



Soluna Holdings, Inc.

September 2022 Flash Report

October 2022

Transcript

Good morning. This is Michael Toporek, chief executive officer of Soluna Holdings. Thank you for joining me for our September 2022 flash update. We begin with the usual preamble. The following discussion is completely qualified by the legal disclosures on the several pages following this one. Our goal is to share with you some of our strategic thinking and financial analysis we're using to guide the growth of our business. The discussion is in line with our principles of being accountable and transparent with shareholders. We operate in a hyperdynamic economic environment. Now, that's 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. Despite an uncertain dynamic environment, we have to plan and make operating and investment decisions. This presentation lays some of that out for your review.

I'd like to continue outlining our key operating principles. First is an alignment of interests, transparency, and accountability. Brookstone Partners, a private equity firm that I'm affiliated with, owns just under 30% of the common equity of the company. I believe that helps align the senior decision-making, both at the board level and at the company level regarding how we allocate capital, how we raise capital and the general operating principles of the company. It also helps align us economically with the interests of the common shareholders. We are dedicated to high-velocity execution. That means establishing our goals, our targets, and marshaling the resources to get





things done quickly. You'll also notice that since the inception of this business, we've emphasized return on invested capital, measuring our returns on invested capital and capital discipline in terms of how we run the business. We've also expressed to you a long-term strategy and vision that extends beyond crypto mining into batchable computing and other high-density computing sectors.

Soluna is a solutions-oriented company. We buy curtailed energy, unsold energy from renewable power generators, and we convert it to clean, low-cost computing power. So, the company is taking excess energy from renewable energy sources and funneling it to batch-oriented ... to powering batch-oriented computing, for example, cryptocurrency being one of them. Soluna's market opportunity beyond crypto is what we're calling batchable computing, basically computing power that can be flipped on and off as resources are economically available from power generation. So the first market we're applying this to is the digital currency market. Other sectors that we believe can benefit from this type of batch computing to deliver low-cost computing resources are pharmaceutical research, for example, graphics and video processing, and all forms of scientific research including, academic and commercial scientific research.

Our agenda for today is to give you a general business update and then review our September financial results. Following is our business update.

We like to think of Soluna as the right company with the right plan for a volatile environment that we've specifically engineered to thrive in a Bitcoin downturn. By that, we mean when we first entered this sector, we were very careful to engineer our growth to make sure that our power costs were between call it 2.5 to 2.8 cents, or can reach that level if switched in certain fashions at every site we were engaged with. That was critical for us because that was approximately the power cost required to be profitable every day of the prior crypto downturn. We've engineered our business in that fashion from the beginning, and that's why you'll see we are very well-positioned to get through the current environment, in a very strong position to deliver great returns to our investors as we emerge from the downturn.

Let's begin with a summary of the status report of the company. As a reminder, the Dorothy Project is phase 1A and phase 1B constitute 50 megawatts of capacity in Texas. We continue to work towards ERCOT approval, which is a key gating item, and we're addressing some small details that need to be given to ERCOT and approved by them prior to be given a date of energization. We're addressing those final details in the coming weeks and hope to report back to you soon with an energization date.





Furthermore, energizing this 50 megawatts more than doubles Soluna's operating footprint. And also as a reminder is our flagship site where we will be behind the meter at a wind farm.

Furthermore, we're focusing our liquidity and resources to support energizing Dorothy. We're looking at our near term cash expenses. We recently raised some equity financing both from Spring Lane Capital as well as in the marketplace to further drive final completion of this project. Power costs at our Kentucky sites have improved in September, and October rates are expected to rain near those September levels. In terms of one of those sites, Marie, our new Marie hosting contract just as a bookkeeping element requires us to report net revenue, not gross revenue. And the reason is because contractually now revenue, revenue or funds we take in are specifically tied towards fuel costs and other costs that are a 100% pass through. We'll get into that in more detail as we work through this presentation.

To help you visualize the status of Dorothy, we've broken down the ERCOT process into three phases: planning, modeling and operations. So the planning portion is the part of the ERCOT approval process focused on grid stability and compliance. It's absolutely imperative to them that anything we do does not endanger grid stability and reliability. And as we are in the process of submitting the final details that they have requested to assure them that the Dorothy Project does not in fact endanger any stability or any reliability of the grid, but actually enhances portions of that, they will then come together and remove us from planning to modeling. And in modeling, typically no more than 90 days passes before they give you a date to energize, and then the operations people begin to energize your site and help ramp you up. The critical piece of this is once you move from planning to modeling, then you're working with the utility and ERCOT to drive towards a date of energization, which we will then be able to disclose to our investors. So we want to give you some insight as to where we are in this process.

We recently did execute a common stock offering. We priced \$2 million of common equity to support our continued build out of Dorothy that was priced at a 20% discount to market with no warrant coverage. That was an extremely favorable pricing in this environment and we're very pleased to have done that. Additionally, Spring Lane side by side in a private placement committed \$850,000 on identical terms. We were grateful to be able to continue to attract capital for the continued build out of Dorothy despite current market conditions, and we believe that is a positive sign that investors





continue to have confidence in the economics of the Dorothy Project and getting that flipped on and in the financial results of the company.

So, let's discuss our power cost at our existing Kentucky sites, which we have named Sophie and Marie. Power costs there have improved. Fuel cost adjustment for the past seven years was between one and a half and two cents. It became elevated in June and July and is beginning to abate in September and October with a slight increase expected in the month of November. Our new hosting contract is structured quite differently than our prior contract. It is a 100% pass through on power cost and certain other costs, and then a revenue and profit share. Just to make you aware, that does involve a different level of accounting in that our revenue level will be reduced since we don't report revenue that's a pure pass through. The net economics, you'll see as we go through, are unaffected by that. It's just a change in accounting as a consequence of the pass through nature embedded in our contract.

Following our facility results for your review, we'll look into each facility and then how they come together on a consolidated basis. In September, to summarize for you, we've had roughly flat Bitcoin production despite a volatile market. Bitcoin equivalent mined per day only decreased around 3% despite the average seven-day network hash rate increasing by 50% from the beginning of August to the end of September. That means it's been more difficult to earn mining rewards. Our peak hashrate remains above 1 exahash. Our cash contribution margins have improved, and our hosting agreement at Marie is significantly more profitable. We continue to expect to scale Dorothy 1A and 1B. This gives you some sense that we expect to have under roof approximately 2.6 exahash once Dorothy gets energized.

Sophie continued to run well. The average September petahash decreased by about 1% to 377 petahash versus August petahash of 381 petahash. You'll see that our adjusted cash contribution margin in September was 323,000 versus 358,000 in August. It was largely driven by a decline in revenue that was a consequence of hash price. Basically, that's a combination of Bitcoin prices and network difficulty. These are the financial results for Sophie. I'd like to bring your attention to the cash contribution margin where for example for July, it was 331, August 358, September 323. Those aren't fabulous results compared to April, May, and June, but you do see a consistency of operating profit there and working team very hard to maintain operating margins. The hashrate in Marie for September was up 517 petahash versus 464 in August. That increase was really due in part to seasonal factors including TVA curtailments,





weather-related hash reductions. We had a transformer malfunction that was resolved. That helped improve our results versus August.

On Marie, I do want to highlight something very specific on this slide here, that the cash contribution margin in September from hosting flipped to a positive \$66,000 despite the fact that we do have some leverage, a significant leverage in a profit share, that hasn't hit as much as we would like. But as the environment improves, we expect our profit share to continue to increase. If you take a look at the 66,000 in contribution from hosting for September, it obviously is more favorable than the last two months of the prior contract. But even in June, it was better than June. But the April and May numbers did have significantly higher Bitcoin built into them, and those economics help make the old contract somewhat more lucrative than the current contract. But the current contract is deleveraged and de-risked relative to power costs, so it makes sure the costs are covered and gives us a meaningful profit share. So we think the risk return balance is terrific on a new contract. Prop mining, as you can see, results improved to 136,000 versus the month, and that really has moved us closer to the results that we had achieved in June for prop mining.

You will notice then when comparing our monthly performance, I do want to highlight something. April and May had 41 and 31,000 Bitcoin prices embedded in them and lower difficulty levels, whereas June had 24, so our prop mining number for September profitability began to look like June, despite the fact that the network difficulty in September is higher and Bitcoin prices are lower. And that's a tribute to the operating team really performing well at this site for the prior month. On a consolidated basis, Bitcoin mining declined by about 3% versus August and you'll see as evidenced by the hash rate on September 10th, we are experiencing very good up times and very good results that we expect will net solid financials for us going forward. You will note that the cash contribution margin on a consolidated basis was 514,000, which is meaningfully different than July and August. Again, not quite what it was in June, but in June the environment was significantly different than the environment we're in now in terms of network difficulty. And to some extent, price was closer to the 24,000 level.

So, this is our consolidated operating metrics. I would encourage you to look at the Bitcoin equivalent mined Bitcoin price from April, May, and June and comparing it to July, August, and September. And you'll realize that our September performance was extremely solid as you compare it to prior months. Following is the reconciliation of non-GAAP results of operation to the nearest comparable GAAP measures. And on that note, I'd like to thank you for joining me for this update. And as usual, please feel





free to reach out with questions, comments, and thoughts. You can reach out to us through our investor relations people or as well directly on our website. I look forward to talking to you again next month.

