin further") and hashed => "address" [P2SH/P2WSH] (Pay to witness script hash)
- Service coinfaucet.eu owns multiple tBTC
 - Service is providing limited number of test bitcoins (tBTC) for free
 - Service owns UTXOs => someone previously locked some tBTC to their keypair(s)
 - Service creates new transaction with some tBTC locked to your "address"
 - New transaction is broadcasted to Bitcoin P2P network and stored in mempools (set of unconfirmed transactions)
- Miners will eventually include this transaction into new block (head of blockchain)
 - Confirmed and removed from mempools
 - Your Sparrow wallet is monitoring both mempool and blockchain (instant notification about pending transaction)

Getting test bitcoins (tBTC)

If not running, run your wallet with testnet switch (command line)

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Receive

Address:

Derivation

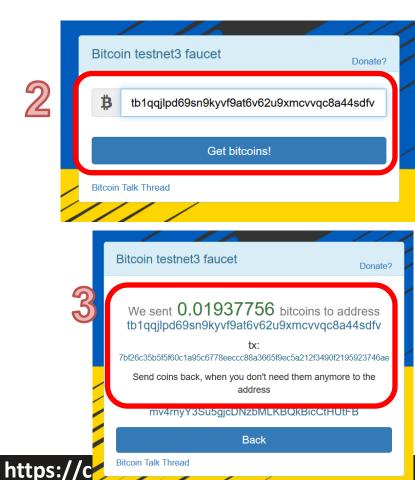
Last Used

m/84'/1'/0'/0/0

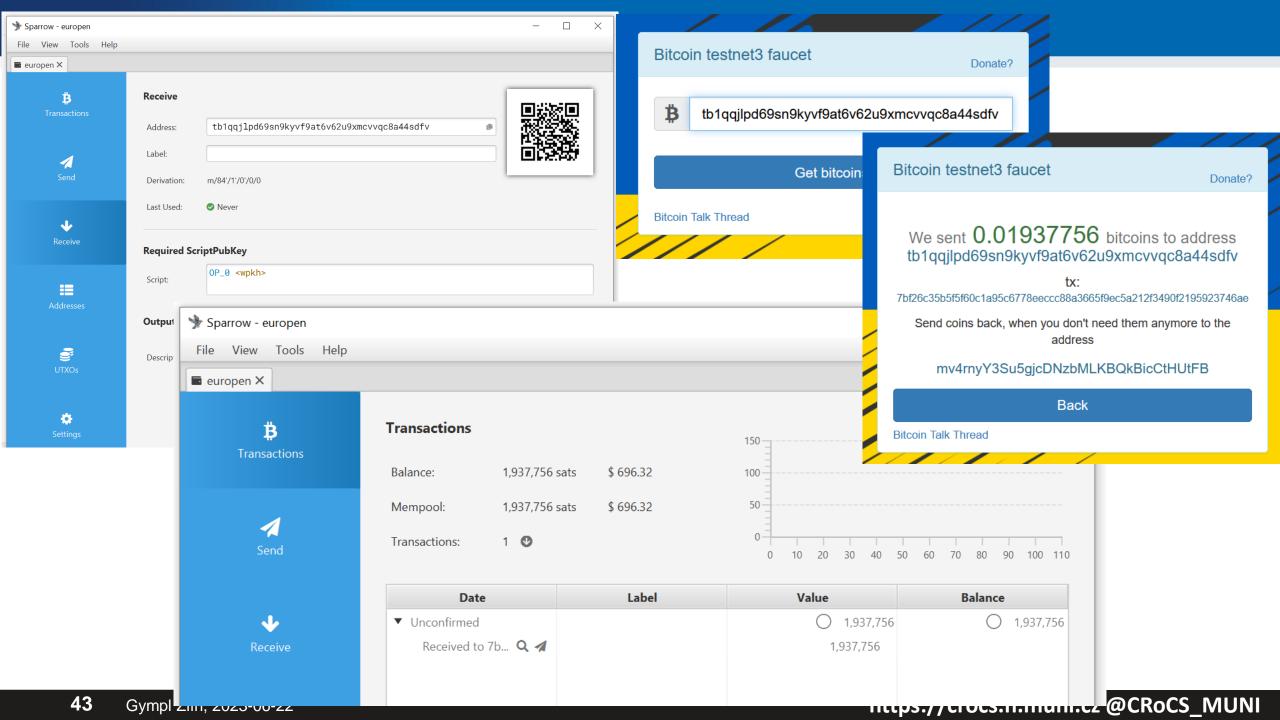
Neve

Required ScriptPubKey

- E.g., ./sparrow -n testnet
- Generate new (testnet) receive address
- Go to <u>https://coinfaucet.eu/en/btc-testnet/</u>
 - If doesn't work use <u>https://testnet-faucet.com/btc-testnet/</u>
 - Insert your testnet receive address
 - You may get more every 12 hours (per single IP)
 - (but please don't abuse)
- Check your tx: <u>https://mempool.space/testnet</u>
- Testnet TX explorer: <u>https://blockstream.info/testnet/</u>
 - Software visualizing blockchain



tb1qqj1pd69sn9kyvf9at6v62u9xmcvvqc8a44sdfv



Blockchain explorers

- Everybody with access to Bitcoin P2P network can analyze blockchain
 - Everybody running Bitcoin fullnode
 - All past transactions, human-readable visualizations, search for address...
 - Convenient quick check of funds send
- Third parties are operating public explorers (convenient, but privacy)
 - It is very important to use Tor Browser when accessing public block explorers
 - Explorer operator may log your IP address and transactions you are searching for and later sell it (chain surveillance companies)
 - Heuristic assumption that you are the owner of funds for searched transaction
- Ideally use your own full node with your own blockchain explorer
- Sparrow wallet allows you to visualize your transactions
 - Inputs, outputs, feed paid

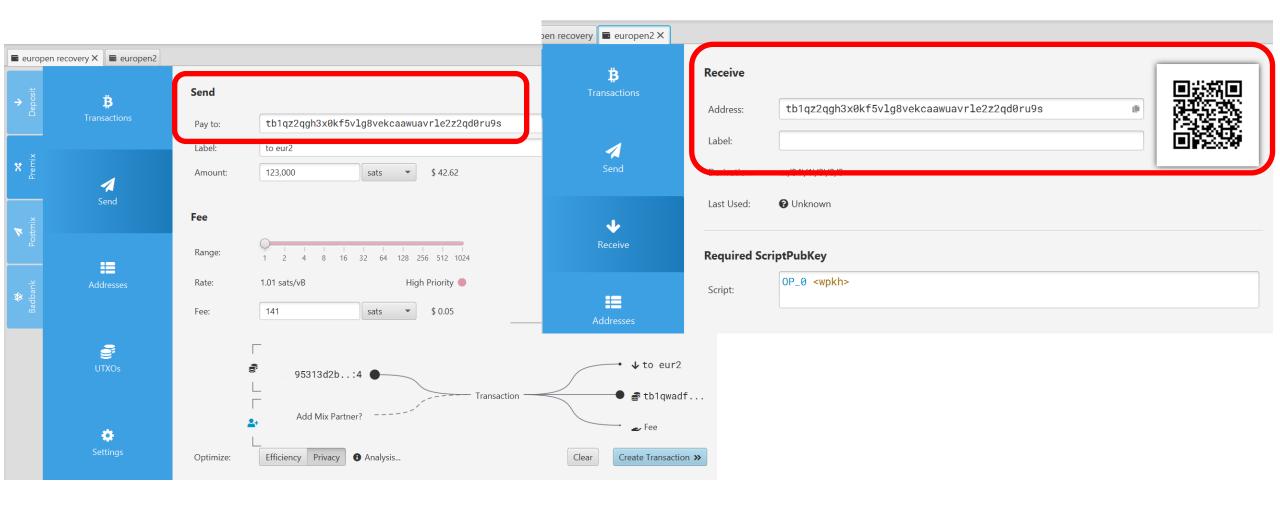


Task: send some tBTC to your peer

- Select one of your neighbors as peer (PC1 and PC2)
- Obtain his/her receive address
 - Via messenger: PC2 \rightarrow Receive tab \rightarrow Copy address \rightarrow send via Signal \rightarrow PC1
 - Via QR: PC2 \rightarrow Receive tab ; PC1 \rightarrow Send \rightarrow camera icon \rightarrow scan address QR
- Enter some sats into Amount box
 - Observe visualized transaction below (more inputs may be added)
- Try again, but now with manual coin selection
 - UTXO tab \rightarrow select one or more \rightarrow Send Selected

PC1

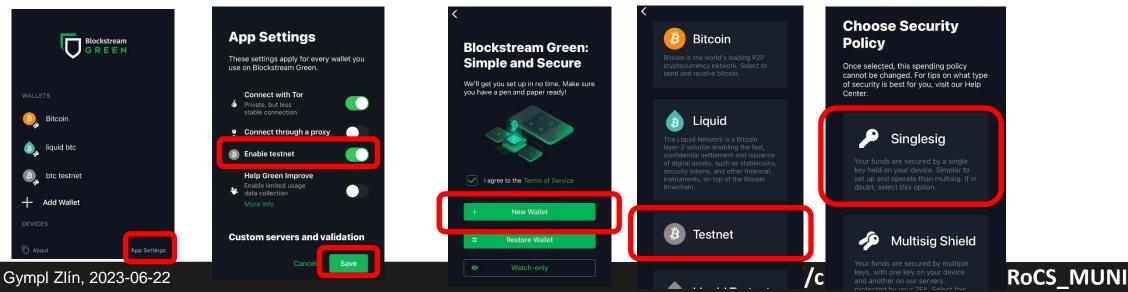
PC2



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Get mobile wallet

- Get Green wallet by Blockstream on your mobile phone
 - https://apps.apple.com/us/app/green-bitcoin-wallet/id1402243590
 - <u>https://play.google.com/store/apps/details?id=com.greenaddress.greenbits_android_wallet&</u> <u>hl=en&gl=us</u>)
 - Pick testnet option
- Try send between to Green and Sparrow



Questions

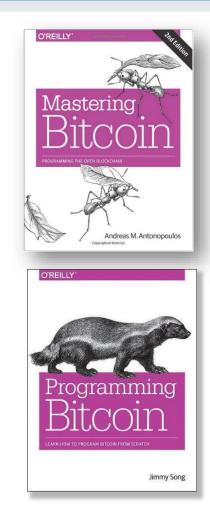
- Can you get less than 1 bitcoin?
- How can you get some real bitcoin(s)? (three different options)
- How can I pay you 1btc if I have only one UTXO worth of 5btc?
- Can you reverse bitcoin payment if send to wrong address?
- Why "Not your keys, not your bitcoin"? What is non-custodial wallet?
- How can someone steal your bitcoins? (At least three different options)
- For what reason are miners consuming a lot of energy?
- How frequently is new block with transactions included to blockchain?
- If I will send you bitcoin on-chain, can you tell from whom I got it?
- Why should you use fresh new address for every receive transaction?
- Why is theoretical maximal limit of on-chain transactions ~6-7tx/sec?
- Can I operate full Bitcoin node without owning any bitcoin?
- Can you receive bitcoins without operating full node?
- What attacks are possible if I'm using Bitcoin wallet which is not connected to my trusted full node?

(Look for your testnet txs from bitcoin core client)

- We send testnet tBTC => there must be corresponding transaction
- Can we look it on our own fullnode (bitcoin-qt we used previously)?
- Possible, but you need to download whole testnet3 blockchain – Files are located in \Bitcoin\testnet3\
- When searching for transaction (locally), use --testnet switch
 - -bitcoin-cli -testnet

Further reading

- Mastering Bitcoin (Andreas M. Antonopoulos and others)
 - <u>https://github.com/bitcoinbook/bitcoinbook</u>
- Programming Bitcoin (Jimmy Song)
 - https://github.com/jimmysong/programmingbitcoin
- List of interesting resources
 - <u>https://blockonomi.com/bitcoin-educational-resources/</u>
 - https://learnmeabitcoin.com/, https://learnmeabitcoin.com/technical/
- Bitcoin Twitter, Nostr (<u>https://nostr.com/clients</u>)
 - @adam3us @gladstein @ODELL @saylor ...
- Podcasts
 - https://www.whatbitcoindid.com/ https://stephanlivera.com/



Getting some real sats (1/10000000 B)

- You can get/buy fraction of bitcoin
- Transaction on mainnet
 - potentially costly, ~10mins to execute
 - Mainnet is not for buying coffee
- Satoshies on Lighting instant and near free
- 1. Download Wallet of Satoshi
- 2. Click Receive \rightarrow QRCode displayed
- 3. Come to get some
- 4. Try and learn

	373,306 about \$113	sats			
	Pay to Wallet of Sat a day ago	-3,333 sats about \$0.93			
≔ History					
Ree	ceive] Send			