Soluna Holdings, Inc.

$16.3 Million Convertible Note Financing

October 2021

Announcement

Good morning. This is Michael Toporek, Chief Executive Officer of Mechanical Technologies, Inc. Thanks for joining me this morning for a strategic and financial discussion at the end of October 2021. Our presentation to you today is qualified in its entirety by the several pages of legal disclosures and disclaimers that I'm going to flip through here. Please read them as they're critical to help set the context for what we're telling you today.

I'm going to summarize them a little bit because I think it's important you understand what we're attempting to do here. The following discussion is completely qualified by the legal disclosures on the several pages proceeding with this one. Our goal is to share with you some of the strategic thinking and financial analysis that we're using to guide the growth of our business. This discussion is in line with our principles of being accountable and transparent with you, our shareholders. As many of you know, we operate in a hyperdynamic economic environment. That's really a fancy way of saying things change quickly. What we're telling you here is based on our estimates and assumptions, which are our best guesses. We reserve the right to revise our point of view based on new information and changes in the business environment. But despite an uncertain, dynamic environment, we must plan and make operating and investment decisions. This presentation lays some of that out for your review.

Our agenda today begins with talking about some of our strategic and financial goals. And we'll tell you a little bit about our financing plans, and then discuss the further analysis of our most recent financing. Our current financial and strategic goals, which we've communicated with you throughout the year, are first and foremost, getting 50 megawatts under management by the end of Q4 2021. We set that out as a goal fairly early in the year, and I'm proud to say that we are just a couple of months away from achieving that goal. We'll have all equipment installed by the end of Q4 2021 or early Q1 2022 in these facilities, and the result, depending on Bitcoin prices, as we've talked about with you, is a run rate EBITDA of approximately 20 to 40 million dollars a year.

Now, some of our new and emerging goals, which I expect to more fully communicate to you at some point in December, include the following thoughts. First, we need to close the Soluna acquisition. We anticipate that will occur after the shareholder's vote sometime in the first week of November. From there, I expect our first mission will be to finance their first project, which is codenamed, Dorothy. It's really an opportunity to build between 50 and 150 megawatts of capacity behind the meter at a curtailed wind farm. The project is nearly shovel-ready, and I expect it to deliver power between 2.3 and 2.5 cents per kilowatt-hour, with about 93% uptime. The project can be brought up in phases. We're aiming for about 50 megawatts by the end of Q2 2022, and at least another 50 megawatts by early Q4 2022. Again, the exact timing will be formally released to you with a plan of record that we'll put out at some point in December. But just summarizing, if we bill Dorothy at a hundred megawatts, add to that Python, Anaconda, and TNT, it's over 150 megawatts of capacity with in-place ability to hit 200 megawatts.

In addition to that, there is a significant additional pipeline, which we'll review with you in our December report to you. And we could choose to build portions of new locations instead of bringing Dorothy to the full 150 megawatts in 2022. If we do that successfully, our run rate corporate EBITDA should be somewhere between 120 million to 160 million by early Q4 2022. If that in fact happens, it could result in a market cap of over a billion dollars. And that implies a share price of perhaps $50 if you do the math based on our current comparable analysis.

This is my personal opinion. It's not a projection or investment advice. I can't project market, Bitcoin prices, or network difficulty. We can build the facilities and operate the equipment that could generate certain economic results. This is not a guarantee or projection. It's my guess, fully qualified by the four pages of legal qualifiers that you should read carefully at the beginning of this presentation. The point I'm simply making is that we're going to deliver a business that in ... call it the 25,000 to 65,000 Bitcoin environment, we'll deliver results of about 120 to 160 million in EBITDA run-rate by early Q4 2022. Again, what that valuation is, and that math, is up to you. But all I can say is that we believe it's fairly significant, and we're really hoping to drive a value for this company over a billion dollars by the end of the year next year.

So let's talk about hash rate, project, and certain assumptions. About 10 megawatts of S-19s is about 300 Peta hash. 50 megawatts of S-19s, for example, as in Python and Anaconda, could be about 1.5 exa hash. Anaconda and Python are currently targeting about 900 Peta hash and 1.2 exa hash, depending on our equipment mix. We've begun to tilt to slightly higher densities. So we could exceed the 900 Peta hash level in Q1 2022. But we do have the option to, for example, reinvest cash over the course of 2022 and 2023 to slowly move those facilities' hash rate closer to the theoretical maximum with at least the S-19s of 1.5 exa hash. The way we would do that is simply swapping out some of the older equipment, selling it for cash, and buying some of the more power-dense equipment in 2022 and 2023. These decisions will be made in real-time based on market conditions.

Let's talk about the cost to build capacity for a moment. The cost to fully build one megawatt of infrastructure for a facility was running about 250,000 to 300,000 when we worked on Anaconda and Python. As many of you know, the cost of electrical infrastructure equipment has increased significantly, and the cost for the Dorothy facility could run closer to $400,000 per megawatt. Now, as we've mentioned, Dorothy can be built in phases from 50 to 150 megawatts. Our target is 50 megawatts by the end of Q2 2022, and at least another 50 megawatts by early Q4 2022. The cost of that, including fairly power-dense S-19s, and the infrastructure to support them, is about 130 to 145 million per 50 megawatts. If you use S-19s as your benchmark, that gives you by the end of the year three exa hash in hashing capability.

And obviously, we can reinvest our cash and grow the other 50 megawatts depending on market conditions to take us to the full 150 megawatts at that site. What we're telling you here is not a guarantee on the first, second, or third phase. Timing or budget could increase or decrease size. We are working on a complete financing plan. We'll release it when it's complete. This is just really our directional thinking. We expect, again, to release that to you at some point in early December.

Financing can include the following non-diluted sources, equipment financing at the project level, debt at the project level, debt at the corporate level, equity partnerships at the project level, and preferred equity at the corporate level. We talked to you a little bit about how we thought through the most recent financing that we disclosed to you this morning. First and foremost, the funds we just raised will be used to buy more power-dense equipment at Python and Anaconda, and help us to continue to purchase electrical infrastructure equipment for Dorothy so that the project timeline that we put out to you can be met, because those are long lead time items, and with a very extended supply chain these days.

In order to do the nondilutive financing that I talked about in the previous slide, we have to have a certain equity base, and we felt it was important to increase that equity base right now as we jump into our next step, which would be to raise significant amounts of nondilutive financing. So the first alternative we looked at is a potential S1 equity offering like we've done in the past. So our most recent price, which would be the price of filing, is almost $13. The market price at closing would be, we're guessing, 20% less than that, because typically if you file an S1 in the micro-cap world, there's a significant amount of negative pressure that comes onto your stock before pricing. So assuming, call it 20% decline based on that pressure, the deal we would cut would be 25% discount, and warrant coverage of 25%. So that would sell our shares at 7-7-88, with a warrant strike price of 10-3-84. And we go to cash, including time to file and going effective, I'll call it two to three weeks from today.

Let's take a look at the financing we actually chose to do. That's a private investment of public equity or pipe of convertible debt with a handful of investors. The market price at filing, and we'll call it closing because the economic terms are set, is almost $13 per share. And our five-day VWAP is 11-4-75. So that conversion price, as part of that convertible debt, is 9.181 per share, which is a 20% discount to the VWAP taking into account 8%, or this built-in original issue discount, or quote-unquote, interest rate. In addition, three tranches of warrants were granted, which is equivalent to about 100% warrant coverage. The strike prices are 12.50, 15, and 18.

We view this as an important going forward funding mechanism that's at a premium or at the market to a premium to where we are currently at in the marketplace in terms of the share price. And to keep in that spirit, half of the warrants can be called by the company. If the VWAP exceeds the strike price by 130% for 10 days. Basically, just, for example, imagine the shares are trading at $18 for 10 days straight. We can go to the investors and say, "Hey, your 15% strike price ... your $15 strike price warrants. You need to exercise them, otherwise, we're going to cancel half of them." And that, my guess is, will precipitate an exercise and funding. Taken together, this is a mechanism to help us raise another 25 million dollars or so at a premium to today's market price. I believe that the strike price demonstrates investor confidence in our company and its prospects and their belief that we can achieve those share prices. And they can add additional funding, while at the same time, a profitable exercise for them.

So, what I'd also like to do here is compare the two options from an economic point of view. So we file an S1. We sell 317,000 more shares. At 12.98 a share, that's about four million in value the company is not giving away relative to a pipe. Now, if you look at the S1 option, it puts out warrants that, according to a Black-Scholes analysis, at least our Black-Scholes analysis, are worth about 1.8 million dollars. So the total value of the warrants under the pipe, taking into account the call feature, is about 4.8 million in warrants were given away. Of course, that's a theoretical value. And if the warrants are exercised, the company raises over 25 million dollars at a premium to current prices. We can call half the warrants, as I mentioned before if they're sufficiently in the money.

In our mind, the pipe is a fair deal relative to the S1. But the outcome is that if the share price increases and the warrants are in fact worth something, the company has received additional funding at prices that are premium to today's market. So if you take a look at the cost of the additional shares sold, and the value of the warrants that are given to both investors in the S1 filing and investors in the pipe, plus or minus, they're the same. The S1 cost is 5.92 million. The pipe cost is 4.8 million. But there are a fair amount of assumptions that go into valuing the warrants. So I'm just calling them about the same.

The most important element when comparing the two options side by side is the timing and certainty of execution of the pipe. So the costs are about the same, the pipe results in built-in above-market funding, while at the same time, giving us timing, fast timing, and certainty of execution. What you should expect from us going forward is we're going to continue to report our normal monthly flash reports, in addition to occasion reports that will report certain milestone hash rate accomplishments. You'll also get from us a more detailed operating and financing plan on Dorothy, and our plan of record for next year to be released at some point in December. That's the plan I expect us to measure ourselves against over the course of 2022. You'll also hear from us about the other projects that we could develop in 2022 if we're successful in bringing them to fruition.

We're accomplishing a great deal in 2021. By the end of 2022, we should be operating, if all goes, according to plan about four exa hash. As usual, we'll keep you posted monthly on our journey. It's bound to have some bumps in the road. Our team is persistent and determined to meet those goals. Thank you for joining me this morning. And as usual, if you have any questions or thoughts you'd like to share, please get in touch with us through our investor relations firm, or send us an email directly. Thank you.

Legal Disclaimer

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To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: non-gaap revenue, contribution margin, adjusted cost of cryptocurrency revenue and adjusted EBITDA contribution. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to,the financial information prepared and presented in accordance with GAAP.

Use of Estimates in monthly Presentations

Numbers presented BEFORE the release of Form 10-Q for fourth quarter ended December 31st, 2021, are monthly estimates and subject to change upon final accounting adjustments and entries. These monthly estimates are presented as an illustration of management’s review of key metrics that help in understanding the performance of the Company. Readers are strongly encouraged to review this presentation in connection with the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2021, Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2021, Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2021, and the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.