

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-40931

**Stronghold Digital Mining, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**595 Madison Avenue, 28th Floor  
New York, New York**

(Address of principal executive offices)

**86-2759890**

(I.R.S. Employer  
Identification No.)

**10022**

(Zip Code)

**(212) 967-5294**

(Registrant's telephone number, including area code)

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	SDIG	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The registrant had outstanding 20,096,481 shares of Class A common stock, par value \$0.0001 per share, and 28,209,600 shares of Class V common stock, par value \$0.0001 per share, as of August 12, 2022.

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**Part I - Financial Information**

**Item 1. Financial Statements**

**STRONGHOLD DIGITAL MINING, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	<i>(unaudited)</i>	
<b>CURRENT ASSETS</b>		
Cash	\$ 32,987,181	\$ 31,790,115
Digital currencies	352,092	7,718,221
Digital currencies restricted	4,779,895	2,699,644
Accounts receivable	1,851,719	2,111,855
Due from related party	848,150	—
Prepaid insurance	2,356,411	6,301,701
Inventory	3,605,533	3,372,254
Other current assets	1,733,907	661,640
Total Current Assets	48,514,888	54,655,430
<b>EQUIPMENT DEPOSITS</b>		
	66,472,016	130,999,398
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>		
	237,973,955	166,657,155
<b>LAND</b>		
	1,748,439	1,748,440
<b>ROAD BOND</b>		
	211,958	211,958
<b>SECURITY DEPOSITS</b>		
	348,888	348,888
<b>TOTAL ASSETS</b>		
	\$ 355,270,144	\$ 354,621,269
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt-net of discounts/issuance fees	\$ 100,593,168	\$ 45,799,651
Financed insurance premiums	393,260	4,299,721
Forward sale contract	4,650,848	7,116,488
Accounts payable	23,887,308	28,650,659
Due to related parties	1,974,299	1,430,660
Accrued liabilities	12,920,128	5,053,957
Total Current Liabilities	144,419,011	92,351,136
<b>LONG-TERM LIABILITIES</b>		
Asset retirement obligation	986,115	973,948
Contract liabilities	132,093	187,835
Paycheck Protection Program Loan	—	841,670
Long-term debt-net of discounts/issuance fees	26,889,570	18,378,841
Total Long-Term Liabilities	28,007,778	20,382,294
Total Liabilities	172,426,789	112,733,430
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>REDEEMABLE COMMON STOCK</b>		
Common Stock - Class V, \$0.0001 par value; 34,560,000 shares authorized, and 27,057,600 and 27,057,600 shares issued and outstanding, respectively	47,239,903	301,052,617
Total redeemable common stock	47,239,903	301,052,617
<b>STOCKHOLDERS' EQUITY / (DEFICIT)</b>		
Non-controlling Series A redeemable and convertible preferred stock, \$0.0001 par value, aggregate liquidation value \$5,000,000. 1,152,000 and 1,152,000 issued and outstanding, respectively	35,937,061	37,670,161
Common Stock – Class A, \$0.0001 par value; 685,440,000 shares authorized, and 20,034,875 and 20,016,067 shares issued and outstanding, respectively	2,002	2,002
Accumulated deficits	(155,708,865)	(338,709,688)
Additional paid-in capital	255,373,254	241,872,747
Stockholders' equity / (deficit)	135,603,452	(59,164,778)
Total	182,843,355	241,887,839
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY / (DEFICIT)</b>	<b>\$ 355,270,144</b>	<b>\$ 354,621,269</b>

The accompanying notes are an integral part of these condensed consolidated financial statements

**STRONGHOLD DIGITAL MINING, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three months ended,		Six months ended,	
	Consolidated	Consolidated	Consolidated	Consolidated
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>OPERATING REVENUES</b>				
Cryptocurrency mining	\$ 20,227,536	\$ 1,324,645	\$ 38,431,729	\$ 1,840,903
Energy	7,129,732	1,570,966	15,492,533	3,486,822
Capacity	1,668,001	595,545	3,712,428	1,283,236
Cryptocurrency hosting	121,172	686,771	189,048	1,242,518
Other	32,008	6,597	52,770	33,123
Total operating revenues	<u>29,178,449</u>	<u>4,184,524</u>	<u>57,878,508</u>	<u>7,886,602</u>
<b>OPERATING EXPENSES</b>				
Fuel	8,680,114	2,228,167	18,018,508	4,100,521
Operations and maintenance	16,586,756	1,834,170	27,921,089	3,204,858
General and administrative	10,903,876	1,996,971	21,514,079	2,907,847
Impairments on digital currencies	5,205,045	375,246	7,711,217	375,246
Impairments on equipment deposits	—	—	12,228,742	—
Impairments on miner assets	4,990,000	—	4,990,000	—
Depreciation and amortization	12,667,300	787,731	24,986,881	1,305,174
Total operating expenses	<u>59,033,091</u>	<u>7,222,285</u>	<u>117,370,516</u>	<u>11,893,646</u>
<b>NET OPERATING LOSS</b>	<u>(29,854,642)</u>	<u>(3,037,761)</u>	<u>(59,492,008)</u>	<u>(4,007,044)</u>
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(4,508,783)	(55,443)	(7,420,235)	(134,083)
Gain on extinguishment of PPP loan	841,670	—	841,670	638,800
Realized gain (loss) on sale of digital currencies	—	5,977	751,110	149,858
Changes in fair value of warrant liabilities	—	(191,477)	—	(191,477)
Realized gain (loss) on disposal of fixed asset	(1,724,642)	—	(1,769,600)	—
Realized gain (loss) on sale of miner assets	(8,012,248)	—	(8,012,248)	—
Changes in fair value of forward sale derivative	3,919,388	—	3,435,639	—
Changes in fair value of convertible note	(962,761)	—	(962,761)	—
Waste coal credits	53,443	15,406	53,443	23,796
Other	10,000	20,290	30,000	38,185
Total other income / (expense)	<u>(10,383,933)</u>	<u>(205,248)</u>	<u>(13,052,982)</u>	<u>525,079</u>
<b>NET LOSS</b>	<u>\$ (40,238,575)</u>	<u>\$ (3,243,009)</u>	<u>\$ (72,544,990)</u>	<u>\$ (3,481,965)</u>
<b>NET LOSS - attributable to non-controlling interest</b>	<u>\$ (23,537,555)</u>	<u>\$ (2,235,218)</u>	<u>\$ (42,435,192)</u>	<u>\$ (2,402,488)</u>
<b>NET LOSS - Stronghold Digital Mining, Inc</b>	<u>\$ (16,701,021)</u>	<u>\$ (1,007,791)</u>	<u>\$ (30,109,798)</u>	<u>\$ (1,079,477)</u>
<b>NET LOSS attributable to Class A Common Shares(1)</b>				
Basic	\$ (0.82)	\$ (123.86)	\$ (1.49)	\$ (123.86)
Diluted	\$ (0.82)	\$ (123.86)	\$ (1.49)	\$ (123.86)
<b>Class A Common Shares Outstanding(1)</b>				
Basic	20,341,061	8,137	20,274,672	8,137
Diluted	20,341,061	8,137	20,274,672	8,137

1 - Basic and diluted loss per share of Class A common stock is presented only for the period after the Company's Reorganization Transactions. See Note 1 – Business Combinations for a description of the Reorganization Transactions. See Note 17 – Earnings (Loss) Per Share for the calculation of loss per share.

The accompanying notes are an integral part of these condensed consolidated financial statements

**STRONGHOLD DIGITAL MINING, INC.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' DEFICIT AND STOCKHOLDERS' EQUITY / (DEFICIT)**

June 30, 2022 and June 30, 2021

	Three Months Ended June 30, 2022									
	Non-controlling Redeemable Preferred				Common A			Accumulated Deficit	Additional Paid-in Capital	Stockholders' Equity / (Deficit)
	Limited Partners	General Partners	Series A Shares	Amount	Shares	Amount				
<b>Balance – April 1, 2022</b>	\$ —	\$ —	1,152,000	\$ 36,898,361	20,020,877	\$ 2,002	\$ (241,895,906)	\$ 245,615,742	\$ 40,620,199	
Net losses Stronghold Digital Mining Inc.	—	—	—	—	—	—	(16,701,021)	—	(16,701,021)	
Net losses attributable to non-controlling interest	—	—	—	(961,300)	—	—	(22,576,255)	—	(23,537,555)	
Maximum redemption right valuation [Common V Units]	—	—	—	—	—	—	125,464,317	—	125,464,317	
Vesting of restricted stock units	—	—	—	—	13,998	—	—	—	—	
Warrants Issued and Outstanding	—	—	—	—	—	—	—	6,604,881	6,604,881	
Stock-based compensation - refer to Note 13	—	—	—	—	—	—	—	3,152,630	3,152,630	
<b>Balance – June 30, 2022</b>	\$ —	\$ —	1,152,000	\$ 35,937,061	20,034,875	\$ 2,002	\$ (155,708,865)	\$ 255,373,254	\$ 135,603,452	

  

	Three Months Ended June 30, 2021										
	Redeemable Preferred				Common A			Accumulated Deficit	Additional Paid-in Capital	Stock Subscriptions	Partners' Deficit
	Limited Partners	General Partners	Series A Shares	Amount	Common A Shares	Amount					
<b>Balance – April 1, 2021</b>	\$ (1,408,471)	\$ (2,877,584)	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (4,286,055)
Opco formation and contributions	—	2,877,584	—	—	—	—	—	—	—	—	2,877,584
Aspen Scrubgrass Participant, LLC ["Olympus"] contribution	1,408,471	—	—	—	—	—	(1,408,471)	—	—	—	—
Buyout of Aspen Interest- refer to Note 19	—	—	200,000	200	—	—	(7,000,000)	4,999,800	—	—	(2,000,000)
Exchange of common units for Class A common shares	—	—	—	—	5,000	1	—	—	—	—	1
Common stock issued as part of debt financing- refer to Note 14	—	—	—	—	18,886	2	—	598,686	(598,686)	—	2
Common stock issued as part of debt financing- refer to Note 14	—	—	—	—	24,959	2	—	791,201	(791,201)	—	2
Warrants issued as part of debt financing - refer to Note 14	—	—	—	—	—	—	—	1,999,396	—	—	1,999,396
Net losses for the three months ended June 30, 2021	—	—	—	—	—	—	(1,007,791)	—	—	—	(1,007,791)
Maximum redemption right valuation - refer to Note 15	—	—	—	—	—	—	(172,774,051)	—	—	—	(172,774,051)
Stock-based compensation - refer to Note 13	—	—	—	—	—	—	—	269,932	—	—	269,932
<b>Balance – June 30, 2021</b>	\$ —	\$ —	200,000	\$ 200	48,845	\$ 5	\$ (182,190,313)	\$ 8,659,015	\$ (1,389,887)	\$ (174,920,980)	

The accompanying notes are an integral part of these condensed consolidated financial statements

**STRONGHOLD DIGITAL MINING, INC.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' DEFICIT AND STOCKHOLDERS' EQUITY / (DEFICIT)**

June 30, 2022 and June 30, 2021

	Six Months Ended June 30, 2022									
			Non-controlling Redeemable Preferred		Common A					
	Limited Partners	General Partners	Series A Shares	Amount	Shares	Amount	Accumulated Deficit	Additional Paid-in Capital	Stockholders' Equity / (Deficit)	
<b>Balance – January 1, 2022</b>	\$ —	\$ —	1,152,000	\$ 37,670,161	20,016,067	\$ 2,002	\$ (338,709,688)	\$ 241,872,747	\$ (59,164,778)	
Net losses Stronghold Digital Mining Inc.	—	—	—	—	—	—	(30,109,798)	—	(30,109,798)	
Net losses attributable to non-controlling interest	—	—	—	(1,733,100)	—	—	(40,702,092)	—	(42,435,192)	
Maximum redemption right valuation [Common V Units]	—	—	—	—	—	—	253,812,714	—	253,812,714	
Vesting of restricted stock units	—	—	—	—	18,808	—	—	—	—	
Warrants Issued and Outstanding	—	—	—	—	—	—	—	7,754,881	7,754,881	
Stock-based compensation - refer to Note 13	—	—	—	—	—	—	—	5,745,625	5,745,625	
<b>Balance – June 30, 2022</b>	<b>\$ —</b>	<b>\$ —</b>	<b>1,152,000</b>	<b>\$ 35,937,061</b>	<b>20,034,875</b>	<b>\$ 2,002</b>	<b>\$ (155,708,865)</b>	<b>\$ 255,373,254</b>	<b>\$ 135,603,452</b>	

	Six Months Ended June 30, 2021									
			Redeemable Preferred		Common A				Partners' Deficit	
	Limited Partners	General Partners	Series A Shares	Amount	Common A Shares	Amount	Accumulated Deficit	Additional Paid-in Capital	Stock Subscriptions	Stockholders' Equity / (Deficit)
<b>Balance – January 1, 2021</b>	\$ (1,336,784)	\$ (2,710,323)	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ (4,047,107)
Net losses	(71,687)	(167,261)	—	—	—	—	—	—	—	(238,948)
Effect of reorganizations (see Note 1)										
Opco formation and contributions	—	2,877,584	—	—	—	—	—	—	—	2,877,584
Aspen Scrubgrass Participant, LLC ["Olympus"] contribution	1,408,471	—	—	—	—	—	(1,408,471)	—	—	—
Buyout of Aspen Interest- refer to Note 19	—	—	200,000	200	—	—	(7,000,000)	4,999,800	—	(2,000,000)
Exchange of common units for Class A common shares	—	—	—	—	5,000	1	—	—	—	1
Common stock issued as part of debt financing- refer to Note 14	—	—	—	—	18,886	2	—	598,686	(598,686)	2
Common stock issued as part of debt financing- refer to Note 14	—	—	—	—	24,959	2	—	791,201	(791,201)	2
Warrants issued as part of debt financing - refer to Note 14	—	—	—	—	—	—	—	1,999,396	—	1,999,396
Net losses for the three months ended June 30, 2021	—	—	—	—	—	—	(1,007,791)	—	—	(1,007,791)
Maximum redemption right valuation - refer to Note 15	—	—	—	—	—	—	(172,774,051)	—	—	(172,774,051)
Stock-based compensation - refer to Note 13	—	—	—	—	—	—	—	269,932	—	269,932
<b>Balance – June 30, 2021</b>	<b>\$ —</b>	<b>\$ —</b>	<b>200,000</b>	<b>\$ 200</b>	<b>48,845</b>	<b>\$ 5</b>	<b>\$ (182,190,313)</b>	<b>\$ 8,659,015</b>	<b>\$ (1,389,887)</b>	<b>\$ (174,920,980)</b>

The accompanying notes are an integral part of these condensed consolidated financial statements

**STRONGHOLD DIGITAL MINING, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended,	
	June 30, 2022	June 30, 2021
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (72,544,990)	\$ (3,481,965)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and Amortization - PP&E	24,986,881	1,305,174
Forgiveness of PPP loan	(841,670)	(638,800)
Realized (gain) loss on disposal of fixed assets	1,769,600	—
Realized (gain) loss on sale of equipment deposits	8,012,248	—
Amortization of debt issuance costs	2,060,806	—
Stock Compensation	5,745,625	269,932
Impairments on equipment deposits	12,228,742	—
Impairment on miner assets	4,990,000	—
Changes in fair value of warrant liabilities	—	191,477
Changes in fair value of forward sale derivative	(3,435,639)	—
Forward sale contract prepayment	970,000	—
Changes in fair value of convertible note	962,761	—
Accretion of asset retirement obligation	12,169	—
(Increase) decrease in Digital Currencies:		
Mining Revenue	(38,431,729)	(1,840,903)
Proceeds from sales of digital currencies, net of gain	36,006,390	434,529
Impairments on digital currencies	7,711,217	375,246
(Increase) decrease in assets:		
Accounts receivable	260,136	(710,720)
Prepaid Insurance	3,945,290	—
Due from related party	(848,150)	302,973
Inventory	(233,279)	77,071
Other current assets	(1,072,267)	(134,790)
Increase (decrease) in liabilities:		
Accounts payable	(4,763,351)	5,550,196
Due to related parties	543,639	319,071
Accrued liabilities excluding sales tax liabilities	4,393,075	58,866
Contract liabilities	(55,742)	147,841
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(7,628,238)</b>	<b>2,225,198</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land	—	(29,919)
Purchase of property, plant and equipment	(57,074,647)	(12,738,793)
Proceeds from the sale of equipment deposits	13,844,780	—
Equipment purchase deposits- net of future commitments	(12,073,928)	(78,688,465)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(55,303,795)</b>	<b>(91,457,176)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(24,022,738)	(188,168)
Payments on financed insurance premiums	(3,906,462)	—
Proceeds from debt, net of debt issuance costs paid in cash	92,058,299	—
Proceeds from promissory note	—	39,100,000
Proceeds from PPP loan	—	841,670
Proceeds from private placements- mezzanine equity (net of fees)	—	97,064,318
Proceeds/(Payoff) of EIDL loan	—	(150,000)
Payoff of related-party notes	—	(2,024,250)
Buyout of Aspen Interest	—	(2,000,000)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>64,129,099</b>	<b>132,643,570</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>1,197,066</b>	<b>43,411,592</b>
<b>CASH - BEGINNING OF PERIOD</b>	<b>31,790,115</b>	<b>303,187</b>
<b>CASH - END OF PERIOD</b>	<b>\$ 32,987,181</b>	<b>\$ 43,714,779</b>

The accompanying notes are an integral part of these condensed consolidated financial statements

**STRONGHOLD DIGITAL MINING, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**

June 30, 2022 and June 30, 2021

**NOTE 1 – BUSINESS COMBINATIONS**

*Reorganization*

Stronghold Digital Mining, Inc. (“Stronghold Inc.” or “the Company”) was incorporated as a Delaware corporation on March 19, 2021. On April 1, 2021, contemporaneously with the Series A Private Placement (as defined below), Stronghold Inc. underwent a corporate reorganization pursuant to a Master Transaction Agreement, which will be referred to herein as the “Reorganization.”

Immediately prior to the Reorganization, Q Power LLC (“Q Power”) directly held all of the equity interests in Stronghold Digital Mining LLC (“SDM”), and indirectly held 70% of the limited partner interests, and all of the general partner interests, in Scrubgrass Reclamation Company, L.P. (f/k/a Scrubgrass Generating Company, L.P.) (“Scrubgrass LP”), through wholly owned subsidiaries EIF Scrubgrass LLC (“EIF Scrubgrass”), Falcon Power LLC (“Falcon”) and Scrubgrass Power LLC. Aspen Scrubgrass Participant, LLC (“Aspen”) held the remaining 30% of the limited partner interests in Scrubgrass LP (the “Aspen Interest”). Scrubgrass LP is a Delaware limited partnership originally formed on December 1, 1990 under the name of Scrubgrass Generating Company, L.P. SDM is a Delaware limited liability company originally formed on February 12, 2020 under the name Stronghold Power LLC (“Stronghold Power”).

On April 1, 2021 Stronghold Inc. entered into a Series A Preferred Stock Purchase Agreement pursuant to which Stronghold Inc. issued and sold 9,792,000 shares of Series A Convertible Redeemable Preferred Stock (the “Series A Preferred Stock”) in a private offering (the “Series A Private Placement”) at a price of \$8.68 per share to various accredited individuals in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Regulation D thereunder for aggregate consideration of approximately \$85.0 million. In connection with the Series A Private Placement, the Company incurred approximately \$6.3 million in fees and \$631,897 as debt issuance costs for warrants issued as part of the Series A Private Placement.

Contemporaneously with the Reorganization, Stronghold Inc. acquired the Aspen Interest using 576,000 shares of newly issued Series A Preferred Stock and \$2,000,000 from a portion of the proceeds from the Series A Private Placement. The acquisition of the Aspen Interest is a total consideration of \$7,000,000 that consists of the \$2,000,000 in cash plus a valuation of \$5,000,000 for the 576,000 shares of the Series A Preferred Stock at the issuance per share price of \$8.68, and are classified as permanent equity and not subject to mandatory redemptions as outlined in Stronghold Inc.’s certificate of incorporation, as amended (the “Charter”). Pursuant to the Reorganization, Q Power contributed all of its ownership interests in EIF Scrubgrass, Falcon and SDM to Stronghold Digital Mining Holdings LLC (“Stronghold LLC”) in exchange for 27,072,000 Class A common units of Stronghold LLC (“Stronghold LLC Units”), Stronghold Inc. contributed cash (using the remaining proceeds from the Series A Private Placement, net of fees, expenses and amounts paid to Aspen), 27,072,000 shares of Class V common stock of Stronghold Inc. and the Aspen Interest to Stronghold LLC in exchange for 10,368,000 preferred units of Stronghold LLC, and Stronghold LLC immediately thereafter distributed the 27,072,000 shares of Class V common stock to Q Power. In addition, effective as of April 1, 2021, Stronghold Inc. acquired 14,400 Stronghold LLC Units held by Q Power (along with an equal number of shares of Class V common stock) in exchange for 14,400 newly issued shares of Class A common stock.

As a result of the Reorganization, the acquisition of the Aspen Interest and the acquisition of Stronghold LLC Units by Stronghold Inc. discussed above, (a) Q Power acquired and retained 27,057,600 Stronghold LLC Units, 14,400 shares of Class A common stock of Stronghold Inc., and 27,057,600 shares of Class V common stock of Stronghold Inc. effectively giving Q Power approximately 69% of the voting power of Stronghold Inc. and approximately 69% of the economic interest in Stronghold LLC, (b) Stronghold Inc. acquired 10,368,000 preferred units of Stronghold LLC and 14,400 Stronghold LLC Units, effectively giving Stronghold Inc. approximately 31% of the economic interest in Stronghold LLC, (c) Stronghold Inc. became the sole managing member of Stronghold LLC and is responsible for all operational, management and administrative decisions relating to Stronghold LLC’s business and will consolidate financial results of Stronghold LLC and its subsidiaries, (d) Stronghold Inc. became a holding company whose only material asset consists of membership interests in Stronghold LLC, and (e) Stronghold LLC directly or indirectly owns all of the outstanding equity interests in the subsidiaries through which we operate the Company’s assets, including Scrubgrass LP and SDM.

On May 14, 2021, the Company completed a private placement of shares of the Company’s Series B Convertible Redeemable Preferred Stock of Stronghold Inc. (the “Series B Preferred Stock,” and, together with the Series A Preferred



Stock, the “Preferred Stock”) (the “Series B Private Placement,” and, together with the Series A Private Placement, the “Private Placements”). The terms of the Series B Preferred Stock are substantially similar to the Series A Preferred Stock, except for differences in the stated value of such shares in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or certain deemed liquidation events. In connection with the Series B Private Placement, the Company sold 1,817,035 shares of its Series B Preferred Stock for an aggregate purchase price of \$20.0 million. In connection with the Series B Private Placement, the Company incurred approximately \$1.6 million in fees and expenses and \$148,575 as debt issuance costs for warrants issued as part of the Series B Private Placement.

Pursuant to the terms of the Preferred Stock, on (i) the date that a registration statement registering the shares of Class A common stock issuable upon the conversion of the Preferred Stock is declared effective by the U.S. Securities and Exchange Commission (the “SEC”) or (ii) the date on which a “Significant Transaction Event” occurs, as defined in the Company’s amended and restated certificate of incorporation, such shares of Preferred Stock will automatically convert into shares of Class A common stock of Stronghold Inc. on a one-to-one basis, subject to certain adjustments as set forth in the Charter. Correspondingly, pursuant to the Fourth Amended and Restated Limited Liability Company Agreement of Stronghold LLC, as amended from time to time (the “Stronghold LLC Agreement”), preferred units in Stronghold LLC automatically convert into Stronghold LLC Units on a one-to-one basis under like circumstances (subject to corresponding adjustments). On October 20, 2021, the registration statement registering the shares of Class A common stock issuable upon conversion of the Preferred Stock was declared effective by the SEC, and all of the outstanding shares of Preferred Stock converted into shares of Class A common stock at that time. Correspondingly, all of the preferred units in Stronghold LLC converted into Stronghold LLC Units.

On June 29, 2021, Stronghold LLC formed Stronghold Digital Mining Equipment, LLC (“Equipment LLC”).

#### *Prior to the Reorganization*

Prior to the Reorganization date of April 1, 2021, Scrubgrass Generating Company, L.P. (“Scrubgrass”) existed as a Delaware limited partnership formed on December 1, 1990. Q Power existed as a multi-member limited liability company and indirectly held limited and general partner interests of Scrubgrass. Additionally, Aspen, a wholly-owned subsidiary of Olympus Power, LLC (together with its affiliates “Olympus”), was a limited partner of Scrubgrass.

Scrubgrass had two subsidiaries: Clearfield Properties, Inc. (“Clearfield”), which was formed for the purpose of purchasing a 175-acre site in Clearfield County, Pennsylvania, and acquiring access to certain waste coal material; and Leechburg Properties, Inc. (“Leechburg”), which was formed for the purpose of acquiring access rights to certain waste coal sites. Leechburg was a dormant entity as of June 30, 2022 and December 31, 2021.

Pursuant to an equity Assignment and Assumption agreement dated September 24, 2020, Q Power assigned a 50%-member interest to a second individual. As a result, two individuals were the sole members of Q Power. Stronghold Power was established on February 12, 2020 as a Delaware Limited Liability Company and is 100% owned by Q Power. Stronghold Power was created to pursue opportunities involving cryptocurrency mining as well as providing hosting services for third-party miners.

Scrubgrass and Stronghold Power were under common control prior to the Reorganization date of April 1, 2021, and are included in the consolidated results reported as of December 31, 2021, and for the six months ended June 30, 2022.

#### **NOTE 2 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

In most instances, Stronghold Inc. and its subsidiaries will collectively be referred to as the “Company” if a discussion applies to all. Where it may not apply to all, then each company, described as itself, will be specifically noted.

##### Nature of Operations

The Company operates as a qualifying cogeneration facility (“Facility”) under the provisions of the Public Utilities Regulatory Policies Act of 1978 and sells its electricity into the PJM Interconnection LLC (“PJM”) Merchant Market under an Energy Management Agreement (“EMA”) with Direct Energy Business Marketing, LLC (“DEBM”) effective February 1, 2015. The Company’s primary fuel source is waste coal which is provided by various third parties. Waste coal credits are earned by the Company by generating electricity utilizing coal refuse.

Under the EMA, which was entered into as of January 23, 2015, DEBM agreed to act as the exclusive provider of services for the benefit of the Company related to interfacing with PJM, including handling daily operations of the facility, daily marketing and managing of a certain electric generating facility located in Kennerdell, Pennsylvania, energy

management, capacity management and providing market and system information. The term of the agreement was renewed through December 31, 2024, with three additional automatic renewal terms that now extends through December 31, 2027. DEBM was paid a monthly fee of \$7,500 in satisfaction of its performance obligation during the term. The total revenue recognized under the EMA is 100% of the reported energy revenue and the total transaction price for the performance obligations varies depending upon market conditions and demand, such as usage and available capacities.

The Company is also a vertically integrated digital currency mining business. The Company buys and maintains a fleet of Bitcoin mining equipment and the required infrastructure, it also provides power to third party Bitcoin miners under favorable Power Purchase Agreement agreements, and it sells energy as a merchant power producer and receives capacity payments from PJM for making its energy available to the grid. The Bitcoin mining operations are in their early stages, and digital currencies and energy pricing mining economics are volatile and subject to uncertainty. The Company's current strategy will continue to expose it to the numerous risks and volatility associated with the digital mining and power generation sectors, including fluctuating Bitcoin-to-U.S.-Dollar prices, the costs and availability of miners, the number of market participants mining Bitcoin, the availability of other power generation facilities to expand operations and regulatory changes.

#### Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the annual financial statements. These financial statements reflect the consolidated accounts of the Company and wholly owned subsidiaries.

In addition, certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements in order to conform to current presentation.

Additionally, since there are no differences between net income and comprehensive income, all references to comprehensive income have been excluded from the condensed consolidated financial statements.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash

Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. The Company maintains its cash in non-interest bearing accounts that are insured by the Federal Deposit Insurance Company up to \$250,000. The Company's deposits may, from time to time, exceed the \$250,000 limit; however, management believes that there is no unusual risk present, as the Company places its cash with financial institutions which management considers being of high quality.

#### Digital Currencies

Digital currencies are included in current assets in the reported balance sheets. Digital currencies are recorded at cost less any impairment. Currently Bitcoin constitutes the only cryptocurrency the Company mines or holds in material amounts.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment quarterly as well as annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. The Company accounts for its gains or losses in accordance with the first-in, first-out method of accounting.

The Company performed an impairment test on its digital currencies and \$5,205,045 and \$7,711,217 are recognized as expenses for the three and six months ended June 30, 2022 and \$375,246 and \$375,246 are recognized as expenses for the three and six months ended June 30, 2021, respectively.

The following table presents the activities of the digital currencies for the six months ended June 30, 2022 and the year ended December 31, 2021:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
	<i>(unaudited)</i>	
Digital currencies at beginning of period	\$ 10,417,865	\$ 228,087
Additions of digital currencies	38,431,729	12,494,581
Realized gain (loss) on sale of digital currencies	751,110	149,858
Impairments	(7,711,217)	(1,870,274)
Proceeds from sale of digital currencies	(36,757,500)	(584,387)
Digital currencies at month ending	<u>\$ 5,131,987</u>	<u>\$ 10,417,865</u>

On December 15, 2021, the Company entered into a Variable Prepaid Forward Sales Contract Derivative with NYDIG Derivatives Trading LLC (“NYDIG Trading”) providing for the sale of 250 Bitcoin (the “Sold Bitcoin”) at a floor price of \$28,000 per Bitcoin (the “Forward Sale”). Pursuant to the Forward Sale, NYDIG Trading paid the Company an amount equal to the floor price per Bitcoin (the “Initial Sale Price”) on December 16, 2021. On September 24, 2022, the Sold Bitcoin will be sold to NYDIG Trading at a price equal to the market price for Bitcoin on September 23, 2022, less the Initial Sale Price, subject to a capped final sale price of \$85,500 per Bitcoin. The Company was advanced \$7,000,000 and, in return, is required to pledge 250 Bitcoin as collateral. In March of 2022, an additional \$970,000 was received by the Company in a transaction that lowered the capped final sale price to \$50,000 per Bitcoin from \$85,500 per Bitcoin.

As of June 30, 2022, the Company held an aggregate amount of digital currencies that comprised of restricted and unrestricted Bitcoin of \$5,131,987. Of that amount, \$4,779,895 and \$352,092 was restricted and unrestricted, respectively. On July 27, 2022 the Company exited the Variable Prepaid Forward Sales Contract Derivative with NYDIG Trading. As a result of the July transaction the Company delivered the restricted digital assets previously pledged as collateral to NYDIG Trading. In return, the Company received \$220,000 of cash and was relieved of its derivative liability.

#### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. An allowance for doubtful accounts is provided when necessary and is based upon management’s evaluation of outstanding accounts receivable at year end. The potential risk is limited to the amount recorded in the financial statements. No further allowance was considered necessary as of June 30, 2022 and December 31, 2021.

#### Inventory

Waste coal, fuel oil and limestone are valued at the lower of average cost or net realizable value and includes all related transportation and handling costs.

The Company performs periodic assessments to determine the existence of obsolete, slow-moving, and unusable inventory and records necessary provisions to reduce such inventories to net realizable value.

Spare parts inventory is expensed when purchased.

#### Derivative Contracts

In accordance with guidance on accounting for derivative instruments and hedging activities all derivatives should be recognized at fair value. Derivatives or any portion thereof, that are not designated as, and effective as, hedges must be adjusted to fair value through earnings. Derivative contracts are classified as either assets or liabilities on the accompanying combined balance sheets. Certain contracts that require physical delivery may qualify for and be designated as normal purchases/normal sales. Such contracts are accounted for on an accrual basis.

The Company uses derivative instruments to mitigate its exposure to various energy commodity market risks. The Company does not enter into any derivative contracts or similar arrangements for speculative or trading purposes. The

Company will, at times, sell its forward unhedged electricity capacity to stabilize its future operating margins. As of June 30, 2022 and December 31, 2021, there are no open energy commodity derivatives outstanding.

The Company also uses derivative instruments to mitigate the risks of Bitcoin market pricing volatility. The Company entered into a variable prepaid forward sale contract that mitigates Bitcoin market pricing volatility risks between a low and high collar of Bitcoin market prices during the contract term. The contract meets the definition of a derivative transaction pursuant to guidance under ASC 815 and is considered a compound derivative instrument which is required to be presented at fair value subject to remeasurement each reporting period. The changes in fair value are recorded as changes in fair value of forward sale derivative as part of earnings. Refer to Note 26 – Variable Prepaid Forward Sales Contract Derivative. As of June 30, 2022, there are two derivative contracts open (both contained within the Variable Prepaid Forward Sales Contract Derivative). On July 27, 2022 the Company exited the Variable Prepaid Forward Sales Contract Derivative with NYDIG Trading. As a result of the July transaction the Company delivered the restricted digital assets previously pledged as collateral to NYDIG Trading. In return, the Company received \$220,000 of cash and was relieved of its derivative liability.

#### Fair Value Measurements

The Company measures at fair value certain of its financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data; and

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. As of June 30, 2022 the Company's redeemable preferred warrants are recorded at fair value – refer to Note 14 – Stock Issued Under Master Financing Agreements and Warrants.

#### Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. The Company records all assets associated with the cryptocurrency hosting operations at cost. These assets are comprised of storage trailers and the related electrical components. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the remaining estimated useful lives ("EUL") of the related assets using the straight-line method.

The Company's depreciation is based on its Facility being considered a single property unit. Certain components of the Facility may require replacement or overhaul several times over its estimated life. Costs associated with overhauls are recorded as an expense in the period incurred. However, in instances where a replacement of a Facility component is significant and the Company can reasonably estimate the original cost of the component being replaced, the Company will write-off the replaced component and capitalize the cost of the replacement. The component will be depreciated over the lesser of the EUL of the component or the remaining useful life of the Facility.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of property and equipment may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of property and equipment. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property and equipment is used, and the effects of obsolescence, demand, competition, and other economic factors.

### Bitcoin Mining Rigs

During the quarter ended June 30, 2022, Management reassessed the basis of depreciation of the Company's Bitcoin mining rigs, which resulted in changes in the expected useful life from a two-year period to a three-year period, effective April 1, 2022. The result is a change in estimate and is applied prospectively.

The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its Bitcoin miners, is influenced by a number of factors including the following:

1. The complexity of the Bitcoin blockchain transaction verification process which is driven by the algorithms contained within the Bitcoin open source software;
2. The general availability of appropriate computer processing capacity on a global basis (commonly referred to in the industry as hashing capacity which is measured in Petahash units ("PH/s")); and
3. Technological obsolescence reflecting rapid development in the Bitcoin mining industry such that more recently developed hardware is more economically efficient to run in terms of digital assets generated as a function of operating costs, primarily power costs, (i.e., the speed of hardware evolution in the industry is such that later hardware models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase).

The Company operates in an emerging industry for which limited data is available to make estimates of the useful economic lives of specialized equipment. During the course of the second quarter, management completed analysis of the operational life of its Bitcoin mining rigs and determined that its oldest Bitcoin miners are operating for longer than three years. Based on the data and this analysis, management has determined that three years best reflects the current expected useful life of its Bitcoin miners. This assessment takes into consideration the availability of historical data and management's expectations regarding the direction of the industry including potential changes in technology. Management will review this estimate annually and will revise such estimate as and when data becomes available.

To the extent that any of the assumptions underlying management's estimate of useful life of its Bitcoin miners are subject to revision in a future reporting period either as a result of changes in circumstances or through the availability of greater quantities of data then the estimated useful life could change and have a prospective impact on depreciation expense and the carrying amounts of these assets.

### Asset Retirement Obligations

Asset retirement obligations, including those conditioned on future events, are recorded at fair value in the period in which they are incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset in the same period. In each subsequent period, the liability is accreted to its present value and the capitalized cost is depreciated over the EUL of the long-lived asset. If the asset retirement obligation is settled for other than the carrying amount of the liability, the Company recognizes a gain or loss on settlement. The Company's asset retirement obligation represents the cost the Company would incur to perform environmental clean-up or dismantle certain portions of the Facility.

### Revenue Recognition

The Company recognizes revenue under ASC 606, Revenue from Contracts with Customers. The core principle of this revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

1. Step 1: Identify the contract with the customer
2. Step 2: Identify the performance obligations in the contract
3. Step 3: Determine the transaction price
4. Step 4: Allocate the transaction price to the performance obligations in the contract
5. Step 5: Recognize revenue when the Company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met: the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for cryptocurrencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the Financial Accounting Standards Board (the "FASB"), the Company may be required to change its policies, which could have an effect on the Company's condensed consolidated financial position and results from operations.

Fair value of the digital asset award received is determined using the quoted price of the related cryptocurrency at the time of receipt.

The Company's policies with respect to its revenue streams are detailed below.

#### *Energy Revenue*

The Company operates as a market participant through PJM Interconnection, a Regional Transmission Organization ("RTO") that coordinates the movement of wholesale electricity. The Company sells energy in the wholesale generation market in the PJM RTO. Energy revenues are delivered as a series of distinct units that are substantially the same and that have the same pattern of transfer to the customer over time and are therefore accounted for as a distinct performance obligation. The transaction price is based on pricing published in the day ahead market which constitute the stand-alone selling price.

Energy revenue is recognized over time as energy volumes are generated and delivered to the RTO (which is contemporaneous with generation), using the output method for measuring progress of satisfaction of the performance obligation. The Company applies the invoice practical expedient in recognizing energy revenue. Under the invoice practical expedient, energy revenue is recognized based on the invoiced amount which is considered equal to the value provided to the customer for the Company's performance obligation completed to date.

Reactive energy power is provided to maintain a continuous voltage level. Revenue from reactive power is recognized ratably over time as the Company stands ready to provide it if called upon by the PJM RTO.

### *Capacity Revenue*

The Company provides capacity to a customer through participation in capacity auctions held by the PJM RTO. Capacity revenues are a series of distinct performance obligations that are substantially the same and that have the same pattern of transfer to the customer over time and are therefore accounted for as a distinct performance obligation. The transaction price for capacity is market-based and constitutes the stand-alone selling price. As capacity represents the Company's stand-ready obligation, capacity revenue is recognized as the performance obligation is satisfied ratably over time, on a monthly basis, since the Company stands ready equally throughout the period to deliver power to the PJM RTO if called upon. The Company applies the invoice practical expedient in recognizing capacity revenue. Under the invoice practical expedient, capacity revenue is recognized based on the invoiced amount which is considered equal to the value provided to the customer for the Company's performance obligation completed to date. Penalties may be assessed by the PJM RTO against generation facilities if the facility is not available during the capacity period. The penalties assessed by the PJM RTO, if any, are recorded as a reduction to capacity revenue when incurred.

### *Cryptocurrency Hosting*

The Company has entered into customer hosting contracts whereby the Company provides electrical power to cryptocurrency mining customers, and the customers pay a stated amount per megawatt-hour ("MWh") ("Contract Capacity"). This amount is paid monthly in arrears. Amounts used in excess of the Contract Capacity are billed based upon calculated formulas as contained in the contracts. Advanced payments and customer deposits are reflected as contract liabilities.

### *Cryptocurrency Mining*

The Company has entered into digital asset mining pools by executing contracts, as amended from time to time, with the mining pool operators to provide computing power to the mining pool. The contracts are terminable at any time by either party and the Company's enforceable right to compensation only begins when the Company provides computing power to the mining pool operator. In exchange for providing computing power, the Company is entitled to a fractional share of the fixed Bitcoin award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are recorded as a component of cost of revenues), for successfully adding a block to the blockchain. The terms of the agreement provide that neither party can dispute settlement terms after thirty-five days following settlement. The Company's fractional share is based on the proportion of computing power the Company contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the current algorithm.

Providing computing power in Bitcoin transaction verification services is an output of the Company's ordinary activities. The provision of providing such computing power is the only performance obligation in the Company's contracts with mining pool operators. The transaction consideration the Company receives, if any, is noncash consideration, which the Company measures at fair value on the date received, which is not materially different than the fair value at contract inception or the time the Company has earned the award from the pools. The consideration is all variable. Because it is not probable that a significant reversal of cumulative revenue will not occur, the consideration is constrained until the mining pool operator successfully places a block (by being the first to solve an algorithm) and the Company receives confirmation of the consideration it will receive, at which time revenue is recognized. There is no significant financing component in these transactions.

Fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency at the time of receipt. There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for cryptocurrencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the FASB, the Company may be required to change its policies, which could have an effect on the Company's consolidated financial position and results from operations.

### *Waste Coal Credits*

Waste coal credits are issued by the Commonwealth of Pennsylvania. Facilities that generate electricity by using coal refuse for power generation, control acid gases for emission control, and use the ash produced to reclaim mining-affected sites are eligible for such credits. Income related to these credits is recorded upon cash receipt and within other income.

### *Renewable Energy Credits (“RECs”)*

The Company uses coal refuse, which is classified as a Tier II Alternative Energy Source under Pennsylvania law, to produce energy to sell to the open market (“the grid”). A third party acts as the benefactor, on behalf of the Company, in the open market and is invoiced as RECs are realized. These credits are recognized as a contra-expense to offset the fuel costs to produce this refuse. This is per GAAP guidance that these costs held in inventory to then produce the energy to qualify for the credits are a compliance cost and should offset operating costs when expensed. Refer to Note 18 – Renewable Energy Credits.

### Stock Based Compensation

For equity-classified awards, compensation expense is recognized over the requisite service period based on the computed fair value on the grant date of the award. Equity classified awards include the issuance of stock options, restricted stock units (“RSUs”) and performance share units (“PSUs”).

### Notes Payable

The Company records notes payable net of any discounts or premiums. Discounts and premiums are amortized as interest expense or income over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period.

### Warrant Liabilities

The Company records warrant liabilities at their fair value as of the balance sheet date, and recognizes changes in the balances, over the comparative periods of either the issuance date or the last reporting date, as part of changes in fair value of warrant liabilities expense.

### Segments

Accounting guidance establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires enterprises to report selected information about operating segments in financial reports issued to stockholders. The Company has reorganized into two operating segments, which consist of Energy Operations and Cryptocurrency Operations. See Note 12 – Segment Reporting.

### Redeemable Common Stock

#### *Redeemable Preferred Stock*

The Preferred Stock is reported as a mezzanine obligation between liabilities and stockholders’ equity due to certain redemption features being outside the control of the Company. See Note 15 – Redeemable Common Stock.

#### *Class V Common Stock*

The Class V common stock shares (as described in Note 15 – Redeemable Common Stock) is reported as a mezzanine obligation between liabilities and stockholders’ equity due to certain redemption features being outside the control of the Company.

The Company accounts for the 56.1% interest represented by the Class V common stock as mezzanine equity as a result of certain redemption rights held by the holders thereof as discussed in Note 15 – Redeemable Common Stock. As such, the Company adjusts mezzanine equity to its maximum redemption amount at the balance sheet date, if higher than the carrying amount. The redemption amount is based on a third-party valuation methodology of the Company’s Class A common stock at the end of the reporting period. Changes in the redemption value are recognized immediately as they occur, as if the end of the reporting period was also the redemption date for the instrument, with an offsetting entry to accumulated deficits.

For each share of Class V common stock outstanding, there is a corresponding outstanding Class A common unit of Stronghold LLC. The redemption of any share of Class V common stock would be accompanied by a concurrent redemption of the corresponding Class A common unit of Stronghold LLC, such that both the share of Class V common stock and the corresponding Class A common unit of Stronghold LLC are redeemed as a combined unit in exchange for either a single share of Class A common stock or cash of equivalent value based on the fair market value of the Class A



common stock at the time of the redemption. For accounting purposes, the value of the Class A common units of Stronghold LLC is attributed to the corresponding shares of Class V common stock on the June 30, 2022 balance sheet.

#### Loss per share

Basic net (loss) income per share (“EPS”) of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding or shares subject to exercise for a nominal value during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Since the Company has incurred a loss for the period ended June 30, 2022, basic and diluted net loss per share is the same. At December 31, 2021 there were no potential dilutive securities outstanding. See Note 17 – Earnings (Loss) Per Share.

#### Income Taxes

##### *Reorganization*

Upon completion of the Reorganization, the Company is organized as an “Up-C” structure in which substantially all of the assets and business of the consolidated Company are held by Stronghold Inc. through its subsidiaries, and the Company’s direct assets largely consist of cash and investments in subsidiaries. For income tax purposes, the portion of the Company’s earnings allocable to Stronghold Inc. is subject to corporate level tax rates at the federal and state levels. Therefore, the income taxes recorded prior to the Reorganization are not representative of the income taxes after the Reorganization.

Stronghold Inc. and its indirectly owned corporate subsidiaries, Clearfield and Leechburg, account for income taxes under the asset and liability method, in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is required to the extent any deferred tax assets may not be realizable. Based on the Company’s evaluation and application of ASC Topic 740, Income Taxes (“ASC 740”), the Company has determined that the utilization of the deferred tax assets is not more likely than not, and therefore the Company has recorded a valuation allowance against the net deferred tax assets of the Company as well as Clearfield and Leechburg. Factors contributing to this assessment are the Company’s cumulative and current losses, as well as the evaluation of other sources of income as outlined in ASC 740. The Company continues to evaluate the likelihood of the utilization of deferred tax assets, and while the valuation allowance remains in place, we expect to record no deferred income tax expense or benefit.

ASC 740 also clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim period, disclosure and transition. Based on the Company’s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company’s consolidated financial statements. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in material changes to its financial position.

Certain of Stronghold Inc.’s subsidiaries are structured as flow-through entities; and therefore the taxable income or loss of such subsidiaries is included in the income tax returns of the partners, including Stronghold Inc. Application of ASC 740 to these entities results in no recognition of federal or state income taxes at the entity level. The portion of such subsidiaries activities that are allocable to the Company will increase the Company’s taxable income or loss and be accounted for under ASC 740 at the Company.

##### *Prior to the Reorganization*

Scrubgrass and Stronghold were structured as a limited partnership and limited liability company, respectively; therefore the taxable income or loss of the Company is included in the income tax returns of the individual partners. Accordingly, no recognition has been given to federal or state income taxes in the accompanying financial statements.

Two of Scrubgrass' subsidiaries, Clearfield and Leechburg, are corporations for federal and state income tax purposes. Income taxes attributable to Clearfield and Leechburg are provided based on the asset and liability method of accounting pursuant to the Income Taxes Topic of FASB ASC 740. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all, of the deferred tax asset will not be realized. Clearfield and Leechburg have not recorded any temporary differences resulting in either a deferred tax asset or liability as of June 30, 2022 or December 31, 2021.

### **Recently Issued Accounting Standards**

In February 2016, FASB issued ASU 2016-02, Leases ("Topic 842"), which supersedes ASC Topic 840, Leases. Topic 842 requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. Topic 842 will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In November 2020, FASB deferred the effective date for implementation of Topic 842 by one year and, in June 2020, FASB deferred the effective date by an additional year. Topic 842 is effective for the Company on January 1, 2022. The Company is currently in the process of developing its new accounting policies and determining the potential aggregate impact that the adoption of Topic 842 will have on its financial statements. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements.

### **NOTE 3 – INVENTORIES**

Inventories consist of the following components as of:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
	<i>(unaudited)</i>	
Waste coal	\$ 3,411,674	\$ 3,238,383
Fuel oil	106,162	94,913
Limestone	87,697	38,958
TOTALS	<u>\$ 3,605,533</u>	<u>\$ 3,372,254</u>

### **NOTE 4 – EQUIPMENT DEPOSITS AND MINER SALES**

Equipment deposits are contractual agreements with five vendors to deliver and install miners at future dates. The following details the vendors, miner models, miner counts, and expected delivery months. The Company is contractually committed to take future deliveries, and portions of the equipment are collateralized against the WhiteHawk Promissory Note (as defined below) as disclosed in Note 6 – Long-Term Debt. With the exception of Cryptech Solutions ("Cryptech"), where there is an installment payments plan, all unpaid deposits will be made on the last month referenced in the timeframe below. The delivery timeframe for the 2,400 Cryptech miners will be in equal installments of 200 per month for 12 months starting in November 2021. Deliveries for the other vendors vary within the referenced timeframes.

In March 2022, the Company evaluated the MinerVa Semiconductor Corp ("MinerVa") equipment deposits for impairment under the provisions of ASC 360, "Property, Plant and Equipment". As a result of the evaluation, the Company determined an indicator for impairment was present under ASC 360-10-35-21. The Company undertook a test for recoverability under ASC 360-10-35-29 and a further fair value analysis in accordance with ASC 820, Fair Value

Measurement. The difference between the fair value of the MinerVa equipment deposits and the carrying value resulted in the Company recording an impairment charge of \$12,228,742, as shown in the table below.

The following table details the total equipment deposits of \$66,472,016 as of June 30, 2022:

Vendor	Model	Count	Delivery Timeframe	Total Commitments	Unpaid [A]	Transferred to PP&E [B]	Impairment	Sold	Equipment Deposits
MinerVa [C]	MinerVA	15,000	Oct '21 - Apr '22	\$68,887,550	—	\$(17,883,228)	\$(12,228,742)	\$(8,701,199)	\$30,074,381
Cryptech	Bitmain	2,400	Nov '21 - Oct '22	12,656,835	(1,582,500)	(7,321,700)	—	—	3,752,635
Northern Data	MicroBT	9,900	Oct '21 - Jan '22	22,061,852	—	(22,061,852)	—	—	—
Bitmain Technologies Limited	Antminer S19j Pro	10,200	Apr '22 - Dec '22	60,814,500	(4,218,000)	(23,951,500)	—	—	32,645,000
Bitmain Technologies Limited [D]	Antminer S19 XP	1,800	Jul '22 - Dec '22	19,530,000	—	—	—	(19,530,000)	—
Northern Data PA. LLC	WhatsMiners	4,280	Jan '22 - June '22	11,340,374	—	(11,340,374)	—	—	—
<b>Totals</b>		<b>43,580</b>		<b>\$195,291,111</b>	<b>\$(5,800,500)</b>	<b>\$(82,558,654)</b>	<b>\$(12,228,742)</b>	<b>\$(28,231,199)</b>	<b>\$66,472,016</b>

[A] Future commitments still owed to each vendor. Refer to Note 8 – Contingencies and Commitments for further details.

[B] Miners that are delivered and physically placed in service are transferred to a fixed asset account at the respective unit price as defined in the agreement.

[C] Refer to Note 8 – Contingencies and Commitments for a \$4,499,980 refund that reduced the total commitments to \$68,887,550 for this vendor.

[D] The miner purchase contract was sold in May of 2022 for \$12,568,500 and a net loss of \$6,930,000 was recorded in Realized gain (loss) on sale of miner assets within the consolidated statement of operations.

#### Miner Sales

During the second quarter of 2022, the Company entered into multiple Miner Sales Agreements with multiple buyers. The Company previously disclosed its effort to optimize its Bitcoin miner fleet and sold 3,425 miners (approximately 411 PH/s) with a historical carrying value of \$21,857,028, or \$50.70 per TH/s. The Company recognized a loss of approximately \$8,012,248 on these miners during the second quarter of 2022. These sales are justified by the Company's priorities of liquidity and improved returns over growth. The loss was recorded in Realized gain (loss) on sale of miner assets on the consolidated statements of operations. The various buyers paid the Company \$13,844,780 up front and took over the remaining installment payments upon transfer of the contract, relieving the Company of the outstanding purchase obligation.

## NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2022 and December 31, 2021:

	Useful Lives (Years)	June 30, 2022 (unaudited)	Dec 31, 2021
Electric Plant	10 - 60	\$ 66,295,894	\$ 66,153,985
Power Transformers	8 - 30	46,166,580	7,489,472
Machinery and equipment	5 - 20	16,351,404	12,015,811
Rolling Stock	5 - 7	261,000	261,000
Cryptocurrency Machines & Powering Supplies	2 - 3	152,764,283	78,505,675
Computer hardware and software	2 - 5	12,519	56,620
Vehicles & Trailers	2 - 7	530,681	155,564
Construction in progress	Not Depreciable	14,111,405	36,067,776
Asset retirement obligation	10 - 30	580,452	580,452
		297,074,218	201,286,356
Accumulated depreciation and amortization		(59,100,263)	(34,629,200)
TOTALS		\$ 237,973,955	\$ 166,657,155

### *Construction in Progress*

Construction in progress consists of various projects to build out the cryptocurrency machine power infrastructure and is not depreciable until the asset is considered in service and successfully powers and runs the attached cryptocurrency machines. Completion of these projects will have various rollouts of energized transformed containers and are designed to calibrate power from the plant to the container that houses multiple cryptocurrency machines. Currently, the balance of \$14,111,405, as of June 30, 2022, represents open contracts with a vendor that have future completion dates scheduled for the remainder of the year.

### *Depreciation and Amortization*

Depreciation and amortization charged to operations was \$12,667,300 and \$24,986,881 for the three and six months ended June 30, 2022, and \$787,731 and \$1,305,174 for the three and six months ended June 30, 2021, respectively.

## NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following as of June 30, 2022 and December 31, 2021:

	June 30, 2022		Dec 31, 2021
\$66,076 loan, with interest at 5.55%, due July 2021.	\$ —		\$ 3,054
\$75,000 loan, with interest at 12.67%, due April 2021.	—		7,312
\$499,520 loan, with interest at 2.49% due December 2023.	175,976		232,337
\$499,895 loan, with interest at 2.95% due July 2023.	186,241		246,720
\$212,675 loan, with interest at 6.75% due October 2022.	21,476		103,857
\$517,465 loan, with interest at 4.78% due October 2024.	422,977		490,600
\$431,825 loan, with interest at 7.60% due April 2024.	163,936		204,833
\$565,500 loan, with interest at 4.48% due January 2027.	521,680		—
\$523,076 financing agreement for insurance with interest at 5.99% due March 2023	393,260		—
\$6,900,000 financing agreement for insurance with interest at 3.45% due July 2022	—		4,299,721
\$40,000,000 loan, with interest at 10.00% due June 2023.	20,995,034	[A]	30,734,045
\$33,750,000 loan, with interest at 10.00% due May 2024.	22,140,433	[B]	—
\$10,641,362 loan, with interest at 10.00% due June 2023.	5,585,394	[C]	8,176,302
\$14,077,800 loan, with interest at 10.00% due June 2023.	7,389,097	[D]	10,816,694
\$5,808,816 loan, with interest at 10.00% due April 2023.	3,952,309	[E]	—
\$6,814,000 loan, with interest at 10.00% due October 2023.	5,297,643	[F]	—
\$17,984,000 maximum advance loan, with interest at 9.99% due December 2023. Balance is what has been advanced as of June 30, 2022	16,315,005	[G]	10,790,400
\$17,984,000 maximum advance loan, with interest at 9.99% due December 2023. Balance is what has been advanced as of June 30, 2022	17,984,000	[H]	7,769,088
\$17,984,000 maximum advance loan, with interest at 9.99% due December 2023. Balance is what has been advanced as of June 30, 2022	10,790,400	[I]	—
\$33,750,000 Convertible Note, with interest at 10.00% due May 2024.	21,232,761	[J]	—
\$92,381 loan, with interest at 1.49%, due April 2026.	90,512		—
\$64,136 loan, with interest at 11.85%, due May 2024.	64,136		—
	<u>133,722,270</u>		<u>73,874,963</u>
Less current portions, deferred costs, & discounts			
Outstanding loan	100,986,427		50,099,372
Deferred debt issuance costs	3,145,380		2,854,787
Discounts from issuance of stock	694,944		1,042,416
Discounts from issuance of warrants	2,005,948		1,499,547
	<u>\$ 26,889,570</u>		<u>\$ 18,378,841</u>

[A] The WhiteHawk Promissory Note has a term of 24 months. Refer to Note 14 – Stock Issued Under Master Financing Agreements and Warrants for further discussions. On December 31, 2021, the Company amended the WhiteHawk Financing Agreement (as defined below) (the “WhiteHawk Amendment”) to extend the final MinerVa delivery date from December 31, 2021 to April 30, 2022. Pursuant to the WhiteHawk Amendment, Equipment paid an amendment fee in the amount of \$250,000 to WhiteHawk Finance LLC (“WhiteHawk”). These fees are included in deferred debt issuance costs.

[B] WhiteHawk Promissory Note agreement with a term of 24 months. Refer to Note 14 – Stock Issued Under Master Financing Agreements and Warrants for further discussions. Pursuant to the Second WhiteHawk Amendment, Equipment paid an amendment fee in the amount of \$275,414 and a closing fee of \$500,000 to WhiteHawk. These fees are included in deferred debt issuance costs.

[C] Arctos/NYDIG Financing Agreement (as defined below) [loan #1] with a term of 24 months. Refer to Note 14 – Stock Issued Under Master Financing Agreements and Warrants for further discussions.

[D] Arctos/NYDIG Financing Agreement [loan #2] with a term of 24 months. Refer to Note 14 – Stock Issued Under Master Financing Agreements and Warrants for further discussions.

[E] Arctos/NYDIG Financing Agreement [loan #3] with a term of 15 months. Deferred debt issuance costs of \$232,353 are amortized over the term of the loan using the straight-line method.

[F] Arctos/NYDIG Financing Agreement [loan #4] with a term of 21 months. Deferred debt issuance costs of \$272,560 are amortized over the term of the loan using the straight-line method.

[G] Second NYDIG Financing Agreement with a term of 24 months. Deferred debt issuance costs of \$449,600 are amortized over the term of the loan using the straight-line method.

[H] Second NYDIG Financing Agreement with a term of 24 months. Deferred debt issuance costs of \$449,600 are amortized over the term of the loan using the straight-line method.

[I] Second NYDIG Financing Agreement with a term of 24 months. Deferred debt issuance costs of \$449,600 are amortized over the term of the loan using the straight-line method.

[J] Convertible Note with a term of 24 months. Refer to Note 32 – Convertible Note for further discussions.

Future scheduled maturities on the outstanding borrowings as of June 30, 2022 are as follows:

Years ending December 31:

2022 remaining	\$	46,957,687
2023		81,068,319
2024		5,414,446
2025		140,785
2026		130,562
2027		10,471
	<u>\$</u>	<u>133,722,270</u>

#### **NOTE 7 – CONCENTRATIONS**

Credit risk is the risk of loss the Company would incur if counterparties fail to perform their contractual obligations (including accounts receivable). The Company primarily conducts business with counterparties in the crypto mining and energy industry. This concentration of counterparties may impact the Company's overall exposure to credit risk, either positively or negatively, in that its counterparties may be similarly affected by changes in economic, regulatory or other conditions. The Company mitigates potential credit losses by dealing, where practical, with counterparties that are rated at investment grade by a major credit agency or have a history of reliable performance within the crypto mining and energy industry.

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash and accounts receivable. Cash and cash equivalents customarily exceed federally insured limits. The Company's significant credit risk is primarily concentrated with DEBM, which amounted to approximately 100% and 100% of the Company's energy revenues for the six months ending June 30, 2022 and 2021, respectively. DEBM accounted for 100% and 100% of the Company's accounts receivable balance as of June 30, 2022 and December 31, 2021, respectively.

For the six months ended June 30, 2022 and 2021, the Company purchased 13% and 25% of Waste Coal from two related parties, respectively. See Note 9 – Related-Party Transactions for further information.

As of June 30, 2022, the Company had entered into various Master Equipment Financing Agreements that have future delivery and installation timeframes for approximately 9 thousand miners. There can exist a risk of not achieving the expected delivery timelines as well as the timeliness of generating guaranteed targeted terahash by each miner. This risk is not quantifiable at this time. See Note 8 – Contingencies and Commitments for further information.

#### **NOTE 8 – CONTINGENCIES AND COMMITMENTS**

##### **Commitments:**

##### **Equipment Agreements**

As discussed in Note 4 – Equipment Deposits and Miner Sales, the Company has entered into various equipment contracts to purchase miners. Most of these contracts require a percentage of deposits upfront and subsequent future payments to cover the contracted purchase price of the equipment. Details of each agreement are summarized below.

### MinerVa Semiconductor Corp

On April 2, 2021, the Company entered into a purchase agreement (the "MinerVa Purchase Agreement") with MinerVa for the acquisition of 15,000 of their MV7 ASIC SHA256 model cryptocurrency miner equipment (miners) with a total terahash to be delivered equal to 1.5 million terahash (total terahash). The price per miner is \$4,892.50 for an aggregate purchase price of \$73,387,500 to be paid in installments. The first installment equal to 60% of the purchase price, or \$44,032,500, was paid on April 2, 2021, and an additional payment of 20% of the purchase price, or \$14,677,500, was paid June 2, 2021. As of June 30, 2022, there are no remaining deposits owed. In December 2021, the Company extended the deadline for delivery of the MinerVa miners to April 2022. In March 2022, MinerVa was again unable to meet its delivery date and had only delivered approximately 3,200 of the 15,000 miners. As a result, an impairment totaling \$12,228,742, was recognized on March 31, 2022. As of June 30, 2022, MinerVa has delivered, refunded cash, or swapped into deliveries of industry leading miners of equivalent value to approximately 7,200 of the 15,000 miners. Refer to Note 30 – Covenants, for a description of covenants referencing the anticipated final delivery timeframe of April 2022. The aggregate purchase price does not include shipping costs, which are the responsibility of the Company and shall be determined at which time the miners are ready for shipment. On July 18, 2022, the Company provided written notice of dispute to MinerVa pursuant to the MinerVa Purchase Agreement obligating the Company and MinerVa to work together in good faith towards a resolution for a period of sixty (60) days. In accordance with the MinerVa Purchase Agreement, if no settlement has been reached after sixty (60) days, Stronghold may end discussions and declare an impasse and adhere to the dispute resolution provisions of the MinerVa Purchase Agreement.

### Cryptech Solutions

The Company entered into a hardware purchase and sales agreement with Cryptech effective April 1, 2021. Hardware includes, but is not limited to ASIC Miners, power supply units, power distribution units and replacement fans for ASIC Miners. Total purchase price is \$12,660,000 for 2,400 Bitmain S19j miners to be delivered monthly in equal quantities (200/month) from November 2021 through October 2022. All hardware must be paid for in advance before being shipped to the Company.

The Company made a 30% down payment of \$3,798,000 on April 1, 2021 with the remaining 70% or \$8,862,000 agreed to be paid in seventeen installments. There have been fourteen installments totaling \$7,279,500 paid before June 30, 2022; with the outstanding amount still owed under this agreement of \$1,582,500 as of June 30, 2022, representing three installments remaining through September 2022:

				Remaining
			Purchase Price	\$ 12,656,835
			April 2021 - 30%	\$ (3,798,000)
#	Date		After down payment	\$ 8,858,835
1	05/01/21	\$	(211,000)	\$ 8,647,835
2	06/01/21	\$	(211,000)	\$ 8,436,835
3	07/01/21	\$	(211,000)	\$ 8,225,835
4	08/01/21	\$	(211,000)	\$ 8,014,835
5	09/01/21	\$	(211,000)	\$ 7,803,835
6	10/01/21	\$	(738,500)	\$ 7,065,335
7	11/01/21	\$	(738,500)	\$ 6,326,835
8	12/01/21	\$	(738,500)	\$ 5,588,335
9	01/01/22	\$	(738,500)	\$ 4,849,835
10	02/01/22	\$	(738,500)	\$ 4,111,335
11	03/01/22	\$	(738,500)	\$ 3,372,835
12	04/01/22	\$	(738,500)	\$ 2,634,335
13	05/01/22	\$	(524,335)	\$ 2,110,000
14	06/01/22	\$	(527,500)	\$ 1,582,500
15	07/01/22	\$	(527,500)	\$ 1,055,000
16	08/01/22	\$	(527,500)	\$ 527,500
17	09/01/22	\$	(527,500)	\$ —

On December 7, 2021, the Company entered into a Hardware Purchase and Sales Agreement (the “Cryptech Purchase Agreement”) with Cryptech Solutions, Inc to acquire 1,000 Bitmain S19a miners with a hash rate of 96 Terahash per second (“TH/s”) for a total purchase price of \$8,592,000. As of June 30, 2022, all 1,000 Bitmain S19a miners had been paid for and received.

#### *Bitmain Technologies Limited*

On October 28, 2021, the Company entered into the first of two Non-Fixed Price Sales and Purchase Agreements with Bitmain Technologies Limited (“Bitmain”). The first agreement covers six batches of 2,000 miners, or 12,000 in total, arriving on a monthly basis from April through September 2022. Each batch has an assigned purchase price that totals to \$75,000,000, to be paid in three installments of 25%, 35% and 40% over the six-month delivery period. On October 29, 2021, the Company made a \$23,300,000 payment comprised of the 25% installment payment plus 35% of the April 2022 batch of 2,000 miners that have an assigned purchase price of \$13,000,000. On November 18, 2021, the Company made an additional payment of 35% or \$4,550,000 towards the April 2022 batch of miners. During the six-month period ending June 30, 2022, the Company paid installments totaling \$19,996,500.

On November 16, 2021, the Company entered into the second Non-Fixed Price Sales and Purchase Agreement with Bitmain. This second agreement covers six batches of 300 miners, or 1,800 in total, arriving on a monthly basis from July 2022 through December 2022. Each batch has an assigned purchase price that totals \$19,350,000, to be paid in three installments of 35%, 35%, and 30% of the total purchase price over the six-month delivery period. Per the second Non-Fixed Price Sales and Purchase Agreement, on November 18, 2021, the Company paid the first installment payment of 35% or \$6,835,000. During the six-month period ending June 30, 2022, the Company paid five installments totaling \$5,733,000. The Non-Fixed Price Sales and Purchase Agreement was sold in May of 2022. Refer to Note 4 – Equipment Deposits and Miner Sales.

#### *Luxor Technology Corporation*

The Company paid for three separate purchases of miners from Luxor Technology Corporation (“Luxor”). The first purchase payment was made on November 26, 2021, in the amount of \$4,312,650 for 770 miners. The second and third purchase payments were made on November 29, 2021, in the amounts of \$5,357,300 and \$3,633,500, respectively, for an additional 750 and 500 miners. These miners were received and recorded as property and equipment.

On November 30, 2021, the Company entered into a fourth purchase agreement with Luxor to acquire 400 Antminer T19 miners with a hash rate of 84 TH/s and 400 Antminer T19 miners with a hash rate of 88 TH/s for a total purchase price of \$6,260,800. These miners were received and recorded as property and equipment.

#### *Northern Data*

On December 10, 2021 the Company entered into a Hardware Purchase and Sale Agreement (the “First Supplier Purchase Agreement”) to acquire 3,000 MicroBT WhatsMiner M30S miners (the “M30S Miners”) with a hash rate per unit of 87 TH/s. Pursuant to the First Supplier Purchase Agreement, the unit price per M30S Miner is \$6,960 for a cumulative purchase price of \$20,880,000 that was paid in full within five business days of the execution of the First Supplier Purchase Agreement.

On December 16, 2021, the Company entered into a Second Hardware Purchase and Sale Agreement (the “Second Supplier Purchase Agreement”) to acquire a cumulative amount of approximately 4,280 M30S Miners and M30S+ miners with a hash rate per unit of 100 TH/s (the “M30S+ Miners”). Pursuant to the Second Supplier Purchase Agreement, the unit price per M30S Miner is \$2,714 and the unit price per M30S+ Miner is \$3,520 for a cumulative purchase price of \$11,340,373. As of June 30, 2022, these miners were received and recorded as property and equipment.

#### *NYDIG ABL LLC*

On December 15, 2021, the Company entered into a Master Equipment Finance Agreement (the “Second NYDIG Financing Agreement”) with NYDIG ABL LLC (“NYDIG”) whereby NYDIG agreed to lend the Company up to \$53,952,000 to finance the purchase of certain Bitcoin miners and related equipment (the “Second NYDIG-Financed Equipment”). Outstanding borrowings under the Second NYDIG Financing Agreement are secured by the Second NYDIG-Financed Equipment, contracts to acquire Second NYDIG-Financed Equipment, and the Bitcoin mined by the Second NYDIG-Financed Equipment. The Second NYDIG Financing Agreement includes customary restrictions on additional



liens on the NYDIG-Financed Equipment. The Second NYDIG Financing Agreement may not be terminated by the Company or prepaid in whole or in part. Refer to Note 6 – Long-Term Debt for further details.

#### *Arctos Credit LLC (NYDIG)*

On January 31, 2022, Stronghold and NYDIG ABL LLC (f/k/a Arctos Credit, LLC), amended the NYDIG Financing Agreement (the “NYDIG Amendment”) to include (i) 2,140 M30S+ Miners and (ii) 2,140 M30S Miners purchased by Stronghold Inc. pursuant to a purchase agreement dated December 16, 2021, totaling \$12,622,816 of additional borrowing capacity. Stronghold paid an aggregate closing fee of \$504,912 to NYDIG. The NYDIG Amendment requires that the Company maintain a blocked wallet or other account for deposits of all mined currency. In February 2022, the Company received the additional borrowing of \$12,622,816 less the \$504,912 in closing fees. Refer to Note 6 – Long-Term Debt for further details.

#### *WhiteHawk Finance LLC*

On June 30, 2021, Equipment LLC entered into an equipment financing agreement (the "WhiteHawk Financing Agreement") with WhiteHawk whereby WhiteHawk originally agreed to lend to Equipment LLC an aggregate amount not to exceed \$40.0 million to finance the purchase of certain Bitcoin miners and related equipment (the "Total Advance"). The WhiteHawk Financing Agreement originally contained terms requiring that the 15,000 miners being purchased pursuant to the MinerVa Purchase Agreement be delivered on or before December 31, 2021. MinerVa did not deliver all of the miners under the MinerVa Purchase Agreement by the December 31, 2021 deadline. On December 31, 2021, Equipment LLC and WhiteHawk entered into the WhiteHawk Amendment to extend the final MinerVa delivery date from December 31, 2021 to April 30, 2022. On March 28, 2022, Equipment LLC and WhiteHawk again amended the WhiteHawk Financing Agreement (the "Second WhiteHawk Amendment") to exchange the collateral under the WhiteHawk Financing Agreement, which removed MinerVa miners from the collateral package.

Pursuant to the Second WhiteHawk Amendment, (i) the approximately 11,700 remaining miners under the MinerVa Purchase Agreement were exchanged as collateral for additional miners received by the Company from various suppliers and (ii) WhiteHawk agreed to lend to the Company an additional amount not to exceed \$25.0 million to finance certain previously purchased Bitcoin miners and related equipment (the "Second Total Advance"). Pursuant to the Second WhiteHawk Amendment, Equipment, LLC paid an amendment fee in the amount of \$275,414.40 and a closing fee with respect to the Second Total Advance of \$500,000. In addition to the purchased Bitcoin miners and related equipment, Panther Creek Power Operating LLC ("Panther Creek") and Scrubgrass each agreed to a negative pledge of the coal refuse reclamation facility with 80 MW of net electricity generation capacity of net electricity generation capacity located near Nesquehoning, Pennsylvania (the "Panther Creek Plant") and a low-cost, environmentally-beneficial coal refuse power generation facility that the Company has upgraded in Scrubgrass Township, Pennsylvania (the "Scrubgrass Plant"), respectively, and guaranteed the WhiteHawk Financing Agreement. Each of the negative pledge and the guaranty by Panther Creek and Scrubgrass will be released upon payment in full of the Second Total Advance, regardless of whether the Total Advance remains outstanding. In conjunction with the Second WhiteHawk Amendment, the Company issued a warrant to WhiteHawk, to purchase 125,000 shares of Class A common stock, subject to certain anti-dilution and other adjustment provisions as described in the warrant agreement, at an exercise price of \$0.01 per share (the "Second WhiteHawk Warrant"). The Second WhiteHawk Warrant expires on March 28, 2032. While the Company continues to engage in discussions with MinerVa on the delivery of the remaining miners, it does not know when the remaining miners will be delivered, if at all.

#### **Contingencies:**

##### Legal Proceedings

The Company experiences litigation in the normal course of business. Management is of the opinion that none of this litigation will have a material adverse effect on the Company's reported financial position or results of operations.

*Allegheny Mineral Corporation v. Scrubgrass Generating Company, L.P., Butler County Court of Common Pleas, No. AD 19-11039*

In November 2019, Allegheny Mineral Corporation ("Allegheny Mineral") filed suit against the Company seeking payment of approximately \$1,200,000 in outstanding invoices. In response, the Company filed counterclaims against Allegheny Mineral asserting breach of contract, breach of express and implied warranties, and fraud in the amount of

\$1,300,000. The case was unsuccessfully mediated in August 2020. At this time, there is a discovery deadline currently scheduled for October 31, 2022. Management believes that this litigation is unlikely to have a material adverse effect on the Company's consolidated financial position or results of operations.

#### *PJM Notice of Breach*

On November 19, 2021, Scrubgrass received a notice of breach from PJM Interconnection, LLC alleging that Scrubgrass breached Interconnection Service Agreement – No. 1795 (the "ISA") by failing to provide advance notice to PJM Interconnection, LLC and Mid-Atlantic Interstate Transmission, LLC ("MAIT") pursuant to ISA, Appendix 2, section 3, of modifications made to the Scrubgrass Plant. On December 16, 2021, Scrubgrass responded to the notice of breach and respectfully disagreed that the ISA had been breached. On January 7, 2022, Scrubgrass participated in an information gathering meeting with representatives from PJM regarding the notice of breach and Scrubgrass continues to work with PJM regarding the dispute, including conducting a necessary study agreement with respect to the Scrubgrass Plant. On January 20, 2022, the Company sent PJM a letter regarding the installation of a resistive computational load bank at the Panther Creek Plant. On March 1, 2022, the Company executed a necessary study agreement with respect to the Panther Creek Plant. On May 11, 2022, the Division of Investigations of the FERC Office of Enforcement ("OE") informed the Company that the Office of Enforcement is conducting a non-public preliminary investigation concerning Scrubgrass' compliance with various aspects of the PJM tariff. The OE requested that the Company provide certain information and documents concerning Scrubgrass' operations by June 10, 2022. On July 13, 2022, after being granted an extension to respond by the OE, the Company submitted a formal response to the OE's request. The OE has not alleged any specific instances of non-compliance by Scrubgrass. The Company does not believe the PJM notice of breach, the Panther Creek necessary study agreement, or the preliminary investigation by the OE will have a material adverse effect on the Company's reported financial position or results of operations.

#### *Winter v. Stronghold Digital Mining Inc., et al., U.S District Court for the Southern District of New York*

The Company together with certain of its key personnel and the underwriters for the Company's initial public offering, has been named in a lawsuit filed in the U.S District Court for the Southern District of New York captioned Winter v. Stronghold Digital Mining Inc., et al., alleging that the Company's registration statement filed in connection with its initial public offering contained false or misleading statements in violation of the federal securities laws. On August 4, 2022, co-lead plaintiffs were appointed. Management believes this litigation is unlikely to have a material adverse effect on the Company's financial position.

### **NOTE 9 – RELATED-PARTY TRANSACTIONS**

#### Waste Coal Agreement

The Company is obligated under a Waste Coal Agreement (the "WCA") to take minimum annual delivery of 200,000 tons of waste coal as long as there is a sufficient quantity of waste coal that meets the Average Quality Characteristics (as defined in the WCA). Under the terms of the WCA, the Company is not charged for the waste coal itself but is charged a \$6.07 per ton base handling fee as it is obligated to mine, process, load and otherwise handle the waste coal for itself and also for other customers of Coal Valley Sales, LLC ("CVS") from the Russellton site specifically. The Company is also obligated to unload and properly dispose of ash at the Russellton site.

A reduced handling fee is charged at \$1.00 per ton for any tons in excess of the minimum take of 200,000 tons.

The Company is the designated operator at the Russellton site and therefore is responsible for complying with all state and federal requirements and regulations.

In December 2020, the Company notified CVS by letter that it intends to restart operations at Russellton during the first quarter of 2021. It proposed a ramp-up of tons and payments at \$25,000 a month until the economics of the plant steady and return to the minimum take per the contract. Subsequent to March 31, 2021, the Company has resumed the semi-monthly minimum payments of approximately \$51,000 per the WCA.

The Company purchased coal from Coal Valley Properties, LLC, a single-member LLC which is entirely owned by one individual that has ownership in Q Power, and from CVS. CVS is a single-member LLC which is owned by a coal reclamation partnership of which an owner of Q Power has a direct and an indirect interest in the partnership of 16.26%.

For the three and six months ended June 30, 2022, the Company expensed approximately \$303,500 and \$607,000, respectively, which is included in fuel expense in the accompanying statement of operations. The Company owed CVS approximately \$202,333 as of June 30, 2022, which is included in Due to Related Parties.

#### Fuel Service and Beneficial Use Agreement

The Company has a Fuel Service and Beneficial Use Agreement (“FBUA”) with Northampton Fuel Supply Company, Inc. (“NFS”), a wholly-owned subsidiary of Olympus Power. The Company buys fuel from and sends ash to NFS, for the mutual benefit of both facilities, under the terms and rates established in the FBUA. The FBUA expires December 31, 2023. For the three and six months ended June 30, 2022, the Company expensed \$540,747 and \$921,112, respectively, which is included in fuel expense in the consolidated statement of operations. The Company owed NFS approximately \$214,660 as of June 30, 2022, which is included in Due to Related Parties.

Fuel purchases under these agreements for the six months ended June 30, 2022 and June 30, 2021 are as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Coal Purchases:		
Northampton Fuel Supply Company, Inc.	\$ 921,112	\$ 37,810
Coal Valley Sales, LLC	607,000	378,500
TOTALS	<u>\$ 1,528,112</u>	<u>\$ 416,310</u>

#### Fuel Management Agreement

##### *Panther Creek Fuel Services LLC*

Effective August 1, 2012, the Company entered into the Fuel Management Agreement (the “Fuel Agreement”) with Panther Creek Fuel Services LLC, a wholly-owned subsidiary of Olympus Services LLC, which in turn, is a wholly-owned subsidiary of Olympus Power LLC. Under the Fuel Agreement, Panther Creek Fuel Services LLC provides the Company with operations and maintenance services with respect to the Facility. The Company reimburses Panther Creek Energy Services LLC for actual wages and salaries. The amount expensed for the three and six months ended June 30, 2022, was \$452,290 and \$851,059, respectively, of which \$84,632 was included in Due to Related Parties as of June 30, 2022.

##### *Scrubgrass Fuel Services, LLC*

Effective February 1, 2022, the Company entered into the Fuel Management Agreement (the “Scrubgrass Fuel Agreement”) with Scrubgrass Fuel Services LLC, a wholly-owned subsidiary of Olympus Services LLC, which in turn, is a wholly-owned subsidiary of Olympus Power LLC. Under the Scrubgrass Fuel Agreement, Scrubgrass Fuel Services LLC provides the Company with operations and maintenance services with respect to the Facility. The Company reimburses Scrubgrass Energy Services LLC for actual wages and salaries. The amount expensed for the three and six months ended June 30, 2022, was \$236,993 and \$333,617, respectively, of which \$42,324 was included in Due to Related Parties as of June 30, 2022.

#### O&M Agreements

##### *Olympus Power LLC*

On November 2, 2021, Stronghold LLC entered into an Operations, Maintenance and Ancillary Services Agreement (the “Omnibus Services Agreement”) with Olympus Stronghold Services, LLC (“Olympus Stronghold Services”), whereby Olympus Stronghold Services will provide certain operations and maintenance services to Stronghold LLC, as well as employ certain personnel to operate the Panther Creek Plant and the Scrubgrass Plant. Stronghold LLC will reimburse Olympus Stronghold Services for those costs incurred by Olympus Stronghold Services and approved by Stronghold LLC in the course of providing services under the Omnibus Services Agreement, including payroll and benefits costs and insurance costs. The material costs incurred by Olympus Stronghold Services shall be approved by Stronghold LLC. Stronghold LLC will also pay Olympus Stronghold Services a management fee at the rate of \$1,000,000 per year, payable monthly, and an additional one-time mobilization fee of \$150,000 upon the effective date of the Omnibus Services Agreement. The amount expensed for the three and six months ended June 30, 2022 was \$239,793 and \$796,691, respectively, (excluding the one-time mobilization fee of \$150,000 that has been deferred until 2022 for payment).

### *Panther Creek Energy Services LLC*

Effective August 2, 2021, the Company entered into the Operations and Maintenance Agreement (the "O&M Agreement") with Panther Creek Energy Services LLC, a wholly-owned subsidiary of Olympus Services LLC, which in turn, is a wholly-owned subsidiary of Olympus Power LLC. Under the O&M Agreement, Panther Creek Energy Services LLC provides the Company with operations and maintenance services with respect to the Facility. The Company reimburses Panther Creek Energy Services LLC for actual wages and salaries. The Company also pays a management fee of \$175,000 per operating year, which is payable monthly and is adjusted by the consumer price index on each anniversary date of the effective date. The amount expensed for the three and six months ended June 30, 2022 was \$1,137,345 and \$2,025,169, respectively, of which \$222,103 was included in Due to Related Parties. In connection with the equity contribution agreement entered into on July 9, 2021 (the "Equity Contribution Agreement"), the Company entered into the Amended and Restated Operations and Maintenance Agreement (the "Amended O&M Agreement") with Panther Creek Energy Services LLC. Under the Amended O&M Agreement, the management fee is \$250,000 for the twelve-month period following the effective date and \$325,000 per year thereafter. The effective date of the Amended O&M Agreement is the closing date of the Equity Contribution Agreement.

### *Scrubgrass Energy Services, LLC*

Effective February 1, 2022, the Company entered into the Operations and Maintenance Agreement (the "Scrubgrass O&M Agreement") with Scrubgrass Energy Services, LLC, a wholly-owned subsidiary of Olympus Services LLC, which in turn, is a wholly-owned subsidiary of Olympus Power LLC. Under the Scrubgrass O&M Agreement, Scrubgrass Energy Services LLC provides the Company with operations and maintenance services with respect to the Facility. The Company reimburses Scrubgrass Energy Services LLC for actual wages and salaries. The Company also pays a management fee of \$175,000 per operating year, which is payable monthly and is adjusted by the consumer price index on each anniversary date of the effective date. The amount expensed for the three and six months ended June 30, 2022 was \$1,792,213 and \$2,650,127, respectively, of which \$573,795 was included in Due to Related Parties. In connection with the Equity Contribution Agreement entered into on July 9, 2021, the Company entered into the Amended and Restated Operations and Maintenance Agreement (the "Scrubgrass Amended O&M Agreement") with Scrubgrass Energy Services LLC. Under the Scrubgrass Amended O&M Agreement, the management fee is \$250,000 for the twelve-month period following the effective date and \$325,000 per year thereafter. The effective date of the Scrubgrass Amended O&M Agreement is the closing date of the Equity Contribution Agreement.

### Management Services Agreement

On May 10, 2021, a new management and advisory agreement was entered into between Q Power, and William Spence. In consideration of consultant's performance of the services thereunder, Q Power will pay Mr. Spence a fee at the rate of \$50,000 per complete calendar month (pro-rated for partial months) that Mr. Spence provides services thereunder, payable in arrears. The previous agreement requiring monthly payments of \$25,000 was terminated. Q Power will not be liable for any other payments to Mr. Spence including, but not limited to, any cost or expenses incurred by Mr. Spence in the course of performing his obligations thereunder.

The Company has made total payments of \$150,000 and \$300,000 for the three and six months ended June 30, 2022.

Amounts due to related parties as of:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Payables:		
Coal Valley Properties, LLC	\$ 134,452	\$ 134,452
Q Power LLC	500,000	500,000
Coal Valley Sales, LLC	202,333	202,333
Panther Creek Energy Services	222,103	94,435
Panther Creek Fuel Services	84,632	47,967
Northampton Generating Co LP	214,660	321,738
Olympus Services LLC	—	129,735
Scrubgrass Energy Services	573,795	—
Scrubgrass Fuel Services	42,324	—
TOTALS	<u>\$ 1,974,299</u>	<u>\$ 1,430,660</u>

#### **NOTE 10 – PAYCHECK PROTECTION PROGRAM LOAN, ECONOMIC INJURY DISASTER LOAN**

On March 16, 2021, the Company received a second round Paycheck Protection Program (“PPP”) loan in the amount of \$841,670 that accrues an interest of 1% per year; and matures on the fifth anniversary of the date of the note. In January 2021, the Company was granted relief as forgiveness for the round 1 PPP loan in the amount of \$638,800.

On June 8, 2021, the Company repaid the Economic Injury Disaster Loan (“EIDL”), received on March 31, 2020, in the amount of \$150,000.

On May 25, 2022, the Company was granted relief as forgiveness for the second round PPP loan in the amount of \$841,670.

#### **NOTE 11 – COVID-19**

The full impact of the coronavirus (“COVID-19”) outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the future effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity.

#### **NOTE 12 – SEGMENT REPORTING**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly in deciding how to allocate resources and in assessing performance. Our CEO is the primary decision-maker. The Company functions in two operating segments about which separate financial information is available as follows:

Reportable segment results for the three- and six-months ending June 30, 2022 and June 30, 2021 are as follows:

	Three Months Ended,		Six Months Ended,	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Operating Revenues</b>				
Energy Operations	\$ 8,829,741	\$ 2,173,108	\$ 19,257,731	\$ 4,803,181
Cryptocurrency Operations	20,348,708	2,011,416	38,620,777	3,083,421
<b>Total Operating Revenues</b>	<u>\$ 29,178,449</u>	<u>\$ 4,184,524</u>	<u>\$ 57,878,508</u>	<u>\$ 7,886,602</u>
<b>Net Operating Income/(Loss)</b>				
Energy Operations	\$ (11,731,620)	\$ (2,570,168)	\$ (23,828,745)	\$ (3,785,805)
Cryptocurrency Operations	(18,123,022)	(467,593)	(35,663,263)	(221,239)
<b>Net Operating Income/(Loss)</b>	<u>\$ (29,854,642)</u>	<u>\$ (3,037,761)</u>	<u>\$ (59,492,008)</u>	<u>\$ (4,007,044)</u>
<b>Other Income, net (a)</b>	<u>\$ (10,383,933)</u>	<u>\$ (205,248)</u>	<u>\$ (13,052,982)</u>	<u>\$ 525,079</u>
<b>Net Income/(Loss)</b>	<u>\$ (40,238,575)</u>	<u>\$ (3,243,009)</u>	<u>\$ (72,544,990)</u>	<u>\$ (3,481,965)</u>
<b>Depreciation and Amortization</b>				
Energy Operations	\$ (1,326,552)	\$ (137,904)	\$ (2,582,653)	\$ (281,538)
Cryptocurrency Operations	(11,340,748)	(649,827)	(22,404,228)	(1,023,636)
<b>Total Depreciation &amp; Amortization</b>	<u>\$ (12,667,300)</u>	<u>\$ (787,731)</u>	<u>\$ (24,986,881)</u>	<u>\$ (1,305,174)</u>
<b>Interest Expense</b>				
Energy Operations	\$ (24,547)	\$ (27,048)	\$ (56,069)	\$ (68,306)
Cryptocurrency Operations	(4,484,236)	(28,395)	(7,364,166)	(65,777)
<b>Total Interest Expense</b>	<u>\$ (4,508,783)</u>	<u>\$ (55,443)</u>	<u>\$ (7,420,235)</u>	<u>\$ (134,083)</u>

(a) The Company does not allocate other income, net for segment reporting purposes. Amount is shown as a reconciling item between net operating income/(losses) and consolidated income before taxes. Refer to consolidated statement of operations for the three and six months ended June 30, 2022 and 2021 for further details.

Assets, at June 30, 2022, by energy operations and cryptocurrency operations totaled \$57,499,986 and \$297,770,158, respectively. Assets at June 30, 2021, by energy operations and cryptocurrency operations totaled \$9,613,610 and \$134,821,405, respectively.

	June 30, 2022			June 30, 2021		
	Energy Operations	Cryptocurrency Operations	Total	Energy Operations	Cryptocurrency Operations	Total
	(unaudited)	(unaudited)		(unaudited)	(unaudited)	
Cash	\$ 364,653	\$ 32,622,528	\$ 32,987,181	\$ 3,060,035	\$ 40,654,745	\$ 43,714,779
Digital currencies	—	352,092	352,092	—	1,259,215	1,259,215
Digital currencies restricted	—	4,779,895	4,779,895	—	—	—
Accounts receivable	1,791,830	59,889	1,851,719	416,563	360,057	776,620
Due from related party	848,150	—	848,150	—	—	—
Prepaid Insurance	—	2,356,411	2,356,411	—	—	—
Inventory	3,605,533	—	3,605,533	319,821	—	319,821
Other current assets	1,586,133	147,774	1,733,907	65,621	135,000	200,621
Security Deposits	227,369	121,519	348,888	—	—	—
Equipment Deposits	—	66,472,016	66,472,016	—	78,688,465	78,688,465
Property, plant and equipment, net	47,137,360	190,836,595	237,973,955	5,536,407	13,723,923	19,260,330
Land	1,727,000	21,439	1,748,439	29,919	—	29,919
Bonds	211,958	—	211,958	185,245	—	185,245
	<u>\$ 57,499,986</u>	<u>\$ 297,770,158</u>	<u>\$ 355,270,144</u>	<u>\$ 9,613,610</u>	<u>\$ 134,821,405</u>	<u>\$ 144,435,015</u>

#### NOTE 13 – STOCK-BASED COMPENSATION

On October 19, 2021, the board of directors of the Company (the "Board") and the stockholders of the Company approved a new long-term incentive plan (the "New LTIP") for employees, consultants and directors. The New LTIP provides for the grant of stock options (including incentive stock options and non-qualified stock options), stock appreciation rights, RSUs, PSUs, dividend equivalents, other stock-based awards, and substitute awards intended to align the interests of service providers, including the Company's named executive officers, with those of its stockholders. The New LTIP reserved 4,752,000 shares of Class A common stock that may be issued or used for reference purposes or with respect to which awards may be granted. In addition, pursuant to the New LTIP, the 313,517 remaining shares of Class A common stock under the prior long-term incentive plan that was effective April 28, 2021, that were reserved and available for delivery, were assumed and reserved for issuance under the New LTIP. As of the effective date of the New LTIP, the Company now grants all equity-based awards under the New LTIP.

The Board is duly authorized to administer the New LTIP. The Company accounts for share-based payment awards exchanged for services at the estimated grant date fair value of the award.

Stock options issued under the Company's New LTIP are granted with an exercise price no less than the market price of the Company's stock at the date of grant and expire up to ten years from the date of the grant. The Company accounts for share-based payment awards exchanged for services at the estimated grant date fair value of the award. Stock options issued under the LTIP were granted with an exercise price equal to the fair market value of the Company's stock, as determined with reference to third-party valuations as of the date of option grants, and expire up to ten years from the date of grant. Options granted under the New LTIP and the LTIP vest over various terms.

The RSUs are subject to restrictions on transferability, risk of forfeiture and other restrictions imposed by the Compensation Committee of the Board (the "Compensation Committee"). Settlement of vested RSUs will occur upon vesting or upon expiration of the deferral period specified for such RSUs by the Compensation Committee (or, if permitted by the Compensation Committee, as elected by the Participant). RSUs may be settled in cash or a number of shares of stock (or a combination of the two), as determined by the Compensation Committee at the date of grant or thereafter. As of

June 30, 2022, 1,429,407 RSUs were awarded to 146 employees with a weighted average grant date fair market value of \$4.04 that vest over three years.

### Stock-Based Compensation

Stock compensation expense was \$3,152,629 and \$5,745,625 for the three and six months ended June 30, 2022, respectively, and \$269,932 for both the three and six months ended June 30, 2021. There is no tax benefit related to stock compensation expense due to a full valuation allowance on net deferred tax assets at June 30, 2022.

The Company recognized total stock-based compensation expense during the three and six months ended June 30, 2022 and 2021, from the following categories:

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Restricted stock awards under the Plan	\$ 876,275	\$ —	\$ 1,214,957	\$ —
Stock option awards under the Plan	2,276,354	269,932	4,530,667	269,932
Total stock-based compensation	\$ 3,152,629	\$ 269,932	\$ 5,745,625	\$ 269,932

### Incentive Plan Stock Options

The following are the weighted average assumptions used in calculating the fair value of the total stock options granted in 2022 using the Black-Scholes method.

	June 30, 2022
Weighted-average fair value of options granted	\$ 10.21
Expected volatility	126.20 %
Expected life (in years)	5.81
Risk-free interest rate	1.78 %
Expected dividend yield	0.00 %

Expected Volatility – The Company estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies.

Expected Term – The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding based on the simplified method, which is the half-life from vesting to the end of its contractual term.

Risk-Free Interest Rate – The Company bases the risk-free interest rate on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Expected Dividend – The Company has never declared or paid any cash dividends on its common shares and does not plan to pay cash dividends in the foreseeable future, and, therefore, uses an expected dividend yield of zero in its valuation models.

The Company elected to account for forfeited awards as they occur, as permitted by Accounting Standards Update 2016-09.

As of June 30, 2022, the total future compensation expense related to non-vested options not yet recognized in the consolidated statement of operations was approximately \$18,450,130 and the weighted-average period over which these awards are expected to be recognized is 2.05 years.



There were 3,476,615 outstanding shares as of June 30, 2022. The following table summarizes the stock option activity (as adjusted) under the plans for the six months ended June 30, 2022:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Price	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	3,379,083	\$ 8.91	9.61	\$ 30,906
Granted	97,532	\$ 10.61	\$ —	\$ —
Exercised	—	\$ —	—	\$ —
Cancelled/forfeited	—	\$ —	—	\$ —
Outstanding at June 30, 2022	3,476,615	\$ 8.96	9.13	\$ —
Shares vested and expected to vest	3,476,615	\$ 8.96	9.13	\$ —
Exercisable as of June 30, 2022	1,020,489	\$ 8.76	9.09	\$ —
Exercisable as of June 30, 2021	—	\$ —	—	\$ —

#### RSU and PSU Awards

A summary of the Company's RSU activity in the six months ended June 30, 2022 is as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2021	60,737	\$ 24.33
Vested	(15,710)	\$ 7.50
Granted	1,679,407	\$ 4.04
Forfeited	—	\$ —
Unvested at June 30, 2022	1,724,434	\$ 4.83

The value of RSU grants are measured based on their fair market value on the date of grant and amortized over their respective vesting periods. As of June 30, 2022, there was approximately \$5,858,001 of unrecognized compensation cost related to unvested RSU rights, which is expected to be recognized over a remaining weighted-average vesting period of approximately 1.97 years.

The total intrinsic value of RSUs that vested and were released during the three and six month periods ended June 30, 2022 was \$53,776 and \$117,868, respectively. No RSUs vested during the three and six month periods ended June 30, 2021.

On April 28, 2022 the Company's Chief Financial Officer was granted 250,000 PSUs that will begin vesting in October, 2022.

#### **NOTE 14 – STOCK ISSUED UNDER MASTER FINANCING AGREEMENTS AND WARRANTS**

##### Stock Issued as part of an Equipment Financing Agreement

###### *Arctos Credit LLC (NYDIG)*

On June 25, 2021, SDM (i.e. "the Company") entered into a \$34,481,700 ("Maximum Advance Amount") master equipment financing agreement with an affiliate of Arctos Credit, LLC ("Arctos" now known as "NYDIG") (the "Arctos/NYDIG Financing Agreement"). As part of this agreement, NYDIG was issued a total of 126,274 shares of common stock of Stronghold Inc. The effective date of this issuance was as of the commencement date of the agreement. On July 2, 2021, the Company received two separate loans, against the \$34,481,700, totaling \$24,157,178 (net of debt issuance fees). The loans each have a maturity date of July 23, 2023, where the full outstanding principal amount of the loans is due and payable. Interest for each of the loans is set at 10% per annum. On January 31, 2022, the Company amended the master equipment financing agreement with an affiliate of Arctos Credit, LLC to allow for a Maximum Advance Amount of \$37,341,978. On February 1, 2022, the Company received two separate loans, against the \$37,341,978, totaling

\$12,117,903 (net of debt issuance fees). The loans each have a maturity date of April 25, 2023 and October 25, 2023, respectively, where the full outstanding principal amount of the loans is due and payable. Interest for each of the loans is set at 10% per annum.

As of June 30, 2022, the fair value at the date of issuance (i.e.- June 25, 2021) of the 126,274 common shares or \$1,389,888 is presented on the balance sheet as debt discounts that offset the net proceeds of the loans; and is being amortized using the straight-line method over the terms of the loans (refer to Note 6 – Long-Term Debt for further details). For the six months ended June 30, 2022, the Company recorded amortized costs in the amount of \$347,472 related to the stock issued debt discounts. That amount is included in interest expense.

In addition, the agreement stipulates a "Standby Fee" if, prior to August 15, 2021, the Company has failed to take advances from NYDIG equal to the total agreement amount of \$37,341,978. The Standby Fee is calculated as 1.75% times the remaining principal that has not been borrowed; or zero as of June 30, 2022. As a result, the Company has not paid a Standby Fee during the six months ended June 30, 2022. That amount is included in interest expense.

#### *MinerVa Semiconductor Corp*

As discussed in Note 8 – Contingencies and Commitments, the Company on April 2, 2021, entered into a purchase agreement with MinerVa for the acquisition of 15,000 of their MV7 ASIC SHA256 model cryptocurrency miner equipment with a total terahash to be delivered equal to 1.5 million terahash (total terahash). In the exchange for the delivery of the total terahash, MinerVa will be granted 443,848 shares of Stronghold Inc. As discussed in Note 8, not all miners have been delivered but the Company is committed to take all future deliveries. The final delivery is after June 30, 2022; thus, the shares are deemed as not yet issued as of June 30, 2022.

#### Warrants

##### *Private Placement Purchase Agreement*

On May 15, 2022, we entered into a note and warrant purchase agreement (the "Purchase Agreement"), by and among the Company and the purchasers thereto (collectively, the "Purchasers"), whereby we agreed to issue and sell to the Purchasers, and the Purchasers agreed to purchase from the Company, (i) \$33,750,000 aggregate principal amount of 10.00% unsecured convertible promissory notes (the "May 2022 Notes") and (ii) warrants (the "May 2022 Warrants") representing the right to purchase up to 6,318,000 shares of Class A Common Stock, of the Company with an exercise price per share equal to \$2.50, on the terms and subject to the conditions set forth in the Purchase Agreement (collectively, the "2022 Private Placement"). The Purchase Agreement contained representations and warranties by the Company and the Purchasers that are customary for transactions of this type. The May 2022 Notes and the May 2022 Warrants were offered and sold in reliance on the exemption afforded by Section 4(a)(2) of the Securities Act, and Rule 506(b) of Regulation D promulgated thereunder for aggregate consideration of \$27 million.

In connection with the 2022 Private Placement, the May 2022 Warrants were issued pursuant to a Warrant Agreement, dated as of May 15, 2022 (the "Warrant Agreement"). The May 2022 Warrants are subject to mandatory cashless exercise provisions and have certain anti-dilution provisions. The May 2022 Warrants will be exercisable for a five-year period from the closing.

##### *WhiteHawk Finance LLC*

On June 30, 2021, Equipment LLC entered into a \$40,000,000 promissory note (the "WhiteHawk Promissory Note") with WhiteHawk (the "Lender"). The note has a maturity date of June 23, 2023, where the full outstanding principal amount of the note is due and payable. Interest for the note is set at 10% per annum. On June 30, 2021, Equipment LLC also entered into a Stock Purchase Warrant agreement with the Lender, where Equipment LLC issued 181,705 warrants to purchase shares of Class A common stock of Equipment LLC to the Lender.

The warrants are exercisable by the Lender at any time during a ten-year term at \$0.01 per share of common stock. The warrants are legally detachable and can separately be exercised.

The fair value for the warrants, as of the issuance date, is \$1,999,396 and is recorded as equity with the offset recorded as a debt discount against the net proceeds. The proceeds of \$40,000,000 are allocated to the WhiteHawk Promissory Note and the warrants are being amortized based on the straight-line method over the twenty-four month term of the note. For

the six months ended June 30, 2022, the Company has recorded amortized debt discount, related to the warrants, in the amount of \$499,849, which is included in interest expenses.

On March 28, 2022, Equipment LLC entered into a \$25,000,000 promissory note (the “Second WhiteHawk Promissory Note”) with the Lender. The note has a maturity date of March 31, 2024, where the full outstanding principal amount of the note is due and payable. Interest for the note is set at 10% per annum. On March 28, 2022, Equipment LLC also entered into a Stock Purchase Warrant agreement with the Lender, where Equipment LLC issued 125,000 warrants to purchase shares of Class A common stock of Equipment LLC to the Lender.

The warrants are exercisable by the Lender at any time during a ten-year term at \$0.01 per share of common stock. The warrants are legally detachable and can separately be exercised.

The fair value for the warrants, as of the issuance date, is \$1,150,000 and is recorded as equity with the offset recorded as a debt discount against the net proceeds. The proceeds of \$25,000,000 are allocated to the Second WhiteHawk Promissory Note and the warrants are being amortized based on the straight-line method over the twenty-four month term of the note. For the six months ended June 30, 2022, the Company has recorded amortized debt discount, related to the warrants, in the amount of \$143,750, which is included in interest expenses.

#### *B. Riley Securities, Inc.*

On each of April 1, 2021 and May 14, 2021, Stronghold Inc. entered into a warrant agreement with American Stock Transfer & Trust Company. B. Riley Securities, Inc. acted as the Company’s placement agent in connection with the Private Placements. In connection therewith, the Company issued B. Riley Securities, Inc. (i) a five-year warrant to purchase up to 97,920 shares of Series A Preferred Stock at a per share exercise price of \$8.68 and (ii) a five-year warrant to purchase up to 18,170 shares of Series B Preferred Stock at a per share exercise price of \$11.01. In each case the exercise price was equal to the respective private placement per share price. B. Riley Securities, Inc. and its affiliates purchased 439,200 and 91,619 shares of Series A Preferred Stock and Series B Preferred Stock, respectively, at the same private placement per share price.

The warrants contain standard limitations and representations and are exercisable for a period of five years from the date of the Private Placements. The warrants are legally detachable and separately exercisable. The accounting for warrants on redeemable shares follows the guidance in ASC 480-10-25-8 through 25-13. Those paragraphs address the classification of instruments, other than an outstanding share, that have both of the following characteristics:

- The instrument embodies an obligation to repurchase the issuer’s equity shares, or is indexed to such an obligation.
- The instrument requires or may require the issuer to settle the obligation by transferring assets.

As of October 22, 2021 (the closing date of the initial public offering of shares of Class A common stock), the purchase redemption rights of the Series A Preferred Stock and Series B Preferred Stock, described above, were extinguished and each of the warrants were transferred to equity with a fair value as of the initial public offering date. Each warrant can now be converted to one share of Class A common stock at par value of \$.0001 per share. The final fair value as of October 19, 2021, of each of the warrants, was calculated using the Black-Scholes option-pricing model with the following assumptions:

### Series A

The following are the Black-Scholes input assumptions for the 97,920 Series A warrants; and the changes in fair values as of April 1, 2021 (date of issuance) and October 19, 2021 respectively:

	As of		Changes in Fair Value Inputs
	April 1, 2021	October 19, 2021	
Expected volatility	100.2 %	117.6 %	17.4 %
Expected life (in years)	4.83	4.83	0
Risk-free interest rate	0.9 %	1.2 %	0.3 %
Expected dividend yield	0.00 %	0.00 %	0.0 %
Fair value	\$ 631,897	\$ 1,628,311	\$ 996,414

On April 1, 2021, the Company recorded a liability of \$631,897, and as a debt issuance cost against the Preferred Shares. As of June 30, 2022, the fair value of this liability is zero.

### Series B

The following are the Black-Scholes input assumptions for the 18,170 Series B warrants; and the changes in fair values as of May 14, 2021 (date of issuance) and October 19, 2021 respectively:

	As of		Changes in Fair Value Inputs
	May 14, 2021	October 19, 2021	
Expected volatility	100.2 %	117.6 %	17.4 %
Expected life (in years)	4.8	4.8	0
Risk-free interest rate	0.9 %	1.2 %	0.3 %
Expected dividend yield	0.00 %	0.00 %	0.0 %
Fair value	\$ 148,575	\$ 295,970	\$ 147,395

On May 14, 2021, the Company recorded a liability of \$148,575, and as a debt issuance cost against the Mezzanine Equity (see Note 15 – Redeemable Common Stock). As of June 30, 2022, the fair value of this liability is zero.

## **NOTE 15 – REDEEMABLE COMMON STOCK**

### *Private Placements- Mezzanine Equity Series A & B*

On April 1, 2021 the Company entered into a Series A Preferred Stock Purchase Agreement pursuant to which the Company issued and sold 9,792,000 shares of Series A Preferred Stock in the Series A Private Placement at a price of \$8.68 per share to various accredited individuals in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act, and Regulation D thereunder for aggregate consideration of approximately \$85.0 million. In connection with the Series A Private Placement, the Company incurred approximately \$6.3 million in fees and \$631,897 as debt issuance costs for warrants issued as part of the Series A Private Placement.

Further, pursuant to the Series A Private Placement, Stronghold Inc., the investors in the Series A Private Placement and key holders entered into a Right of First Refusal Agreement ("ROFR Agreement"). Under the ROFR Agreement, the key holders agreed to grant a right of first refusal to Stronghold Inc. to purchase all or any portion of capital stock of Stronghold Inc., held by a key holder or issued to a key holder after the date of the ROFR Agreement, not including any shares of Series A Preferred Stock or common stock issued or issuable upon conversion of the Series A Preferred Stock. The key holders also granted a right of first refusal to the investors in the Series A Private Placement to purchase all or any eligible capital stock not purchased by Stronghold Inc. pursuant to its right of first refusal.

The ROFR Agreement also provided certain co-sale rights to investors in the Series A Private Placement to participate in any sale or similar transfer of any shares of common stock owned by a key holder or issued to a key holder after the Series A Private Placement, on the terms and conditions specified in a written notice from a key holder. The investors,

however, are not obligated to participate in such sales or similar transfers. The co-sale and rights of first refusal under the ROFR Agreement terminated when the Preferred Stock converted into shares of Class A common stock.

On May 14, 2021, the Company completed the Series B Private Placement. The terms of the Series B Preferred Stock were substantially similar to the Series A Preferred Stock, except for differences in the stated value of such shares in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or certain deemed liquidation events. In connection with the Series B Private Placement, the Company sold 1,817,035 shares of its Series B Preferred Stock for an aggregate purchase price of \$20.0 million. In connection with the Series B Private Placement, the Company incurred approximately \$1.6 million in fees and expenses and \$148,575 as debt issuance costs for warrants issued as part of the Series B Private Placement.

The Company entered into registration rights agreements with the investors in the Private Placements concurrently with the closing of each Private Placement, with certain filing deadlines as defined in the agreements.

On October 22, 2021 (the closing date of the IPO), the net proceeds from the 9,792,000 shares of the Series A Preferred Stock and the 1,816,994 shares of the Series B Preferred Stock were converted to shares of Class A common stock on a one-for-one share basis at a par value of \$0.0001 per share. As of June 30, 2022, these shares are no longer reported as redeemable common stock.

The following is a summary of the Series A and Series B valuations:

	<u>Series A</u>	<u>Series B</u>
Proceeds	\$ 85,000,000	\$ 20,000,305
Transaction Fees:		
B. Riley Securities	(5,100,000)	(1,200,000)
Legal and Filing Fees	(1,226,990)	(408,997)
Debt issuance costs pertaining to stock registration warrants - refer to Note 14	(631,897)	(148,575)
Total net mezzanine equity	\$ 78,041,113	\$ 18,242,733
Conversion to common Class A shares	\$ (78,041,113)	\$ (18,242,733)
Remaining in net mezzanine equity	\$ —	\$ —

#### *Class V Common Stock*

In connection with the Reorganization on April 1, 2021, Stronghold LLC immediately thereafter distributed the 27,072,000 shares of Class V common stock to Q Power. In addition, effective as of April 1, 2021, Stronghold Inc. acquired 14,400 Stronghold LLC Units held by Q Power (along with an equal number of shares of Class V common stock) in exchange for 14,400 newly issued shares of Class A common stock.

Class V common stock represents 56.1% ownership of Stronghold LLC. where the original owners of Q Power have economic rights and, as a holder, one vote on all matters to be voted on by our stockholders generally, and a redemption right into Class A shares.

The Company classifies shares of Class V common stock held by Q Power as redeemable common stock based on its assessment of (i) the right (the “Redemption Right”) to cause Stronghold LLC to acquire all or a portion of its Stronghold LLC Units for, at Stronghold LLC’s election, (x) shares of Stronghold Inc.’s Class A common stock at a redemption ratio of one share of Class A common stock for each Stronghold LLC Unit redeemed, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions or (y) an approximately equivalent amount of cash as determined pursuant to the Stronghold LLC Agreement of Q Power, and (ii) the right (the “Call Right”), for administrative convenience, to acquire each tendered Stronghold LLC Unit directly from the redeeming Stronghold Unit Holder for, at its election, (x) one share of Class A common stock, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions, or (y) an approximately equivalent amount of cash as determined pursuant to the terms of the Stronghold LLC Agreement of the Company pursuant to ASC 480-10-S99-3A. For each share of Class V common stock outstanding, there is a corresponding outstanding Class A common unit of Stronghold LLC. The redemption of any share of Class V common stock would be accompanied by a concurrent redemption of the corresponding Class A common unit of Stronghold LLC, such that both the share of Class V common stock and the corresponding Class A common unit of Stronghold LLC are redeemed as a combined unit in exchange for either a single

share of Class A common stock or cash of equivalent value based on the fair market value of the Class A common stock at the time of the redemption. For accounting purposes, the value of the Class A common units of Stronghold LLC is attributed to the corresponding shares of Class V common stock on the balance sheet.

Class V common stock is classified as redeemable common stock in the unaudited condensed consolidated balance sheet as, pursuant to the Stronghold LLC Agreement, the Redemption Rights of each unit held by Q Power for either shares of Class A common stock or an equivalent amount of cash is not solely within the Company's control. This is due to the holders of the Class V common stock collectively owning a majority of the voting stock of the Company, which allows the holders of Class V common stock to elect the members of the Board, including those directors that determine whether to make a cash payment upon a Stronghold Unit Holder's exercise of its Redemption Right. Redeemable common stock is recorded at the greater of the book value or redemption amount from the date of the issuance, April 1, 2021, and the reporting date as of June 30, 2022.

The Company recorded redeemable common stock as presented in the table below:

	Non-controlling Interest (1)	Series A		Series B		Common - Class V		Total
		Preferred Shares	Amount	Preferred Shares	Amount	Shares	Amount	
Balance - December 31, 2021	\$ —	—	—	—	\$ —	27,057,600	\$ 301,052,617	\$ 301,052,617
Net loss - January 1 to June 30, 2022							(40,702,092)	(40,702,092)
Maximum redemption right valuation							(213,110,622)	(213,110,622)
Balance - June 30, 2022	\$ —	—	\$ —	—	\$ —	27,057,600	\$ 47,239,903	\$ 47,239,903

<sup>1</sup> Refer to Note 16 – Non-controlling Interest for further discussions.

#### NOTE 16 – NON-CONTROLLING INTEREST

The Company is the sole managing member of Stronghold LLC and as a result consolidates the financial results of Stronghold LLC and reports a non-controlling interest representing the Common Units of Stronghold LLC held by Q Power. Changes in the Company's ownership interest in Stronghold LLC while the Company retains its controlling interest in Stronghold LLC will be accounted for as mezzanine equity transactions. As such, future redemptions or direct exchanges of common units of Stronghold LLC by the continuing equity owners will result in a change in ownership and reduce or increase the amount recorded as non-controlling interest. Refer to Note 15 – Redeemable Common Stock that describes the Redemption Rights of the non-controlling interest.

Class V Common Stock represents 56.1% ownership of Stronghold LLC, granting the owners of Q Power economic rights and, as a holder, one vote on all matters to be voted on by the Company's stockholders generally, and a redemption right into Class A shares.

The following summarizes the mezzanine equity adjustments pertaining to the non-controlling interest from April 1, 2021 through June 30, 2022:

	<b>Temporary Equity Adjustments</b>
Balance - April 1, 2021 <sup>(1)</sup>	<b>\$ (2,877,584)</b>
Net losses for the three months ended June 30, 2021	(2,235,219)
Maximum redemption right valuation <sup>(2)</sup>	172,774,052
Balance - June 30, 2021	<b>\$ 167,661,249</b>
Net losses for the three months ended September 30, 2021	(4,328,460)
Adjustment of mezzanine equity to redemption amount <sup>(3)</sup>	79,669,600
Balance - September 30, 2021	<b>\$ 243,002,389</b>
Net losses for the three months ended December 31, 2021	(8,594,196)
Adjustment of temporary equity to redemption amount <sup>(4)</sup>	66,644,424
Balance - December 31, 2021	<b>\$ 301,052,617</b>
Net losses for the three months ended March 31, 2022	(18,125,837)
Adjustment of temporary equity to redemption amount <sup>(5)</sup>	(110,222,560)
Balance - March 31, 2022	<b>\$ 172,704,220</b>
Net losses for the three months ended June 30, 2022	(22,576,255)
Adjustment of temporary equity to redemption amount <sup>(6)</sup>	(102,888,062)
Balance - June 30, 2022	<b>\$ 47,239,903</b>

<sup>1</sup> As of the date of reorganization- refer to Note 1 – Business Combinations

<sup>2</sup> Based on 27,057,600 Class V Common stock outstanding at \$6.39 issuance price as of April 1, 2021

<sup>3</sup> Based on 27,057,600 Class V Common stock outstanding at \$9.33 fair valuation price as of September 30, 2021

<sup>4</sup> Based on 27,057,600 Class V Common stock outstanding at \$11.99 fair valuation price as of December 31, 2021, using a 10-day variable weighted average price ("VWAP") of trading dates; including the closing date

<sup>5</sup> Based on 27,057,600 Class V Common stock outstanding at \$7.72 fair valuation price as of March 31, 2022, using a 10-day VWAP of trading dates; including the closing date

<sup>6</sup> Based on 27,057,600 Class V Common stock outstanding at 1.75 fair valuation price as of June 30, 2022, using a 10-day VWAP of trading dates; including the closing date

#### Common Units

The Company is the sole managing member of Stronghold LLC and as a result consolidates the financial results of Stronghold LLC and reports a non-controlling interest representing the Common Units of Stronghold LLC held by Olympus Power, LLC plus a corresponding number of Class V vote-only shares of common stock in the Company. Olympus Power, LLC can exchange these Common Units along with corresponding shares of Class V common stock, on a one-for-one basis, for shares of Class A common stock. Because of the Class V voting rights, the Company has assessed the exchange right as a "Redemption Right" to cause Stronghold LLC to acquire all or a portion of its Stronghold LLC Units for, at Stronghold LLC's election, one share of Stronghold Inc.'s Class A common stock at a redemption ratio of one share of Class A common stock for each Stronghold LLC Unit.

Common Units represent 2.4% ownership of Stronghold LLC, where the original owners of Olympus Power LLC have economic rights and, as a holder, one vote on all matters to be voted on by the Company's stockholders generally, and a redemption right into Class A shares.

Changes in the Company's ownership interest in Stronghold LLC while the Company retains its controlling interest in Stronghold LLC will be accounted for as permanent equity. As such, future redemptions or direct exchanges of common units of Stronghold LLC by the continuing equity owners will result in a change in ownership and reduce or increase the amount recorded as non-controlling interest.

The following summarizes the permanent equity adjustments pertaining to the non-controlling interest from November 2, 2021 (date of issuance) through June 30, 2022:

	<b>Permanent Equity Adjustments</b>
Balance - November 2, 2021 <sup>1</sup>	<b>\$ 38,315,520</b>
Net losses	(645,359)
Balance - December 31, 2021	<b>\$ 37,670,161</b>
Net losses	(771,800)
Balance - March 31, 2022	<b>\$ 36,898,361</b>
Net losses	(961,300)
Balance - June 30, 2022	<b>\$ 35,937,061</b>

<sup>1</sup> As of November 2, 2021, the date of issuance. 1,152,000 Series A Preferred units outstanding at \$33.26 per public trading share price (Nasdaq closing price)

#### NOTE 17 – EARNINGS (LOSS) PER SHARE

Basic EPS of common stock is computed by dividing the Company's net earnings (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company excludes the unvested RSUs awarded to its employees, officers, directors, and contractors under the LTIP from this net loss per share calculation because including them would be antidilutive.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock for the three months ended June 30, 2022.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Numerator				
Net Loss <sup>(1)</sup>	\$ (40,238,575)	\$ (3,243,009)	\$ (72,544,990)	\$ (3,481,965)
Less: net losses attributable to non-controlling interests	\$ (23,537,555)	\$ (2,235,218)	\$ (42,435,192)	\$ (2,402,488)
Net loss attributable to Class A common shareholders	\$ (16,701,021)	\$ (1,007,791)	\$ (30,109,798)	\$ (1,079,477)
Denominator				
Weighted average shares of Class A common shares outstanding	20,341,061	8,137	20,274,672	8,137
Basic net loss per share	\$ (0.82)	\$ (123.86)	\$ (1.49)	\$ (123.86)

<sup>(1)</sup> Basic and diluted earnings per share of Class A common stock is presented for the period from January 1, 2022 to June 30, 2022.

Securities that could potentially dilute losses per share in the future that were not included in the computation of diluted loss per share at June 30, 2022 because their inclusion would be anti-dilutive are as follows:

	<b>June 30, 2022</b>
Series A preferred units not yet exchanged for Common A shares	1,152,000
Class V common shares not yet exchanged for Class A common shares	27,057,600
<b>Total</b>	<b>28,209,600</b>

#### NOTE 18 – RENEWABLE ENERGY CREDITS

Starting late in 2021 and for the six months ended June 30, 2022, the Company has significantly increased the use of coal refuse as the plant increased megawatt capacity. The plant was relatively dormant during the comparative periods ended June 30, 2021. As a result, the Company's usage of coal refuse, which is classified as a Tier II Alternative Energy Source under Pennsylvania law, significantly increased. DEBM acts as the benefactor, on behalf of the Company, in the open market and is invoiced as RECs are realized based on this open market measured by consumer demands. The Company records an offset to fuel costs when RECs are sold to third parties.



RECs offset against the costs of fuel operating costs were \$2,068,960 and \$2,601,230 for the three and six months ended June 30, 2022, respectively, \$576,205 and \$789,986 for the three and six months ended June 30, 2021 respectively.

#### NOTE 19 – ASPEN INTEREST (“OLYMPUS”) BUYOUT

On April 1, 2021, Stronghold Inc., using in part 576,000 shares of newly issued Series A Preferred Stock and in part proceeds from the Series A Private Placement, acquired the Aspen Interest.

The total consideration was a combination of the newly issued Series A Preferred Stock valued at the issuance price of \$8.68 per share or \$5,000,000; plus an additional \$2,000,000 in cash. A total of \$7,000,000 is treated as a buyout of the Partners’ Deficits of the Limited Partner (i.e., Aspen Interest) as of April 1, 2021.

The Partners’ Deficit of the Aspen Interest as of April 1, 2021:

	<b>Limited Partners</b>
Balance - December 31, 2020	\$ (1,336,784)
Net losses - three months ended March 31, 2021	(71,687)
Balance - April 1, 2021	\$ (1,408,471)

#### NOTE 20 – SUPPLEMENTAL CASH AND NON-CASH INFORMATION

Supplementary cash flows disclosures as of June 30, 2022 and 2021:

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Acquisition of PP&E included in accrued expenses	\$ 43,102,870	\$ —
Reclassifications from deposits to PP&E	\$ 3,473,096	\$ —
Equipment financed with debt	\$ 59,537,733	\$ 39,843,722
Interest Paid on Equipment Financings	\$ 2,071,167	\$ 134,083

Supplementary non-cash financing activities as of June 30, 2022 and 2021:

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Issued as part of equipment debt financing:		
Warrants - WhiteHawk	\$ 1,150,000	\$ 1,999,396
Common Class A shares- NYDIG	—	1,389,888
Warrants issued as part of stock registrations- B. Riley Warrants	—	780,472
Series A redeemable and convertible preferred stock units- Aspen Interest buyout	—	5,000,000
Warrants issued as part of convertible note	6,604,881	—
Premium Financing	523,076	—
Total	\$ 8,277,957	\$ 9,169,756

#### NOTE 21 – TAX RECEIVABLE AGREEMENT

The Company entered into a Tax Receivable Agreement (“TRA”) with Q Power and an agent named by Q Power on April 1, 2021, pursuant to which the Company will pay the TRA participants 85% of the realized (or, in certain circumstances, deemed realized) cash tax savings attributable to the tax basis step-ups arising from taxable exchanges of units and certain other items.

No deferred tax asset or liability has been recorded with respect to the TRA because an exchange that triggers the amounts owed by the Company under the TRA (i.e., the redemption of Stronghold LLC Units for shares of Class A common stock or cash) has not occurred. Estimating the amount and timing of Stronghold Inc.’s realization of tax benefits subject to the TRA is imprecise and unknown at this time and will vary based on a number of factors, including when redemptions actually occur. Accordingly, the Company has not recorded any deferred tax asset or any liability with respect to the TRA.

## NOTE 22 – PROVISIONS FOR INCOME TAXES

The provision for income taxes for the three and six months ended June 30, 2022 was zero, resulting in an effective income tax rate of zero. The provisions for income taxes for the twelve months ended December 31, 2021 and six months ended June 30, 2021 were also zero, resulting in effective income tax rates of zero. The difference between the statutory income tax rate of 21% and the Company's effective tax rate for the three and six months ended June 30, 2022 is primarily due to pre-tax loss attributable to the non-controlling interest and due to maintaining a valuation allowance against the Company's deferred tax assets. The difference between the statutory income tax rate of 21% and the Company's effective tax rate for the twelve months ended December 31, 2021 and the six months ended June 30, 2021 was primarily due to pre-tax losses attributable to the non-controlling interest and to the period prior to the Reorganization (i.e., prior to the incorporation of Stronghold Inc.), and due to maintaining a valuation allowance against the Company's deferred tax assets. Prior to the Reorganization, Scrubgrass and Stronghold Power were pass-through or disregarded entities for income tax purposes such that any taxable income or loss was included in the income tax returns of their owners. Accordingly, no income tax provision was recorded in the Company's financial statements for the three months ended March 31, 2021.

The determination to record a valuation allowance was based on management's assessment of all available evidence, both positive and negative, supporting realizability of the Company's net operating losses and other deferred tax assets, as required by applicable accounting standards (ASC 740). In light of the criteria under ASC 740 for recognizing the tax benefit of deferred tax assets, the Company maintained a valuation allowance against its federal and state deferred tax assets as of December 31, 2021 and through June 30, 2022.

## NOTE 23 – PREPAID INSURANCE

As of June 30, 2022 and 2021, the Company had an unamortized prepaid insurance balance of \$2,356,411 and zero, respectively. The June 30, 2022 unamortized balance consists of \$2,074,562 to cover directors and officers including corporate reimbursement (the "D&O Policy"); and various commercial property and risk coverages totaling \$281,849.

The D&O Policy was a financed premium (refer to Note 29 – Premium Financing Agreement) in the amount of \$6,890,509 less a \$1,378,102 down payment. The term of the policy is 12 months and expires October 19, 2022. The monthly amortization to insurance expense is \$574,209 per month. The commercial property and risk coverages vary in policy term expirations and are renewable on an annual basis.

## NOTE 24 – ACCRUED LIABILITIES

Other accrued liabilities consisted of the following:

	June 30, 2022	December 31, 2021
Legal & Professional Fees	848,146	1,457,727
Payroll & Taxes	—	73,819
Shipping & Handling	2,800	230,779
Interest expense	1,217,652	79,267
Sales & Use Taxes	6,207,700	2,609,664
Upcharge penalties reserve	420,126	420,126
Rent	162,797	—
Accrued miscellaneous expenses	52,937	182,575
Lease Expense <sup>1</sup>	2,594,640	—
Cryptocurrency Machines & Powering Supplies	1,413,331	—
Total	\$ 12,920,128	\$ 5,053,957

<sup>1</sup> – Lease expense includes the profit shared in accordance with our Hosting Services Agreement discussed in Note 28 – Hosting Services Agreement. Lease expense is recorded in Operations and maintenance expense on the consolidated statements of operations.

## NOTE 25 – ACQUISITION

On July 9, 2021, the Company entered into a purchase agreement, as contemplated by the letter of intent with Olympus, with Panther Creek Reclamation Holdings, LLC ("Panther Creek Reclamation"), a subsidiary of Olympus (the "Panther Creek Acquisition"). Pursuant to the Panther Creek Acquisition, the Company acquired all of the assets of Panther Creek, comprised primarily of the Panther Creek Plant. Stronghold Inc. completed the Panther Creek Acquisition on November 2, 2021. The consideration for the Panther Creek Plant was approximately \$3.0 million in cash (\$2.192 million after deducting 50% of land closing costs agreed to be split with the seller) subject to certain closing adjustments, and 1,152,000 Stronghold LLC Units, together with a corresponding number of shares of Class V common stock. Pursuant to the Redemption Right (as defined herein), each Stronghold LLC Unit, combined with a corresponding share of Class V common stock, may be redeemed for one share of Class A common stock (or cash, in certain instances).

Furthermore, on November 5, 2021, the Company entered into a Registration Rights Agreement with Panther Creek Reclamation, whereby the Company agreed to register the 1,152,000 shares of Class A common stock that may be received upon a redemption by Panther Creek. Refer to Note 16 – Non-controlling Interest for further details.

The transaction was analyzed in accordance with ASC 805 - Business Combinations to first determine whether the acquired assets constitute a business. This requires a screen test that makes a determination that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If the assets acquired are not a business, then the reporting entity should record the transaction as an asset acquisition in accordance with ASC 805-50 (using the cost accumulation model, rather than the fair value model that applies to business combinations).

The following steps were performed to determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Step 1. Combine the identifiable assets into a single identifiable asset: The Company has concluded that none of the assets qualify for combination into a single identifiable asset per ASC 805-10-55-5B.

Step 2. Combine the assets into similar assets: The Company has concluded that none of the assets qualify for combination as similar assets under ASC 805-10-55-5C.

Step 3. Measure the fair value of the gross assets acquired: The Company has concluded that the gross assets acquired include any consideration transferred in excess of the fair value of the net identifiable assets acquired (i.e., goodwill in a business combination), but it does not include goodwill that results from the effects of deferred tax liabilities, cash and cash equivalents, deferred taxes, or liabilities.

Step 4. Determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets: The Company compared the fair value of the single identifiable asset (or group of similar assets) to the fair value of the gross assets acquired.

Based on the above analysis, substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. As a result, the transaction does meet the screen as outlined in paragraphs 805-10-55-5A through 55-5C and treated as asset acquisition.

As discussed above in the screen test section of this overall analysis, the Panther Creek Acquisition by the Company does not meet the definition of a business combination.

The following represents the fair value of the identifiable assets and liabilities as of the acquisition date of November 2, 2021:

The purchase price allocation is as follows (in thousands):

Cash and cash equivalents	\$	491
Accounts receivable - trade		831
Prepays and other current assets		429
Materials and supplies		1,559
Land and Rights of Way		1,727
Property, plant and equipment		43,782
Accounts payable		(2,943)
Accrued expenses		(298)
Due to related parties		(73)
Total identifiable assets and liabilities		45,505
Total purchase consideration <sup>1</sup>	\$	45,505

<sup>1</sup> The \$45.5 million purchase price consideration consisted of \$38.316 million fair value of 1,152,000 Series A Redeemable Preferred Units (registered for public sale), \$2.192 million in cash (net of a purchase of plant site 50% share or \$808 thousand), \$501 thousand in asset retirement obligations, \$218 thousand in assumed notes payable, \$613 thousand in purchase related legal and professional fees, and \$3.665 million related to the settlement of various existing relationship payables (partially offset by receivables).

#### **NOTE 26 – VARIABLE PREPAID FORWARD SALES CONTRACT DERIVATIVE**

On December 15, 2021, the Company entered into a Forward Sale with NYDIG Trading providing for the sale of the Sold Bitcoin at a floor price of \$28,000 per Bitcoin. Pursuant to the Forward Sale, NYDIG Trading paid the Company the Initial Sale Price on December 16, 2021, times the 250 Bitcoin provided for sale.

On September 24, 2022, the Forward Sale will be settled and sold Bitcoin will be sold to NYDIG Trading at a price equal to the market price for Bitcoin on September 23, 2022, less the Initial Sale Price of \$7.0 million, subject to a capped final sale price of \$85,500 per Bitcoin.

On March 16, 2022, the Company executed additional option transactions. The net effect of those transactions was to adjust the capped final sale price to \$50,000 from \$85,500 per Bitcoin, resulting in approximately \$1.0 million of proceeds to the Company.

As a result of the embedded price floor and cap mechanisms, this transaction is considered as a compound derivative instrument which is required to be presented at fair value and is subject to remeasurement each reporting period. The Company has not formally designated this instrument as a hedge and such the change in fair value is recorded in earnings as "Changes in fair value of forward sale derivative".

To determine the fair value of the compound derivative instrument, the Company uses a Black-Scholes option pricing model to assess the combined net value of the embedded call feature and the embedded put feature. The Company will continue to update the fair value of the derivative instrument until the contract is settled.

As of June 30, 2022, the Company recognized a current liability of \$4.65 million, which includes the prepaid portion of \$7.97 million received at the transaction date; and \$3.32 million of changes in fair value of derivatives. On July 27, 2022 the Company exited the Variable Prepaid Forward Sales Contract Derivative with NYDIG Trading. As a result of the July transaction the Company delivered the restricted digital assets previously pledged as collateral to NYDIG Trading. In return, the Company received \$220,000 of cash and was relieved of its derivative liability.

#### **NOTE 27 – INITIAL PUBLIC OFFERING**

On October 19, 2021, by unanimous written consent, the Board and a newly formed Pricing Committee approved the issuance and sale by the Company of its Class A common stock, par value \$.0001 per share, in an initial public offering (the "IPO") to be underwritten by a group of underwriters to be named in the underwriting agreement dated October 19,

2021, by and among the Company and B. Riley Securities, Inc. and Cowen and Company, LLC, as representatives of the other underwriters named therein (the "Underwriting Agreement"). The Board unanimously approved the issuance and sale by the Company in the IPO of up to 7,690,400 shares of Class A common stock (which includes 6,687,305 firm shares and up to 1,003,095 shares of Class A common Stock that may be issued and sold to cover over allotments, if any) through the underwriters, for a price to the public per share of \$19.00, less underwriting discounts and commissions of \$1.33 per share, as more fully set forth in the Underwriting Agreement. Total net proceeds raised, after deducting underwriting discounts and commissions and estimated offering expenses, were \$131.5 million.

#### **NOTE 28 – HOSTING SERVICES AGREEMENT**

On August 17, 2021, Stronghold LLC entered into a Hosting Services Agreement with Northern Data PA, LLC ("Northern Data") whereby Northern Data will construct and operate a colocation data center facility located on the Scrubgrass Plant (as defined below) (the "Hosting Agreement"), the primary business purpose of which will be to provide hosting services and support cryptocurrency miners. In October 2021, the final deposit owed to Northern Data was paid, and Northern Data has started delivering the 9,900 miners committed in the Hardware and Purchase Agreement dated April 14, 2021. On March 28, 2022, we restructured the Hosting Agreement to obtain an additional 2,675 miners at cost of \$37.5 per terahash (to be paid five months after delivery) and temporarily reduced the profit share for Northern Data while incorporating performance thresholds until the data center build-out is complete. In addition, the Company has executed additional hardware agreements with Northern Data as described in Note 8 – Contingencies and Commitments - "Supplier Purchase Agreements".

On August 10, 2022, the Company and Northern Data terminated the provision of the restructured Hosting Agreement related to the additional 2,675 miners and the Company shall neither make payment for such additional miners nor obtain title to such additional miners.

We undertook an analysis of the accounting impacts under the FASB ASC 2016-02, Leases or ASC 842. We determined the arrangement with Northern Data meets the definition of a lease under ASC 842 and also determined the proper accounting for this lease. Based on our analysis and the quoted guidance, we will record lease expense related to the variable payments for Northern Data's profit share as Bitcoins are mined each period.

Once operational, after deducting an amount equal to \$0.027 per kilowatt-hour for the actual power used, 65% of all cryptocurrency revenue generated by the miners in Northern Data's pods shall be payable to the Company and 35% of all cryptocurrency revenue generated by the miners shall be payable to Northern Data or its designee and recorded as lease expense.

#### **NOTE 29 – PREMIUM FINANCING AGREEMENT**

Effective October 21, 2021, the Company entered into a director and officer insurance policy with annual premiums totaling \$6,900,000. The Company has executed a Commercial Premium Finance Agreement with AFCO Premium Credit LLC over a term of nine months, with an annual interest rate of 3.454%, that finances the payment of the total premiums owed. The agreement requires a \$1,400,000 down payment, with the remaining \$5,500,000 plus interest paid over nine months. Monthly payments of \$621,300 started November 21, 2021 and end July 21, 2022. As of June 30, 2022, the premiums were paid in full.

Effective April 29, 2022, the Company entered into a commercial property insurance policy with annual premiums totaling \$523,076. The Company has executed a Commercial Premium Finance Agreement with AFCO Premium Credit LLC, over a term of eleven months, with an annual interest rate of 5.99%, that finances the payment of the total premiums owed. The agreement requires a \$44,793 down payment, with the remaining \$478,283 plus interest paid over eleven months. Monthly payments of \$44,793 started May 29, 2022 and end March 29, 2023. As of June 30, 2022, the unpaid balance is \$393,260.

#### **NOTE 30 – COVENANTS**

On December 31, 2021, Equipment LLC and WhiteHawk entered into the WhiteHawk Amendment to extend the Final MinerVa Delivery Date (as defined therein) from December 31, 2021 to April 30, 2022. Pursuant to the WhiteHawk Amendment, Equipment LLC paid an amendment fee in the amount of \$250,000 to WhiteHawk. Pursuant to the

WhiteHawk Amendment's covenants, WhiteHawk can accelerate payment of the loan if the revised final MinerVa delivery date is not achieved.

On March 28, 2022, Equipment LLC and WhiteHawk entered into the Second WhiteHawk Amendment to remove all MinerVa miners from the collateral package in exchange for other miners and to increase the Total Advance by an additional \$25 million.

#### **NOTE 31 – NON-EMPLOYEE DIRECTORS COMPENSATION POLICY**

On October 19, 2021, non-employee members of the Board are eligible to receive cash and equity compensation as set forth in the Non-Employee Director Compensation Policy (the "Policy"). The cash and equity compensation described in the Policy shall be paid or be made, as applicable, to each member of the Board who is not an employee of the Company or any parent or subsidiary of the Company (each, a "Non-Employee Director") and who may be eligible to receive such cash or equity compensation, unless such Non-Employee Director declines the receipt of such cash or equity compensation by written notice to the Company. The Policy became effective as of the date set forth above (the "Effective Date") and shall remain in effect until it is revised or rescinded by further action of the Board.

The Company paid compensation to the non-employee directors totaling \$64,370 and \$275,843 during the three and six months ended June 30, 2022, respectively, but the latter amount was reduced to a net \$200,843 after reversing the December 31, 2021 accrual.

This plan requires payment of compensation in arrears, so the Company accrued \$75,000 in compensation costs as of December 31, 2021 for the periods after October 19, 2021 (the eligibility date of this plan) through December 31, 2021. In the quarter ended March 31, 2022, the Company paid the \$75,000 accrued as of December 31, 2021.

#### **NOTE 32 – CONVERTIBLE NOTE**

On May 15, 2022, we entered into a note and warrant purchase agreement (the "Purchase Agreement"), by and among the Company and the purchasers thereto (collectively, the "Purchasers"), whereby we agreed to issue and sell to Purchasers, and Purchasers agreed to purchase from the Company, (i) \$33,750,000 aggregate principal amount of 10.00% unsecured convertible promissory notes (the "May 2022 Notes") and (ii) warrants (the "May 2022 Warrants") representing the right to purchase up to 6,318,000 shares of Class A Common Stock, of the Company with an exercise price per share equal to \$2.50, on the terms and subject to the conditions set forth in the Purchase Agreement collectively, the "2022 Private Placement"). The Purchase Agreement contained representations and warranties by the Company and the Purchasers that are customary for transactions of this type. The May 2022 Notes and the May 2022 Warrants were offered and sold in reliance on the exemption afforded by Section 4(a)(2) of the Securities Act, and Rule 506(b) of Regulation D promulgated thereunder for aggregate consideration of \$27.0 million.

In connection with the 2022 Private Placement, the Company undertook to negotiate with the Purchasers, and to file a certificate of designation ("Series C Preferred Certificate of Designation") with the State of Delaware, following the closing of the 2022 Private Placement, the terms of a new series of preferred stock (the "Series C Preferred Stock").

In connection with the 2022 Private Placement, the May 2022 Warrants were issued pursuant to the Warrant Agreement (the "Warrant Agreement"). The May 2022 Warrants are subject to mandatory cashless exercise provisions and have certain anti-dilution provisions. The May 2022 Warrants will be exercisable for a five-year period from the closing.

The issuance of the Convertible Note is within the scope of ASC 480-10 and thus has been measured at fair value as described in ASC 480-10-30-7 and will be remeasured each reporting period as described in paragraph 480-10-25-8. Additionally, under the guidance provided by ASC 815-40-15-7 it has been determined that the warrants are indexed to the Company's stock. The warrants will initially be recorded at their fair value and recorded in equity.

## **NOTE 33 – SUBSEQUENT EVENTS**

Management has evaluated events and transactions subsequent to the balance sheet date through the date of this report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Except as disclosed in the following sections, management has not identified any items requiring recognition or disclosure.

### ***WhiteHawk Refinancing Agreement***

On August 16, 2022, we entered into a commitment letter (the “Commitment Letter”) with WhiteHawk to provide for committed financing to refinance the WhiteHawk Financing Agreement and provide up to \$20 million in additional commitments (such additional commitments, the “Delayed Draw Facility”) for an aggregate loan not to exceed \$60.0 million. Such loans under the Delayed Draw Facility will be available to be drawn for 180 days from the closing date of the WhiteHawk Refinancing Agreement (as defined below). The financing contemplated by the Commitment Letter (such financing, the “WhiteHawk Refinancing Agreement”) will be entered into by Stronghold LLC as Borrower (the “Borrower”) and secured by substantially all of the assets of the Company and its subsidiaries and will be guaranteed by the Company and each of its subsidiaries. The WhiteHawk Refinancing Agreement will require equal monthly amortization payments resulting in full amortization at maturity. The WhiteHawk Refinancing Agreement will have customary representations, warranties and covenants including restrictions on indebtedness, liens, restricted payments and dividends, investments, asset sales and similar covenants and will contain customary events of default. The WhiteHawk Refinancing Agreement will contain a covenant requiring the Borrower and its subsidiaries to maintain a minimum (x) of \$7.5 million of liquidity at all times, (y) a minimum liquidity of \$10 million of average daily liquidity for each calendar month (rising to \$20 million beginning July 1, 2023) and (z) a maximum total leverage ratio covenant of (i) 7.5:1.0 for the quarter ending December 31, 2022, (ii) 5.0:1.0 for the quarter ending March 31, 2023, (iii) 4.0:1.0 for the quarter ending June 30, 2023 and (iv) 4.0:1.0 for each quarter ending thereafter. The initial closing of the WhiteHawk Refinancing Agreement will be subject to customary closing conditions. In addition, the initial closing of the WhiteHawk Refinancing Agreement will subject to the full extinguishment and termination of all of the NYDIG Debt (as defined below) and other obligations of the Company and its affiliates under the NYDIG Agreements (as defined below), whether pursuant to the Asset Purchase Agreement (as defined below) or otherwise.

The borrowings under the WhiteHawk Refinancing Agreement will mature 36 months after the closing date of the WhiteHawk Refinancing Agreement and will bear interest at a rate of Secured Overnight Financing Rate plus 10%. The loans under the Delayed Draw Facility will be issued with 3% “original issue discount” on all drawn amounts, payable when such amounts are drawn, and undrawn commitments thereunder will incur a commitment fee, paid monthly, equal to 1% per annum. Amounts drawn on the WhiteHawk Refinancing Agreement will be subject to a prepayment premium such that the lenders thereunder achieve a 20% return on invested capital. In addition, Borrower has agreed to pay an alternate transaction fee to WhiteHawk in the event that (x) WhiteHawk Refinancing Agreement does not close on or before October 31, 2022, (y) the initial funding under the WhiteHawk Financing Agreement does not occur on or before October 31, 2022 or (z) Borrower or any of its affiliates utilize any debt or equity financing other than the WhiteHawk Refinancing Agreement to refinance the existing indebtedness owed to Whitehawk. We agreed to issue a stock purchase warrant to WhiteHawk in conjunction with the closing of the WhiteHawk Refinancing Agreement, which provides for the purchase of an additional 2,000,000 shares of Class A common stock at \$0.01 per share.

### ***NYDIG Asset Purchase Agreement***

On August 16, 2022, the Company, Stronghold LLC, SDM and Stronghold Digital Mining BT, LLC, a Delaware limited liability company (“Digital Mining BT, and together with SDM, the “APA Sellers” and, together with the Company and Stronghold LLC, the “APA Seller Parties”), entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with NYDIG, formerly known as Arctos Credit, LLC, and The Provident Bank, a Massachusetts savings bank (“BankProv” and together with NYDIG, “Purchasers” and each, a “Purchaser”).

Pursuant to the Arctos/NYDIG Financing Agreement and the Second NYDIG Financing Agreement (collectively, the “NYDIG Agreements”), certain miners are pledged as collateral under such agreements (and together with certain related agreements to purchase miners, the “APA Collateral”). Under the Asset Purchase Agreement, the APA Seller Parties have agreed to sell, and the Purchasers (or their respective designee) have agreed to purchase, the APA Collateral in a private disposition in exchange for the forgiveness, reduction and release of all principal, interest, and fees owing under each of the NYDIG Agreements (collectively, the “NYDIG Debt”). The Sellers have agreed to clean, service, package, ship and deliver the APA Collateral, and to bear the costs associated with such activities. Following (i) delivery of the APA

Collateral pursuant to the Purchasers or their designees to a master bill of sale and (ii) a subsequent inspection period of up to 14 days (which may be extended up to seven additional days), upon acceptance of the APA Collateral, the related portion of the NYDIG Debt will be assigned to the Sellers and cancelled pursuant to the terms of the Asset Purchase Agreement (each, a "Settlement"). A Settlement is subject to certain conditions, including the delivery of certain milestone schedules to a master bill of sale and the completion of an inspection of the APA Collateral by the Purchasers, and, in the event of certain failures to satisfy the inspection conditions, the obligation of the Company to replace such APA Collateral with comparable assets, provided that such obligation only applies once the aggregate value of such APA Collateral exceeds \$426,183.02 (with \$173,650.68, with respect to BankProv, and \$252,532.33, with respect to NYDIG).

Prior to the date on which (i) APA Seller Parties first breaches a material obligation under the Asset Purchase Agreement, (ii) to the date on which the Asset Purchase Agreement is terminated or if a Seller elects not to sell any or all of its APA Collateral, or (iii) an insolvency or liquidation proceeding is commenced by or against the APA Sellers (the "Non-Interference Period"), the Purchasers have agreed not to foreclose on any of the APA Collateral under such NYDIG Agreements. The APA Seller Parties also granted certain indemnification rights to the Purchasers. The Asset Purchase Agreement also provides for certain termination rights.

Pursuant to the Asset Purchase Agreement, the Seller Parties have granted a release from certain claims arising out of or in connection with the Asset Purchase Agreement and the transactions contemplated thereunder. Further, except for the payment of accrued but unpaid interest through the date of signing of the Asset Purchase Agreement, prior to the earlier of (i) the termination of the Asset Purchase Agreement, (ii) the end of the Non-Interference Period, or (iii) a Seller electing not to sell any of its APA Collateral required to be sold at a settlement, the Sellers will not be required to make payments pursuant to the NYDIG Agreements (although interest shall accrue but not be due and payable) and each Purchaser, in its capacity as the respective lender under the NYDIG Agreements, will not exercise any remedies available as a lender or declare any event of default as a result of the Sellers taking any actions required or directly contemplated by the Asset Purchase Agreement.

As a result of this transaction, the Company expects to incur a loss of approximately \$21 million in the third quarter of 2022.

#### ***Private Placement Amendment***

On August 16, 2022, the Company entered into an amendment to the note and warrant purchase agreement (the "Purchase Agreement"), by and among the Company and the purchasers thereto (collectively, the "Purchasers"), whereby the Company agreed to amend the Purchase Agreement such that \$11.25 million of the outstanding principal has been exchanged for the Purchaser's execution of an amended and restated warrant agreement pursuant to which the strike price of the 6,318,000 May 2022 Warrants was reduced from \$2.50 to \$0.01. After giving effect to the principal reduction and amended and restated warrants, the Company will continue to make subsequent monthly, payments to the Purchasers on the fifteenth (15th) day of each of November 2022, December 2022, January 2023 and February 2023. The Company may elect to pay each such payment (A) in cash or (B) in shares of Common Stock, in each case, at a twenty percent (20%) discount to the average of the daily VWAPs for each of the twenty (20) consecutive trading days preceding the payment date.



## Cautionary Statement Regarding Forward-Looking Statements

*This Quarterly Report on Form 10-Q (this "Form 10-Q") contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the "Securities Act")), and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, statements pertaining to our trends, liquidity, capital resources, and future performance, among others, contain forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology including, but not limited to, "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates" or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.*

*Forward-looking statements involve numerous risks and uncertainties, and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all).*

*Forward-looking statements may include statements about:*

- the hybrid nature of our business model, which is highly dependent on the price of Bitcoin;*
- our dependence on the level of demand and financial performance of the crypto asset industry;*
- our ability to manage our growth, business, financial results and results of operations;*
- uncertainty regarding our evolving business model;*
- our ability to raise capital to fund our business growth;*
- our ability to maintain sufficient liquidity to fund operations, growth and acquisitions;*
- our substantial indebtedness and its effect on our results of operations and our financial condition;*
- uncertainty regarding the outcomes of any investigations or proceedings;*
- our ability to retain management and key personnel and the integration of new management;*
- our ability to enter into purchase agreements, acquisitions and financing transactions;*
- our ability to maintain our relationships with our third-party brokers and our dependence on their performance;*
- public health crises, epidemics, and pandemics such as the coronavirus ("COVID-19") pandemic;*
- our ability to procure crypto asset mining equipment from foreign-based suppliers;*
- developments and changes in laws and regulations, including increased regulation of the crypto asset industry through legislative action and revised rules and standards applied by The Financial Crimes Enforcement Network under the authority of the U.S. Bank Secrecy Act and the Investment Company Act;*
- the future acceptance and/or widespread use of, and demand for, Bitcoin and other crypto assets;*
- our ability to respond to price fluctuations and rapidly changing technology;*
- our ability to operate our coal refuse power generation facilities as planned;*
- our ability to avail ourselves of tax credits for the clean-up of coal refuse piles; and*
- legislative or regulatory changes, and liability under, or any future inability to comply with, existing or future energy regulations or requirements.*

*We caution you that the forward-looking statements contained in this Form 10-Q are subject to a variety of risks and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks include, but are not limited to, decline in demand for our products and services, the seasonality and volatility of the crypto asset industry, our acquisition strategies, the inability to comply with developments and changes in regulation, cash flow and access to capital, maintenance of third party relationships, the COVID-19 pandemic and the other risks described under the heading "Item 1A.Risk Factors" as filed in our Annual Report on Form 10-K for the year ended December 31, 2021 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, each as filed with the U.S. Securities and Exchange Commission (the "SEC"), and in this Form 10-Q. Should one or more of the risks or uncertainties described in the Annual Report on Form 10-K or in this Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.*

*All forward-looking statements, expressed or implied, included in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.*

*Any forward-looking statement that we make in this Form 10-Q speaks only as of the date of such statement. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Form 10-Q.*

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except as otherwise indicated or required by the context, all references in this prospectus to the "Company," "we," "us" or "our" relate to Stronghold Digital Mining, Inc. ("Stronghold Inc.") and its consolidated subsidiaries following the Reorganization.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing in this Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans, expectations and strategy for our business, and operations, includes forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see section above entitled "Cautionary Statement Regarding Forward-Looking Statements." Certain risks may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion and analysis. Factors that may cause actual results to differ materially from current expectations include, among other things, those described under the heading "Item 1A. Risk Factors" as filed in our Annual Report on Form 10-K for the year ended December 31, 2021, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, each as filed with the U.S. Securities and Exchange Commission (the "SEC"), and this Form 10-Q. Except as set forth in Item 1A. "Risk Factors" below, there have been no material changes to the risk factors previously disclosed in the 2021 Form 10-K, or first quarter 2022 Form 10-Q.

### Overview

We are a vertically integrated crypto asset mining company currently focused on mining Bitcoin. We wholly own and operate two low-cost, environmentally-beneficial coal refuse power generation facilities that we have upgraded: (i) our first reclamation facility located on a 650-acre site in Scrubgrass Township, Venango County, Pennsylvania, which we acquired the remaining interest of in April 2021 and currently has the capacity to generate approximately 83.5 megawatts ("MW") of electricity (the "Scrubgrass Plant") and (ii) a facility located near Nesquehoning, Pennsylvania, which we acquired in November of 2021 and which has the capacity to generate approximately 80 megawatts ("MW") of electricity (the "Panther Creek Plant"), each of which is as an Alternative Energy System because coal refuse is classified under Pennsylvania law as a Tier II Alternative Energy Source (large-scale hydropower is also classified in this tier). We are committed to generating our energy and managing our assets sustainably, and we believe that we are one of the first vertically integrated crypto asset mining companies with a focus on environmentally beneficial operations. Owning our own source of power helps us to produce Bitcoin at one of the lowest prices among our publicly traded peers. We also believe that owning our own power source makes us a more attractive partner to crypto asset mining equipment purveyors. We intend to leverage these competitive advantages to continue to grow our business through the opportunistic acquisition of additional power generating assets and miners.

### Bitcoin Mining Growth

During 2018 and 2019, we began providing Bitcoin mining services to third parties and also began operating our own Bitcoin mining equipment to generate Bitcoin, which we then exchange for U.S. Dollars. We have been expanding our mining operations since such date. As of June 30, 2022, we operated approximately 32 thousand cryptocurrency mining computers (known as "miners") with hash rate capacity of approximately 3.0 EH/s. As of June 30, 2022, we had entered into definitive agreements with multiple suppliers to deliver approximately 10 thousand additional miners with capacity of approximately 1.0 EH/s through the end of 2022. We intend to house our miners at the Scrubgrass Plant and the Panther Creek Plant data centers. On August 16, 2022, the Company agreed to sell approximately 26 thousand NYDIG-secured Bitcoin miners to NYDIG, fewer than 19 thousand of which were installed as of August 16, 2022, [to NYDIG in exchange for the NYDIG Debt \(as defined below\)](#). Refer to Note 33 – Subsequent Events.

### Acquisitions

On March 3, 2021, Stronghold Digital Mining LLC ("SDM") entered into a non-binding letter of intent (the "Olympus LOI") with Olympus Power, LLC (together with its affiliates, "Olympus") for the purchase of (i) the ownership interest in Scrubgrass Reclamation Company, L.P. (f/k/a Scrubgrass Generating Company, L.P.) ("Scrubgrass LP") held by Aspen Scrubgrass Participant, LLC (the "Aspen Interest"), (ii) the Panther Creek Plant, and (iii) a third coal refuse power generation facility (the "Third Plant").

On July 9, 2021, Stronghold Digital Mining Holdings LLC ("Stronghold LLC") entered into a purchase agreement for the Panther Creek Plant (the "Panther Creek Acquisition"), as contemplated by the Olympus LOI, from Olympus. The Panther Creek Acquisition includes all of the assets of Panther Creek Power Operating LLC, comprised primarily of the

Panther Creek Plant. The Panther Creek Plant is a coal refuse reclamation facility with 80 MW of net electricity generation capacity located near Nesquehoning, Pennsylvania. We completed the Panther Creek Acquisition on November 2, 2021. The consideration for the Panther Creek Plant was approximately \$2.2 million (\$3 million less \$800 thousand in shared land closing costs) in cash and 1,152,000 Class A common units of Stronghold LLC ("Stronghold LLC Units"), together with a corresponding number of shares of Class V common stock. Effective November 2, 2021, we closed on this acquisition.

We continue to evaluate the acquisition of the Third Plant as contemplated by the Olympus LOI, although we do not consider this acquisition to be probable at this time. The acquisition of the Third Plant is subject to further due diligence and the negotiation of a definitive agreement, and there is no assurance that the acquisition will be completed.

### ***Initial Public Offering***

We completed the issuance and sale of our Class A common stock, par value \$.0001 per share, in an initial public offering (the "IPO") on October 22, 2021, and our Class A common stock is listed on Nasdaq under the symbol "SDIG."

### ***Stock Split***

We effected 2.88-for-1 stock split on October 22, 2021, pursuant to which each share of common stock held of record by the holder thereof was reclassified into approximately 2.88 shares of common stock. No fractional shares were issued. Pursuant to the Second Amended and Restated Limited Liability Company Agreement of Stronghold LLC, as amended from time to time, each "Stronghold LLC Unit" was also split on a corresponding 2.88-for-1 basis, such that there are an equivalent number of Stronghold LLC Units outstanding as the aggregate number of shares of Class V common stock and Class A common stock outstanding following the stock split. We refer to this collectively as the "Stock Split."

### ***Bitmain***

On October 28, 2021, we entered into an agreement with Bitmain Technologies Limited ("Bitmain") to purchase 12,000 miners, which will be delivered in six equal batches on a monthly basis beginning in April 2022 (the "First Bitmain Purchase Agreement"). Per the First Bitmain Purchase Agreement, on October 29, 2021, we made an initial payment of \$23,300,000 to Bitmain for the miners. On November 18, 2021, we made an additional payment of \$4,550,000. Subsequent payments will be made in the future in connection with additional deliveries of miners under the First Bitmain Purchase Agreement.

On November 16, 2021, we entered into a second agreement with Bitmain to purchase 1,800 miners, which will be delivered in six equal batches on a monthly basis beginning in July 2022 (the "Second Bitmain Purchase Agreement"). Per the Second Bitmain Purchase Agreement, on November 18, 2021, we made an initial payment of \$6,835,000 to Bitmain for the miners. Subsequent payments will be made in the future in connection with additional deliveries of miners under the Second Bitmain Purchase Agreement.

The miners purchased pursuant to the two agreements with Bitmain will have an aggregate hash rate capacity of approximately 1,450 PH/s.

On May 13, 2022, we entered into a purchase order to transfer the Second Bitmain Purchase Agreement for 1,800 Bitmain Antminer S19 XP miners (the "Bitmain Sale") to Cryptech Solutions, Inc. ("Cryptech") for a total value of \$12,600,000, including a \$5,638,500 payment to the Company.

### ***Nowlit Solutions Corp.***

We paid for two separate purchases of miners from Nowlit Solutions Corp. The first purchase payment was made on November 23, 2021, in the amount of \$1,605,360 for 190 miners. The second purchase payment was made on November 26, 2021, in the amount of \$2,486,730 for an additional 295 miners.

### ***Luxor Technology Corporation***

We paid for three separate purchases of miners from Luxor Technology Corporation ("Luxor"). The first purchase payment was made on November 26, 2021, in the amount of \$4,312,650 for 770 miners. The second and third purchase payments were made on November 29, 2021, in the amount of \$5,357,300 and \$3,633,500 respectively; for an additional 750 and 500 miners.

On November 30, 2021, we entered into a fourth purchase agreement with Luxor to acquire 400 Antminer T19 miners with a hash rate of 84 TH/s and 400 Antminer T19 miners with a hash rate of 88 TH/s for a total purchase price of \$6,260,800.

#### ***Cryptech Purchase Agreement***

On December 7, 2021, we entered into a Hardware Purchase and Sales Agreement (the “Cryptech Purchase Agreement”) with Cryptech to acquire 1,000 Bitmain S19a miners with a hash rate of 96 TH/s for a total purchase price of \$8,592,000. Pursuant to the Cryptech Purchase Agreement, all hardware will be paid for in advance of being shipped to the Company.

#### ***Supplier Purchase Agreements***

On December 10, 2021, we entered into a Hardware Purchase and Sale Agreement (the “First Supplier Purchase Agreement”) to acquire 3,000 MicroBT WhatsMiner M30S miners (the “M30S Miners”) with a hash rate per unit of 87 TH/s. Pursuant to the First Supplier Purchase Agreement, the unit price per M30S Miner is \$6,960 for a cumulative purchase price of \$20,880,000 that was paid in full within five business days of the execution of the First Supplier Purchase Agreement.

On December 16, 2021, we entered into a Second Hardware Purchase and Sale Agreement (the “Second Supplier Purchase Agreement”) to acquire a cumulative amount of approximately 4,280 M30S Miners and MicroBT WhatsMiner M30S+ miners with a hash rate per unit of 100 TH/s (the “M30S+ Miners”). Pursuant to the Second Supplier Purchase Agreement, the unit price per M30S Miner is \$2,714 and the unit price per M30S+ Miner is \$3,520 for a cumulative purchase price of \$11,340,373.

#### ***NYDIG ABL LLC***

On December 15, 2021, we entered into a Master Equipment Finance Agreement (the “Second NYDIG Financing Agreement”) with NYDIG ABL LLC (“NYDIG”) whereby NYDIG agreed to lend Stronghold Digital Mining BT, LLC (“Digital Mining BT”) up to \$53,952,000 to finance the purchase of certain Bitcoin miners and related equipment (the “Second NYDIG-Financed Equipment”). Outstanding borrowings under the Second NYDIG Financing Agreement are secured by the Second NYDIG-Financed Equipment, contracts to acquire Second NYDIG-Financed Equipment, and the Bitcoin mined by the Second NYDIG-Financed Equipment. The Second NYDIG Financing Agreement includes customary restrictions on additional liens on the Second NYDIG-Financed Equipment. The NYDIG Second Financing Agreement may not be terminated by Digital Mining BT or prepaid in whole or in part.

#### ***O&M Agreement***

On November 2, 2021, we entered into the Operations, Maintenance and Ancillary Services Agreement (the “Omnibus Services Agreement”) with Olympus Stronghold Services, LLC (“Olympus Stronghold Services”), whereby Olympus Stronghold Services will provide certain operations and maintenance services to Stronghold LLC, as well as employ certain personnel to operate the Panther Creek Plant and the Scrubgrass Plant. Stronghold LLC will reimburse Olympus Stronghold Services for those costs incurred by Olympus Stronghold Services and approved by Stronghold LLC in the course of providing services under the Omnibus Services Agreement, including payroll and benefits costs and insurance costs. The material costs incurred by Olympus Stronghold Services shall be approved by Stronghold LLC. Stronghold LLC will also pay Olympus Stronghold Services a management fee at the rate of \$1,000,000 per year, payable monthly, and an additional one-time mobilization fee of \$150,000 upon the effective date of the Omnibus Services Agreement.

#### ***Miner Sales Agreement***

During the second quarter of 2022, the Company entered into multiple miner sales agreements with multiple buyers. The Company previously disclosed its effort to optimize its Bitcoin miner fleet through its sale of 3,425 miners (approximately 411 PH/s) with a historical carrying value of \$21.9 million, or \$50.70 per TH/s. The Company recognized a loss of approximately \$8.0 million on these miners during the second quarter of 2022. The Company undertook these sales due to its priorities of improving its liquidity position and improved returns over growth. The loss was recorded in Realized gain (loss) on sale of miner assets on the consolidated statements of operations. The various buyers paid the Company an aggregate of \$13.8 million up front and took over the remaining installment payment obligations upon transfer of the contract, relieving the Company of the outstanding purchase obligation.

## **Reorganization**

On April 1, 2021, we effected the corporate reorganization described in Note 1 – Business Combinations in the notes to our financial statements.

## **Trends and Other Factors Impacting Our Performance**

### ***COVID-19 and Supply Chain Constraints***

The coronavirus ("COVID-19") global pandemic has resulted and is likely to continue to result in significant national and global economic disruption, which may adversely affect our business. Among other things, the COVID-19 pandemic has caused supply chain disruptions that may have lasting impacts. Additionally, the global supply chain for Bitcoin miners is presently further constrained due to unprecedented demand coupled with a global shortage of mining equipment and mining equipment parts. Based on our current assessments, however, we do not expect any material impact on long-term development, operations, or liquidity due to the spread of COVID-19. However, we are actively monitoring this situation and the possible effects on its financial condition, liquidity, operations, suppliers, and industry.

### ***China's Crackdown on Bitcoin Mining***

In May 2021, the Chinese government called for a crackdown on Bitcoin mining and trading. Following this, the majority of Bitcoin miners in China were taken offline. This resulted in (i) a significant reduction in the Bitcoin global network hash rate, (ii) an increase in the availability of Bitcoin miners for purchase and (iii) an increase in the demand for power outside of China. Further, in September 2021, Chinese regulators instituted a blanket ban on all crypto mining and transactions, including overseas crypto exchange services taking place in China, effectively making all crypto-related activities illegal in China. The reduction in network hash rate has improved Bitcoin mining profitability (not factoring in underlying Bitcoin prices), with plugged-in Bitcoin miners representing a larger percentage of the global hash rate. We do not believe that higher demand for power will have a negative impact on our business because we own and operate our power sources.

### ***Scrubgrass Plant***

During the fourth quarter of 2021 and continuing into the second quarter of 2022, the Scrubgrass Plant had downtime that was greater than anticipated, driven largely by mechanical failures. The upgrades and maintenance that are necessary have taken longer and are more extensive than originally anticipated. We expect these investments to be completed in the second half of 2022. Once finished, the Scrubgrass Plant is expected to be operational at nameplate capacity with high uptime and low operating costs.

During the first half of 2022, higher than anticipated requirements from PJM Interconnection LLC ("PJM") resulted in unplanned and extended outages of our mining operations at the Scrubgrass Plant, diverting capacity away from our mining operations at a time that was not economical for our business strategy. These diversions of power away from our mining operations during the first and second quarters had a material adverse effect on our business, financial condition and results of operations. The Scrubgrass Plant also experienced higher than expected cost capping, as the result of its role as a capacity resource, from PJM which obligated the Scrubgrass Plant to supply power to the PJM grid at pre-set prices in an effort to stabilize PJM grid pricing. Starting in June, Scrubgrass Plant was no longer classified as a capacity resource, and is now an energy resource, which will allow the plant to sell power to the grid at market prices.

[In the third quarter of 2022, the Scrubgrass Plant will undergo planned maintenance for approximately seven to ten days, during which time it will not be generating power.](#)

### ***Panther Creek Plant and Data Center***

During the second quarter of 2022, the Panther Creek Plant's mining operations were offline for ten days due to the failure of a switchgear and the need to source, deliver and install a new piece of equipment, causing ten days of no mining revenue generation at the facility and resulting in an estimated loss of approximately \$1.4 million. The operation of our power generation facilities, information technology systems and other assets and conduct of other activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply, failure to receive spare parts in a timely manner, and performance below expected levels.

As previously disclosed on the Company's Form 8-K dated July 25, 2022, the Panther Creek Plant experienced approximately 8.5 days of unplanned downtime in the month of June from damaged transmission lines caused by a storm, and other plant maintenance issues. The Company estimates the financial impact of the June outages to be lost revenue of \$1.8 million and a net income impact of \$1.4 million.

In the third quarter of 2022, the Panther Creek Plant will undergo planned maintenance for approximately one week, during which time it will not be generating power.

### ***Bitcoin Price Volatility***

The market price of Bitcoin has historically and recently been volatile. For example, the price of Bitcoin ranged from a low of approximately \$29,000 to a high of approximately \$69,000 during 2021 and has ranged from approximately \$18,000 to approximately \$48,000 year-to-date as of August 12, 2022. Since the IPO, the price of Bitcoin has dropped over 70%, resulting in an adverse effect on our results of operations, liquidity and strategy, and resulting in increased credit pressures on the cryptocurrency industry. Our operating results depend on the value of Bitcoin because it is the only crypto asset we currently mine.

We cannot accurately predict the future market price of Bitcoin and, as such, we cannot accurately predict potential adverse effects, including whether we will record impairment of the value of our Bitcoin assets. The future value of Bitcoin will affect the revenue from our operations, and any future impairment of the value of the Bitcoin we mine and hold for our account would be reported in our financial statements and results of operations as charges against net income, which could have a material adverse effect on the market price for our securities.

### **Recent Developments**

#### ***Northern Data***

On August 17, 2021, Stronghold LLC entered into an agreement with Northern Data PA, LLC ("Northern Data") whereby Northern Data will construct and operate a colocation data center facility located on the Scrubgrass Plant (the "Hosting Agreement"), the primary business purpose of which will be to provide hosting services and support the cryptocurrency miners that we have purchased but not yet received entirely from Northern Data. On March 28, 2022, we restructured the Hosting Agreement to obtain an additional 2,675 miners at cost of \$37.5 per terahash (to be paid five months after delivery) and temporarily reduced the profit share for Northern Data while incorporating performance thresholds until the data center build-out is complete. On August 10, 2022 the Company and Northern Data terminated the provision of the restructured Hosting Agreement related to the additional 2,675 miners and the Company shall neither make payment for such additional miners nor obtain title to such additional miners.

#### ***MinerVa***

On April 2, 2021, we entered into a purchase agreement with MinerVa (the "MinerVa Purchase Agreement") for the acquisition of 15,000 of their MV7 ASIC SHA256 model cryptocurrency miner equipment (miners) with a total terahash to be delivered equal to 1.5 million terahash. In December 2021, we extended the deadline for delivery of the MinerVa miners to April 2022. As of June 30, 2022, MinerVa has delivered, refunded cash, or swapped into deliveries of industry leading miners of equivalent value to approximately 7,200 of the 15,000 miners. As of August 12, 2022, the Company has received approximately 8,500 of the miners or equivalent value from MinerVa. We do not know when the remaining MinerVa miners will be received, if at all. As a result, an impairment totaling \$12,228,742 was recognized on March 31, 2022. On July 18, 2022, the Company provided written notice of dispute to MinerVa pursuant to the MinerVa Purchase Agreement obligating the Company and MinerVa to work together in good faith towards a resolution for a period of sixty (60) days. In accordance with the MinerVa Purchase Agreement, if no settlement has been reached after sixty (60) days, Stronghold may end discussions and declare an impasse and adhere to the dispute resolution provisions of the MinerVa Purchase Agreement.

#### ***Second WhiteHawk Amendment***

On March 28, 2022, Equipment LLC and WhiteHawk Finance LLC ("WhiteHawk") amended the WhiteHawk Financing Agreement (as defined below) for a second time (the "Second WhiteHawk Amendment") to exchange the collateral under the WhiteHawk Financing Agreement. Pursuant to the Second WhiteHawk Amendment, (i) the approximately 11,700 remaining miners under the MinerVa Purchase Agreement were exchanged as collateral for additional miners received by us from other suppliers and (ii) WhiteHawk agreed to lend to us an additional amount not to exceed \$25.0 million to finance certain previously purchased Bitcoin miners and related equipment (the "Second Total

Advance"). Pursuant to the Second WhiteHawk Amendment, Equipment, LLC paid an amendment fee in the amount of \$275,414.40 and a closing fee with respect to the Second Total Advance of \$500,000. In addition to the purchased Bitcoin miners and related equipment, Panther Creek and Scrubgrass each agreed to a negative pledge of the Panther Creek Plant and Scrubgrass Plant, respectively, and guaranteed the WhiteHawk Financing Agreement. Each of the negative pledge and the guaranty by Panther Creek and Scrubgrass will be released upon payment in full of the Second Total Advance, regardless of whether the Total Advance remains outstanding. In conjunction with the Second WhiteHawk Amendment, we issued a warrant to WhiteHawk to purchase 125,000 shares of Class A common stock, subject to certain antidilution and other adjustment provisions as described in the warrant agreement, at an exercise price of \$0.01 per share (the "Second WhiteHawk Warrant"). The Second WhiteHawk Warrant expires on March 28, 2032.

### **2022 Private Placement**

On May 15, 2022, we entered into a note and warrant purchase agreement (the "Purchase Agreement"), by and among the Company and the purchasers thereto (collectively, the "Purchasers"), whereby we agreed to issue and sell to Purchasers, and Purchasers agreed to purchase from the Company, (i) \$33,750,000 aggregate principal amount of 10.00% unsecured convertible promissory notes (the "May 2022 Notes") and (ii) warrants (the "May 2022 Warrants") representing the right to purchase up to 6,318,000 shares of Class A Common Stock, of the Company with an exercise price per share equal to \$2.50, on the terms and subject to the conditions set forth in the Purchase Agreement (collectively, the "2022 Private Placement"). The Purchase Agreement contained representations and warranties by the Company and the Purchasers that are customary for transactions of this type. The May 2022 Notes and the May 2022 Warrants were offered and sold in reliance on the exemption afforded by Section 4(a)(2) of the Securities Act, and Rule 506(b) of Regulation D promulgated thereunder for aggregate consideration of \$27.0 million.

In connection with the 2022 Private Placement, the Company undertook to negotiate with the Purchasers, and to file a certificate of designation ("Series C Preferred Certificate of Designation") with the State of Delaware, following the closing of the 2022 Private Placement, the terms of a new series of preferred stock (the "Series C Preferred Stock").

In connection with the 2022 Private Placement, the May 2022 Warrants were issued pursuant to a Warrant Agreement, dated as of May 15, 2022 (the "Warrant Agreement"). The May 2022 Warrants are subject to mandatory cashless exercise provisions and have certain anti-dilution provisions. The May 2022 Warrants will be exercisable for a five-year period from the closing.

### **McClymonds Supply & Transit Company, Inc. and DTA, L.P. vs Scrubgrass Generating Company, L.P.**

On May 9, 2022, an award in the amount of \$5.0 million plus interest computed as of May 15, 2022 in the amount of \$0.8 million was issued in favor of the McClymonds Supply & Transit Company, Inc. in the previously disclosed dispute over a trucking contract between the claimant and our subsidiary. The two managing members of Q Power, LLC, our primary Class V shareholder, have agreed to and begun to pay the full amount of the award such that there will be no effect on the financial condition of the Company.

### **WhiteHawk Refinancing Agreement**

On August 16, 2022, we entered into a commitment letter (the "Commitment Letter") with WhiteHawk to provide for committed financing to refinance the WhiteHawk Financing Agreement and provide up to \$20 million in additional commitments (such additional commitments, the "Delayed Draw Facility") for an aggregate loan not to exceed \$60.0 million. Such loans under the Delayed Draw Facility will be available to be drawn for 180 days from the closing date of the WhiteHawk Refinancing Agreement (as defined below). The financing contemplated by the Commitment Letter (such financing, the "WhiteHawk Refinancing Agreement") will be entered into by Stronghold LLC as Borrower (the "Borrower") and secured by substantially all of the assets of the Company and its subsidiaries and will be guaranteed by the Company and each of its subsidiaries. The WhiteHawk Refinancing Agreement will require equal monthly amortization payments resulting in full amortization at maturity. The WhiteHawk Refinancing Agreement will have customary representations, warranties and covenants including restrictions on indebtedness, liens, restricted payments and dividends, investments, asset sales and similar covenants and will contain customary events of default. The WhiteHawk Refinancing Agreement will contain a covenant requiring the Borrower and its subsidiaries to maintain a minimum of (x) \$7.5 million of liquidity at all times (y) a minimum liquidity of \$10 million of average daily liquidity for each calendar month (rising to \$20 million beginning July 1, 2023) and (z) a maximum total leverage ratio covenant of (i) 7.5:1.0 for the quarter ending December 31, 2022, (ii) 5.0:1.0 for the quarter ending March 31, 2023, (iii) 4.0:1.0 for the quarter ending June 30, 2023 and (iv) 4.0:1.0 for each quarter ending thereafter. [The initial closing of the WhiteHawk Refinancing Agreement will be subject to customary closing conditions. In addition, the initial closing of the WhiteHawk Refinancing Agreement will](#)



subject to the full extinguishment and termination of all of the NYDIG Debt (as defined below) and other obligations of the Company and its affiliates under the NYDIG Agreements (as defined below), whether pursuant to the Asset Purchase Agreement (as defined below) or otherwise.

The borrowings under the WhiteHawk Refinancing Agreement will mature 36 months after the closing date of the WhiteHawk Refinancing Agreement and will bear interest at a rate of Secured Overnight Financing Rate plus 10%. The loans under the Delayed Draw Facility will be issued with 3% “original issue discount” on all drawn amounts, payable when such amounts are drawn, and undrawn commitments thereunder will incur a commitment fee, paid monthly, equal to 1% per annum. Amounts drawn on the WhiteHawk Refinancing Agreement will be subject to a prepayment premium such that the lenders thereunder achieve a 20% return on invested capital. We agreed to issue a stock purchase warrant to WhiteHawk in conjunction with the closing of the WhiteHawk Refinancing Agreement, which provides for the purchase of an additional 2,000,000 shares of Class A common stock at \$0.01 per share.

#### ***NYDIG Asset Purchase Agreement***

On August 16, 2022, the Company, Stronghold LLC, Stronghold Digital Mining LLC, a Delaware limited liability company (“SD Mining”) and Stronghold Digital Mining BT, LLC, a Delaware limited liability company (“SD Mining BT”, and together with SD Mining, the “APA Sellers” and, together with the Company and Stronghold LLC, the “APA Seller Parties”), entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with NYDIG ABL LLC, a Delaware limited liability company formerly known as Arctos Credit, LLC (“NYDIG”), and The Provident Bank, a Massachusetts savings bank (“BankProv” and together with NYDIG, “Purchasers” and each, a “Purchaser”).

Pursuant to the Arctos/NYDIG Financing Agreement and the Second NYDIG Financing Agreement (collectively, the “NYDIG Agreements”), certain miners are pledged as collateral under such agreements (and together with certain related agreements to purchase miners, the “APA Collateral”). Under the Asset Purchase Agreement, the APA Seller Parties have agreed to sell, and the Purchasers (or their respective designee) have agreed to purchase, the APA Collateral in a private disposition in exchange for the forgiveness, reduction and release of all principal, interest, and fees owing under each of the NYDIG Agreements (collectively, the “NYDIG Debt”). The Sellers have agreed to clean, service, package, ship and deliver the APA Collateral and to bear the costs associated with such activities. Following (i) delivery of the APA Collateral pursuant to the Purchasers or their designees to a master bill of sale and (ii) a subsequent inspection period of up to 14 days (which may be extended up to seven additional days), upon acceptance of the APA Collateral, the related portion of the NYDIG Debt will be [assigned to the Sellers and cancelled](#) pursuant to the terms of the Asset Purchase Agreement (each, a “Settlement”). A Settlement is subject to certain conditions, including the delivery of certain milestone schedules to a master bill of sale and the completion of an inspection of the APA Collateral by the Purchasers, and, in the event of certain failures to satisfy the inspection conditions, the obligation of the Company to replace such APA Collateral with comparable assets, provided that such obligation only applies once the aggregate value of such APA Collateral exceeds \$173,650.68, with respect to BankProv, and \$252,532.33, with respect to NYDIG.

Prior to the date on which (i) APA Seller Parties first breaches a material obligation under the Asset Purchase Agreement, (ii) the date on which the Asset Purchase Agreement is terminated or if a Seller elects not to sell any or all of its APA Collateral, or (iii) an insolvency or liquidation proceeding is commenced by or against the APA Sellers (the “Non-Interference Period”), the Purchasers have agreed not to foreclose on any of the APA Collateral under such NYDIG Agreements. The APA Seller Parties also granted certain indemnification rights to the Purchasers. The Asset Purchase Agreement also provides for certain termination rights.

Pursuant to the Asset Purchase Agreement, the Seller Parties have granted a release from certain claims arising out of or in connection with the Asset Purchase Agreement and the transactions contemplated thereunder. Further, except for the payment of accrued but unpaid interest through the date of signing of the Asset Purchase Agreement, prior to the earlier of (i) the termination of the Asset Purchase Agreement, (ii) the end of the Non-Interference Period, or (iii) a Seller electing not to sell any of its APA Collateral required to be sold at a settlement, the Sellers will not be required to make payments pursuant to the NYDIG Agreements (although interest shall accrue but not be due and payable) and each Purchaser, in its capacity as the respective lender under the NYDIG Agreements, will not exercise any remedies available as a lender or declare any event of default as a result of the Sellers taking any actions required or directly contemplated by the Asset Purchase Agreement.

#### ***Private Placement Amendment***

On August 16, 2022, the Company entered into an amendment to the note and warrant purchase agreement (the “Purchase Agreement”), by and among the Company and the purchasers thereto (collectively, the “Purchasers”), whereby the Company agreed to amend the Purchase Agreement such that \$11.25 million of the outstanding principal has been exchanged for the Purchaser’s execution of an amended and restated warrant agreement pursuant to which the strike price

of the 6,318,000 May 2022 Warrants was reduced from \$2.50 to \$0.01. After giving effect to the principal reduction and amended and restated warrants, the Company will continue to make subsequent monthly, payments to the Purchasers on the fifteenth (15th) day of each of November 2022, December 2022, January 2023 and February 2023. The Company may elect to pay each such payment (A) in cash or (B) in shares of Common Stock, in each case, at a twenty percent (20%) discount to the average of the daily VWAPs for each of the twenty (20) consecutive trading days preceding the payment date.

### **Critical Accounting Policies and Significant Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with revenue recognition, investments, intangible assets, stock-based compensation and business combinations. Our financial position, results of operations and cash flows are impacted by the accounting policies we have adopted. In order to get a full understanding of our financial statements, one must have a clear understanding of the accounting policies employed.

A summary of our critical accounting policies follows:

#### Fair Value Measurements

We measure at fair value certain of our financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data; and

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

#### Cryptocurrency Machines

Management has assessed the basis of depreciation of our cryptocurrency machines used to verify digital currency transactions and generate digital currencies and believes they should be depreciated over a three-year period. The rate at which we generate digital assets and, therefore, consume the economic benefits of our Bitcoin miners, is influenced by a number of factors including the following:

1. The complexity of the Bitcoin mining process which is driven by the algorithms contained within the Bitcoin open-source software;
2. The general availability of appropriate computer processing capacity on a global basis (commonly referred to in the industry as hashing capacity which is measured in petahash units); and
3. Technological obsolescence reflecting rapid development in the Bitcoin miner industry such that more recently developed hardware is more economically efficient to run in terms of digital assets generated as a function of operating costs, primarily power costs, (i.e., the speed of hardware evolution in the industry is such that later

hardware models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase).

We operate in an emerging industry for which limited data is available to make estimates of the useful economic lives of specialized equipment. Management has determined that three years best reflects the current expected useful life of Bitcoin miners. This assessment takes into consideration the availability of historical data and management's expectations regarding the direction of the industry including potential changes in technology. Management will review this estimate annually and will revise such estimate as and when data becomes available.

To the extent that any of the assumptions underlying management's estimate of useful life of its Bitcoin miners are subject to revision in a future reporting period either as a result of changes in circumstances or through the availability of greater quantities of data then the estimated useful life could change and have a prospective impact on depreciation expense and the carrying amounts of these assets.

### Revenue Recognition

We recognize revenue under ASC 606, Revenue from Contracts with Customers. The core principle of this revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

1. Step 1: Identify the contract with the customer
2. Step 2: Identify the performance obligations in the contract
3. Step 3: Determine the transaction price
4. Step 4: Allocate the transaction price to the performance obligations in the contract
5. Step 5: Recognize revenue when we satisfy a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met: the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration

- Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate. There were no revenue streams with variable consideration during the six months ended June 30, 2022, and 2021.

There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for cryptocurrencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the Financial Accounting Standards Board (the "FASB"), we may be required to change our policies, which could have an effect on our condensed consolidated financial position and results from operations.

The Company has determined that the Bitcoin that are awarded through its Bitcoin mining operations are a current asset and should be accounted for in Cash Flow from Operations due to the fact that it has been selling coins on a regular basis in order to fund Operations. As such, any changes in the balance of the current asset account, including those resulting from mining revenue, sales of Bitcoin and any associated gains and losses, and impairments, should be accounted for in Operations as opposed to Investing, where sales of Bitcoin had appeared previously.

Fair value of the digital asset award received is determined using the quoted price of the related cryptocurrency at the time of receipt.

Our policies with respect to our revenue streams are detailed below.

#### *Energy Revenue*

We operate as a market participant through PJM Interconnection, a Regional Transmission Organization ("RTO") that coordinates the movement of wholesale electricity. We sell energy in the wholesale generation market in the PJM RTO. Energy revenues are delivered as a series of distinct units that are substantially the same and that have the same pattern of transfer to the customer over time and are therefore accounted for as a distinct performance obligation. The transaction price is based on pricing published in the day ahead market which constitute the stand-alone selling price.

Energy revenue is recognized over time as energy volumes are generated and delivered to the RTO (which is contemporaneous with generation), using the output method for measuring progress of satisfaction of the performance obligation. We apply the invoice practical expedient in recognizing energy revenue. Under the invoice practical expedient, energy revenue is recognized based on the invoiced amount which is considered equal to the value provided to the customer for our performance obligation completed to date.

Reactive energy power is provided to maintain a continuous voltage level. Revenue from reactive power is recognized ratably over time as we stand ready to provide it if called upon by the PJM RTO.

#### *Capacity Revenue*

We provide capacity to a customer through participation in capacity auctions held by the PJM RTO. Capacity revenues are a series of distinct performance obligations that are substantially the same and that have the same pattern of transfer to the customer over time and are therefore accounted for as a distinct performance obligation. The transaction price for capacity is market-based and constitutes the stand-alone selling price. As capacity represents our stand-ready obligation, capacity revenue is recognized as the performance obligation is satisfied ratably over time, on a monthly basis, since we stand ready equally throughout the period to deliver power to the PJM RTO if called upon. We apply the invoice practical expedient in recognizing capacity revenue. Under the invoice practical expedient, capacity revenue is recognized based on the invoiced amount which is considered equal to the value provided to the customer for our performance obligation completed to date. Penalties may be assessed by the PJM RTO against generation facilities if the facility is not available during the capacity period. The penalties assessed by the PJM RTO, if any, are recorded as a reduction to capacity revenue when incurred.

### *Cryptocurrency Hosting*

We have entered into customer hosting contracts whereby we provide electrical power to cryptocurrency mining customers, and the customers pay a stated amount per MWh (“Contract Capacity”). This amount is paid monthly in advance. Amounts used in excess of the Contract Capacity are billed based upon calculated formulas as contained in the contracts. If any shortfalls occur due to outages, make-whole payment provisions contained in the contracts are used to offset the billings to the customer which prevented them from cryptocurrency mining. Advanced payments and customer deposits are reflected as contract liabilities.

### *Cryptocurrency Mining*

We have entered into digital asset mining pools by executing contracts, as amended from time to time, with the mining pool operators to provide computing power to the mining pool. The contracts are terminable at any time by either party and our enforceable right to compensation only begins when we provide computing power to the mining pool operator. In exchange for providing computing power, we are entitled to a fractional share of the fixed cryptocurrency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are recorded as a component of cost of revenues), for successfully adding a block to the blockchain. The terms of the agreement provide that neither party can dispute settlement terms after thirty-five days following settlement. Our fractional share is based on the proportion of computing power we contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the current algorithm.

Providing computing power in Bitcoin miners is an output of our ordinary activities. The provision of providing such computing power is the only performance obligation in our contracts with mining pool operators. The transaction consideration we receive, if any, is noncash consideration, which we measure at fair value on the date received, which is not materially different than the fair value at contract inception or the time we have earned the award from the pools. The consideration is not variable. Because it is not probable that a significant reversal of cumulative revenue will not occur, the consideration is constrained until the mining pool operator successfully places a block (by being the first to solve an algorithm) and we receive confirmation of the consideration we will receive, at which time revenue is recognized. There is no significant financing component in these transactions.

Fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency at the time of receipt. There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for cryptocurrencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the FASB, we may be required to change our policies, which could have an effect on our consolidated financial position and results from operations.

### Asset Retirement Obligations

Asset retirement obligations, including those conditioned on future events, are recorded at fair value in the period in which they are incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset in the same period. In each subsequent period, the liability is accreted to its present value and the capitalized cost is depreciated over the EUL of the long-lived asset. If the asset retirement obligation is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement. Our asset retirement obligation represents the cost we would incur to perform environmental clean-up or dismantle certain portions of the Facility.

### Impairment of long-lived assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A long-lived asset (group) that is held and used must be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable (i.e., information indicates that an impairment might exist). We are responsible for routinely assessing whether impairment indicators are present and should have systems or processes to assist in the identification of potential impairment indicators.

We are not required to perform an impairment analysis (i.e., test the asset (group) for recoverability and potentially measure an impairment loss) if indicators of impairment are not present. We have assessed the need for an impairment write-down only if an indicator of impairment (e.g., a significant decrease in the market value of a long-lived asset (group)) is present. The Company performed an impairment test on its long-lived assets and \$4,990,000 was recognized as expenses for both the three and six months ended June 30, 2022. No impairment indicators existed as of the three and six months ended June 30, 2021 that would require impairment testing of our long-lived assets.

#### Derivative Contracts

In accordance with guidance on accounting for derivative instruments and hedging activities all derivatives should be recognized at fair value. Derivatives or any portion thereof, that are not designated as, and effective as, hedges must be adjusted to fair value through earnings. Derivative contracts are classified as either assets or liabilities on the accompanying combined balance sheets. Certain contracts that require physical delivery may qualify for and be designated as normal purchases/normal sales. Such contracts are accounted for on an accrual basis.

We use derivative instruments to mitigate our exposure to various energy commodity market risks. We do not enter into any derivative contracts or similar arrangements for speculative or trading purposes. We will, at times, sell our forward unhedged electricity capacity to stabilize its future operating margins.

We also use derivative instruments to mitigate the risks of Bitcoin market pricing volatility. We entered into a variable prepaid forward sale contract that mitigates Bitcoin market pricing volatility risks between a low and high collar of Bitcoin market prices during the contract term. This contract settles in September 2022. The contract meets the definition of a derivative transaction pursuant to guidance under ASC 815 and is considered a compound derivative instrument which is required to be presented at fair value subject to remeasurement each reporting period. The change in fair value is recorded as changes in fair value of forward sale derivative as part of earnings.

#### Stock Based Compensation

For equity-classified awards, compensation expense is recognized over the requisite service period based on the computed fair value on the grant date of the award. Equity classified awards include the issuance of stock options and restricted stock units ("RSUs").

#### Notes Payable

We record notes payable net of any discounts or premiums. Discounts and premiums are amortized as interest expense or income over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period.

#### Warrant Liabilities

We record warrant liabilities at their fair value as of the balance sheet date, and recognizes changes in the balances, over the comparative periods of either the issuance date or the last reporting date, as part of changes in fair value of warrant liabilities expense. At the issuance date, each series of warrants were convertible and redeemable to preferred stock.

#### Loss per share

Basic net (loss) income per share ("EPS") of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding or shares subject to exercise for a nominal value during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

#### Income Taxes

The amount of income taxes we record requires interpretations of complex rules and regulations of federal, state, and local tax jurisdictions. We use the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying values and the tax bases of existing assets and liabilities, and for operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when

those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized after considering all positive and negative evidence available concerning the realizability of our deferred tax assets.

As of June 30, 2022 and December 31, 2021, we maintained a valuation allowance on our deferred tax assets. The valuation allowance remains in place based on the uncertainty of future events, including the Company's ability to generate future taxable income in light of its recent losses, and management considered this and other factors in evaluating the realizability of our deferred tax assets. Any changes in the positive or negative evidence evaluated when determining if our deferred tax assets will be realized could result in a material change to our consolidated financial statements.

The accruals for deferred tax assets and liabilities are often based on assumptions that are subject to a significant amount of judgment by management. These assumptions and judgments are reviewed and adjusted as facts and circumstances change. Material changes to our income tax accruals may occur in the future based on the potential for income tax audits, changes in legislation or resolution of pending matters.

### **Post IPO Taxation and Public Company Costs**

Stronghold LLC is and has been organized as a pass-through entity for U.S. federal income tax purposes and is therefore not subject to entity-level U.S. federal income taxes. Stronghold Inc. was incorporated as a Delaware corporation on March 19, 2021 and therefore is subject to U.S. federal income taxes and state and local taxes at the prevailing corporate income tax rates, including with respect to its allocable share of any taxable income of Stronghold LLC. In addition to tax expenses, Stronghold Inc. also incurs expenses related to its operations, plus payment obligations under the Tax Receivable Agreement entered into between the Company, Q Power LLC ("Q Power") and an agent named by Q Power, dated April 1, 2021 (the "TRA"), which are expected to be significant. To the extent Stronghold LLC has available cash and subject to the terms of any current or future debt instruments, the Fourth Amended and Restated Limited Liability Company Agreement of Stronghold LLC, as amended from time to time (the "Stronghold LLC Agreement") requires Stronghold LLC to make pro rata cash distributions to holders of Stronghold LLC Units ("Stronghold Unit Holders"), including Stronghold Inc., in an amount sufficient to allow Stronghold Inc. to pay its taxes and to make payments under the TRA. In addition, the Stronghold LLC Agreement requires Stronghold LLC to make non-pro rata payments to Stronghold Inc. to reimburse it for its corporate and other overhead expenses, which payments are not treated as distributions under the Stronghold LLC Agreement. See "Tax Receivable Agreement" herein for additional information.

In addition, we have incurred, and expect to continue to incur incremental, non-recurring costs related to our transition to a publicly traded corporation, including the costs of the IPO and the costs associated with the initial implementation of our internal control reviews and testing pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). We have also incurred, and expect to continue to incur additional significant and recurring expenses as a publicly traded corporation, including costs associated with compliance under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), annual and quarterly reports to common stockholders, registrar and transfer agent fees, national stock exchange fees, audit fees, incremental director and officer liability insurance costs and director and officer compensation. Our financial statements following the IPO will continue to reflect the impact of these expenses.

### **Factors Affecting Comparability of Our Future Results of Operations to Our Historical Results of Operations**

Our historical financial results discussed below may not be comparable to our future financial results for the reasons described below.

Stronghold Inc. is subject to U.S. federal, state and local income taxes as a corporation. Our accounting predecessor was treated as a partnership for U.S. federal income tax purposes, and as such, was generally not subject to U.S. federal income tax at the entity level. Rather, the tax liability with respect to its taxable income was passed through to its members. Accordingly, the financial data attributable to our predecessor contains no provision for U.S. federal income taxes or income taxes in any state or locality. Due to cumulative and current losses as well as an evaluation of other sources of income as outlined in ASC 740, management has determined that the utilization of our deferred tax assets is not more likely than not, and therefore we have recorded a valuation allowance against our net deferred tax assets. Management continues to evaluate the likelihood of the Company utilizing its deferred taxes, and while the valuation allowance remains in place, we expect to record no deferred income tax expense or benefit. Should the valuation allowance no longer be required, the 21% statutory federal income tax rate as well as state and local income taxes at their respective rates will apply to income allocated to Stronghold Inc.

As we further implement controls, processes and infrastructure applicable to companies with publicly traded equity securities, it is likely that we will incur additional selling, general and administrative ("G&A") expenses relative to historical periods. Our future results will depend on our ability to efficiently manage our consolidated operations and execute our business strategy.

As we continue to acquire miners and utilize our power generating assets to power such miners, we anticipate that a great proportion of our revenue and expenses will relate to crypto asset mining.

As previously discussed in the Critical Accounting Policies section, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with revenue recognition, investments, intangible assets, stock-based compensation and business combinations. The Company's financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to get a full understanding of the Company's financial statements, one must have a clear understanding of the accounting policies employed.



## Results of Operations

Highlights of our consolidated results of operations for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021 include:

### *Operating Revenue*

Revenue increased \$25.0 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to a \$18.9 million increase in cryptocurrency mining revenue from deploying additional miners, and a \$5.6 million increase in energy revenue driven by higher prevailing power prices per MW and higher MW generation as a result of the November 2021 Panther Creek Acquisition. Capacity revenue also increased \$1.1 million due to the Panther Creek Acquisition.

Revenue increased \$50.0 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to a \$36.6 million increase in cryptocurrency mining revenue from deploying additional miners, and a \$12.0 million increase in energy revenue driven by higher prevailing market rates per MW and higher MW generation as a result of the November 2021 Panther Creek Acquisition. Capacity revenue also increased \$2.4 million due to the Panther Creek Acquisition.

### *Operating Expenses*

Total operating expenses increased \$51.8 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily driven by (1) a \$14.8 million increase in operations and maintenance expense as a result of the November 2021 Panther Creek Acquisition, higher labor and maintenance costs at the Scrubgrass Plant associated with increased plant uptime, and the ramp up of cryptocurrency mining operations including higher lease expenses for our hosting services agreement, (2) a \$11.9 million increase in depreciation and amortization primarily from deploying additional miners and transformers, (3) a \$8.9 million increase in general and administrative expenses due to legal and professional fees, insurance costs, and compensation as we continue to organize and scale operations, (4) a \$6.5 million increase in fuel expenses driven by higher MW generation, primarily due to the November 2021 Panther Creek Acquisition, and increased fuel delivery costs from higher diesel prices, and (5) a \$5.0 million impairment on miner assets attributable to the decline in the price of Bitcoin. Impairments on digital currencies of \$5.2 million were primarily attributable to the June decline in the price of Bitcoin.

Total operating expenses increased \$105.5 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily driven by (1) a \$24.7 million increase in operations and maintenance expense driven by major maintenance costs and labor at the Scrubgrass Plant associated with increasing plant uptime, higher costs as a result of the November 2021 Panther Creek Acquisition, and the ramp up of cryptocurrency mining operations including higher lease expenses for our hosting services agreement, (2) a \$23.7 million increase in depreciation and amortization primarily from deploying additional miners and transformers, (3) a \$18.6 million increase in general and administrative expenses due to legal and professional fees, insurance costs, and compensation as we continue to organize and scale operations, (4) a \$13.9 million increase in fuel expenses driven by higher MW generation and increased fuel delivery costs from higher diesel prices, and (5) a \$12.2 million impairment on equipment deposits for MinerVa miners discussed in Note 4 – Equipment Deposits and Miner Sales and Note 8 – Contingencies and Commitments. Impairments on digital currencies of \$7.7 million were primarily attributed to the June decline in the price of Bitcoin. In March 2022, the Company evaluated the MinerVa equipment deposits for impairment and determined an impairment charge of \$12.2 million based on lack of miner delivery per agreement. In June 2022, the Company evaluated miner assets and determined an impairment charge of \$5.0 million for certain miners attributable to the decline in the price of Bitcoin.

### *Other Income (Expense)*

Total other income (expense) decreased \$10.2 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily driven by (1) a \$8.0 million realized loss on the sale of miner assets discussed in Note 4 – Equipment Deposits and Miner Sales, (2) a \$4.5 million increase in interest expense on additional financing agreements used to fund the growth of cryptocurrency operations, (3) a \$1.7 million realized loss on the disposal of fixed assets, and (4) a \$0.8 million increase in other income from the one-time gain on extinguishment of PPP loan, partially offset by (5) a \$3.9 million increase from a change in value of the forward sale derivative. See Note 4 – Equipment Deposits and Miner Sales regarding the sale of miner assets. See Note 6 – Long-Term Debt and Note 14 – Stock Issued Under Master Financing Agreements and Warrants in the notes to our financial statements for further information on financing agreements.

Total other income (expense) decreased \$13.6 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily driven by (1) a \$8.0 million realized loss on the sale of miner assets, (2) a \$7.3 million increase in interest expense on additional financing agreements used to fund the growth of cryptocurrency operations, (3) a \$3.4 million increase from a change in value of the forward sale derivative, and (4) a \$0.6 million increase in realized losses on the sale of digital currencies. See Note 6 – Long-Term Debt and Note 14 – Stock Issued Under Master Financing Agreements and Warrants in the notes to our financial statements for further information on financing agreements.

## Segment Results

The below presents summarized results for our operations for the two reporting segments: Energy Operations and Cryptocurrency Operations.

	Three Months Ended,		Six Months Ended,	
	June 30, 2022 <i>(unaudited)</i>	June 30, 2021 <i>(unaudited)</i>	June 30, 2022 <i>(unaudited)</i>	June 30, 2021 <i>(unaudited)</i>
<b>Operating Revenues</b>				
Energy Operations	\$ 8,829,741	\$ 2,173,108	\$ 19,257,731	\$ 4,803,181
Cryptocurrency Operations	20,348,708	2,011,416	38,620,777	3,083,421
<b>Total Operating Revenues</b>	<b>\$ 29,178,449</b>	<b>\$ 4,184,524</b>	<b>\$ 57,878,508</b>	<b>\$ 7,886,602</b>
<b>Net Operating Income/(Loss)</b>				
Energy Operations	\$ (11,731,620)	\$ (2,570,168)	\$ (23,828,745)	\$ (3,785,805)
Cryptocurrency Operations	(18,123,022)	(467,593)	(35,663,263)	(221,239)
<b>Net Operating Income/(Loss)</b>	<b>\$ (29,854,642)</b>	<b>\$ (3,037,761)</b>	<b>\$ (59,492,008)</b>	<b>\$ (4,007,044)</b>
<b>Other Income, net (a)</b>	<b>\$ (10,383,933)</b>	<b>\$ (205,248)</b>	<b>\$ (13,052,982)</b>	<b>\$ 525,079</b>
<b>Net Income/(Loss)</b>	<b>\$ (40,238,575)</b>	<b>\$ (3,243,009)</b>	<b>\$ (72,544,990)</b>	<b>\$ (3,481,965)</b>
<b>Depreciation and Amortization</b>				
Energy Operations	\$ (1,326,552)	\$ (137,904)	\$ (2,582,653)	\$ (281,538)
Cryptocurrency Operations	(11,340,748)	(649,827)	(22,404,228)	(1,023,636)
<b>Total Depreciation &amp; Amortization</b>	<b>\$ (12,667,300)</b>	<b>\$ (787,731)</b>	<b>\$ (24,986,881)</b>	<b>\$ (1,305,174)</b>
<b>Interest Expense</b>				
Energy Operations	\$ (24,547)	\$ (27,048)	\$ (56,069)	\$ (68,306)
Cryptocurrency Operations	(4,484,236)	(28,395)	(7,364,166)	(65,777)
<b>Total Interest Expense</b>	<b>\$ (4,508,783)</b>	<b>\$ (55,443)</b>	<b>\$ (7,420,235)</b>	<b>\$ (134,083)</b>

(a) We do not allocate other income, net for segment reporting purposes. Amount is shown as a reconciling item between net operating income/(losses) and consolidated income before taxes. Refer to our consolidated statement of operations for the six months ended June 30, 2022 and 2021 for further details.

## Energy Operations Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	\$ Change	2022	2021	\$ Change
	( <i>unaudited</i> )	( <i>unaudited</i> )		( <i>unaudited</i> )	( <i>unaudited</i> )	
<b>OPERATING REVENUES</b>						
Energy	\$ 7,129,732	\$ 1,570,966	\$ 5,558,766	\$ 15,492,533	\$ 3,486,822	\$ 12,005,711
Capacity	1,668,001	595,545	1,072,456	3,712,428	1,283,236	2,429,192
Other	32,008	6,597	25,411	52,770	33,123	19,647
Total operating revenues	8,829,741	2,173,108	6,656,633	19,257,731	4,803,181	14,454,550
<b>OPERATING EXPENSES</b>						
Fuel - net of crypto segment subsidy <sup>1</sup>	4,752,332	1,825,716	2,926,616	11,559,912	3,601,815	7,958,097
Operations and maintenance	11,122,830	1,796,119	9,326,711	21,469,517	3,093,697	18,375,820
General and administrative	316,563	—	316,563	757,690	—	757,690
Depreciation and amortization	1,326,552	137,904	1,188,648	2,582,653	281,538	2,301,115
Total operating expenses	\$ 17,518,277	\$ 3,759,739	\$ 13,758,538	\$ 36,369,772	\$ 6,977,050	\$ 29,392,722
<b>NET OPERATING LOSS EXCLUDING CORPORATE OVERHEAD</b>						
	(8,688,536)	\$ (1,586,631)	(7,101,905)	(17,112,041)	\$ (2,173,869)	(14,938,172)
Corporate overhead	3,043,084	983,537	2,059,547	6,716,704	1,611,936	5,104,768
<b>NET OPERATING LOSS</b>	<b>\$ (11,731,620)</b>	<b>\$ (2,570,168)</b>	<b>\$ (9,161,452)</b>	<b>\$ (23,828,745)</b>	<b>\$ (3,785,805)</b>	<b>\$ (20,042,940)</b>
<b>INTEREST EXPENSE</b>						
	\$ (24,547)	\$ (27,048)	\$ 2,501	\$ (56,069)	\$ (68,306)	\$ 12,237

<sup>1</sup> Cryptocurrency operations consumed \$3.9 million and \$6.5 million of electricity generated by the Energy Operations segment for the three and six months ended June 30, 2022 and \$0.4 million and \$0.5 million for the three and six months ended June 30, 2021. For segment reporting, this intercompany electric charge is recorded as a contra-expense to offset fuel costs within the Energy Operations segment.

### Operating Revenues

Total operating revenue increased \$6.7 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to a \$5.6 million increase in energy revenue driven by higher prevailing market rates per MW and higher MW generation. Capacity revenue increased \$1.1 million as a result of the November 2021 Panther Creek Acquisition. Effective June 1, 2022 through May 31, 2024, both plants strategically reduced their exposure to the capacity markets, and the resulting cost-capping and operational requirements in the day ahead market by PJM. The Company chose to be an energy resource after achieving its RegA certification, which will reduce monthly capacity revenue and the frequency with which the plants will be mandated to sell power at non-market rates, in exchange for the opportunity to sell power to the grid at prevailing market rates, which management expects will more than make up for lost capacity revenue. This also gives our plants the ability to provide fast response energy to the grid in the real time market when needed without having to comply with day ahead power commitments. Over the course of 2022, the PJM grid has seen stronger around the clock prices, and stronger daily "peak" prices suggesting tight supply and demand grid conditions. When high power prices call for more electricity to be supplied by our plants, and those prices are in excess of Bitcoin-equivalent power prices, the Company may shut off its data center Bitcoin mining load in order to sell power to the grid. The Company believes that this integration should allow it to optimize for both Revenue as well as grid support over time.

Total operating revenue increased \$14.5 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to a \$12.0 million increase in energy revenue driven by higher prevailing market rates per MW and higher MW generation. Capacity revenue increased \$2.4 million resulting from the November 2021 Panther Creek Acquisition.

Full plant power utilization is optimal for our revenue growth as it also drives a higher volume of Tier II Renewable Energy Credits ("RECs"), waste coal tax credits, and beneficial use ash sales, as well as the increased electricity supply for the crypto asset operations.

### Operating Expenses

Total operating expenses increased \$13.8 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to the incremental expenses associated with operating the Panther Creek Plant after its

November 2021 acquisition. Operations and maintenance expense increased \$9.3 million primarily driven by higher labor, plant maintenance and one-time upgrades. Fuel expenses increased \$2.9 million primarily due to higher MW generation resulting from the November 2021 Panther Creek Acquisition and increased fuel delivery costs from higher diesel prices, partially offset by higher costs being allocated to the Cryptocurrency Segment due to higher electric consumption for bitcoin mining operations, and greater REC sales. REC sales of \$2.1 million and \$0.6 million were recognized as contra-expense to offset fuel expenses for the three months ended June 30, 2022, and 2021, respectively. Depreciation and amortization expense increased \$1.2 million primarily due to the Panther Creek Acquisition.

Corporate overhead increased \$2.1 million primarily due to higher legal and professional fees, directors' and officers' liability insurance, and payroll expenses, which have been allocated to the two segments using a "fair-share" of revenues approach, where the revenue for the segment is divided by the total combined revenues of the segments and is then multiplied by the shared general and administrative costs for the combined segments.

Total operating expenses increased \$29.4 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to the incremental operations and maintenance and fuel expenses associated with operating the Panther Creek Plant after its November 2021 acquisition. Operations and maintenance increased \$18.4 million primarily driven by payroll, major maintenance and upgrade expenditures. Fuel expenses increased \$8.0 million primarily due to higher MW generation resulting from the November 2021 Panther Creek Acquisition and increased fuel delivery costs from higher diesel prices, partially offset by higher costs being allocated to the Cryptocurrency Segment due to higher electric consumption for bitcoin mining operations, and greater REC sales. REC sales of \$2.6 million and \$0.8 million were recognized as contra-expense to offset fuel expenses for the six months ended June 30, 2022, and 2021, respectively. Depreciation and amortization expense increased \$2.3 million primarily due to the Panther Creek Acquisition.

Corporate overhead increased \$5.1 million primarily due to higher legal and professional fees, directors' and officers' liability insurance, and payroll expenses, which have been allocated to the two segments using a "fair-share" of revenues approach, where the revenue for the segment is divided by the total combined revenues of the segments and is then multiplied by the shared general and administrative costs for the combined segments.

## Cryptocurrency Operations Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	\$ Change	2022	2021	\$ Change
	(unaudited)	(unaudited)		(unaudited)	(unaudited)	
<b>OPERATING REVENUES</b>						
Cryptocurrency mining	\$ 20,227,536	\$ 1,324,645	\$ 18,902,891	\$ 38,431,729	\$ 1,840,903	\$ 36,590,826
Cryptocurrency hosting	121,172	686,771	(565,599)	189,048	1,242,518	(1,053,470)
Total operating revenues	20,348,708	2,011,416	18,337,292	38,620,777	3,083,421	35,537,356
<b>OPERATING EXPENSES</b>						
Electricity - purchased from energy segment	3,927,782	402,451	3,525,331	6,458,596	498,706	5,959,890
Operations and maintenance	5,463,926	38,051	5,425,875	6,451,572	111,161	6,340,411
General and administrative	511,058	34,731	476,327	569,545	70,118	499,427
Impairments on digital currencies	5,205,045	375,246	4,829,799	7,711,217	375,246	7,335,971
Impairments on equipment deposits	—	—	—	12,228,742	—	12,228,742
Impairments on miner assets	4,990,000	—	4,990,000	4,990,000	—	4,990,000
Depreciation and amortization	11,340,748	649,827	10,690,921	22,404,228	1,023,636	21,380,592
Total operating expenses	\$ 31,438,559	\$ 1,500,306	\$ 29,938,253	\$ 60,813,900	\$ 2,078,867	\$ 58,735,033
<b>NET OPERATING LOSS EXCLUDING CORPORATE OVERHEAD</b>						
	(11,089,851)	511,110	(11,600,961)	(22,193,123)	1,004,554	(23,197,677)
Corporate overhead	7,033,171	978,703	6,054,468	13,470,140	1,225,793	12,244,347
<b>NET OPERATING LOSS</b>	<b>\$ (18,123,022)</b>	<b>\$ (467,593)</b>	<b>\$ (17,655,429)</b>	<b>\$ (35,663,263)</b>	<b>\$ (221,239)</b>	<b>\$ (23,197,677)</b>
<b>INTEREST EXPENSE</b>	<b>\$ (4,484,236)</b>	<b>\$ (28,395)</b>	<b>\$ (4,455,841)</b>	<b>\$ (7,364,166)</b>	<b>\$ (65,777)</b>	<b>\$ (7,298,389)</b>

### Operating Revenues

Total operating revenues increased by \$18.3 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to increased cryptocurrency mining revenue as a result of purchasing and deploying additional miners throughout 2021 and the six-month period ended June 30, 2022. The increased quantity of miners increased total hash rates and Bitcoin awards. The Company's Bitcoin mining operations were awarded 637 coins during the second quarter, a 45% increase versus the 438 Bitcoin it was awarded in the first quarter of 2022. Cryptocurrency hosting revenue decreased by \$0.6 million due to the strategic termination of several agreements of generated power sales to crypto asset mining customers for which we were providing hosting services.

Total operating revenues increased by \$35.5 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to increased cryptocurrency mining revenue as a result of purchasing and deploying additional miners throughout 2021 and the six-month period ended June 30, 2022. The increased quantity of miners increased total hash rates and Bitcoin awards. Cryptocurrency hosting revenue decreased by \$1.1 million due to the strategic termination of several agreements of generated power sales to crypto asset mining customers for which we were providing hosting services.

### Operating Expenses

Total operating expenses increased by \$29.9 million for the three-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to (1) a \$10.7 million increase in depreciation and amortization resulting from the deployment of miners and infrastructure assets, (2) a \$5.0 million impairment on miner assets attributable to the decline in the price of Bitcoin, (3) a \$5.4 million increase in operations and maintenance due to higher lease expenses from the ramp up of the Northern Data Hosting Agreement, purchases of power supplies and labor, (4) a \$4.8 million increase in Impairments on digital currencies related to the June 2022 decrease in Bitcoin pricing, and (5) a \$3.5 million increase of intercompany electric charges related to the ramp up of cryptocurrency mining operations.

Corporate overhead increased by \$6.1 million primarily due to higher legal and professional fees, directors' and officers' liability insurance, and payroll expenses, which have been allocated to the two segments using a "fair-share" of

revenues approach, where the revenue for the segment is divided by the total combined revenues of the segments and is then multiplied by the shared general and administrative costs for the combined segments.

Total operating expenses increased by \$58.7 million for the six-month period ended June 30, 2022, as compared to the same period in 2021, primarily due to (1) a \$21.4 million increase in depreciation and amortization resulting from the deployment of miners and infrastructure assets, (2) a \$12.2 million impairment on equipment deposits for MinerVa miners, (3) a \$7.3 million increase in Impairments on digital currencies primarily related to the June 2022 decrease in Bitcoin pricing, (4) a \$6.3 million increase in Operations and maintenance due to higher lease expenses from the ramp up of the Northern Data Hosting Agreement, purchases of power supplies and labor, (5) a \$6.0 million increase of intercompany electric charges related to the ramp up of cryptocurrency mining operations, and (6) a \$5.0 million impairment on miner assets attributable to the decline in the price of Bitcoin.

Corporate overhead increased by \$12.2 million primarily due to higher legal and professional fees, directors' and officers' liability insurance, and payroll expenses, which have been allocated to the two segments using a "fair-share" of revenues approach, where the revenue for the segment is divided by the total combined revenues of the segments and is then multiplied by the shared general and administrative costs for the combined segments.

### ***Impairment on Digital Currencies***

Impairments on digital currencies of \$5.2 million and \$7.7 million were recognized for the three and six-months ended June 30, 2022, respectively, as a result of the negative impacts from the crypto coin spot market declines. As of June 30, 2022, the Company held approximately 268 Bitcoin on its balance sheet at carrying value, of which 250 were restricted. The spot market price of Bitcoin was \$19,986 as of June 30, 2022, per Coinbase Global Inc.

### ***Interest Expense***

Interest expense increased \$4.5 million and \$7.3 million for the three and six months ended June 30, 2022, as compared to the same period in 2021, primarily due to the borrowings from our WhiteHawk promissory notes and draws against the Arctos/NYDIG Financing Agreement discussed in Note 14 – Stock Issued Under Master Financing Agreements and Warrants in the notes to our financial statements.

### **Liquidity and Capital Resources**

#### ***Overview***

Stronghold Inc. is a holding company with no operations and is the sole managing member of Stronghold LLC. Our principal asset consists of units of Stronghold LLC. Our earnings and cash flows and ability to meet any debt obligations will depend on the cash flows resulting from the operations of our operating subsidiaries, and the payment of distributions to us by such subsidiaries.

Our cash needs are primarily for growth through acquisitions, capital expenditures and working capital to support equipment financing and the purchase of additional miners. We have incurred and may continue to incur significant expenses in servicing and maintaining our power generation facilities. If we were to acquire additional facilities in the future, capital expenditures may include improvements, maintenance, and build out costs associated with equipping such facilities to house miners to mine Bitcoin.

We have historically relied on funds from equity issuances, equipment financings, and revenue from sales of Bitcoin and power generated at our power plants to provide for our liquidity needs. During 2021 and the first quarter of 2022, we received \$63.2 million (net of loan fees and debt issuance costs) in proceeds from the financing agreements with WhiteHawk and NYDIG, net proceeds of \$131.5 million from the IPO, net proceeds of \$96.8 million from two private placements of convertible preferred securities, and an additional \$25.0 million from WhiteHawk as a result of the Second WhiteHawk Amendment. Additionally, on May 15, 2022, the Company received \$33.75 million (net of loan fees and debt issuance costs) pursuant to the 2022 Private Placement. Please see "—Debt Agreements - Equipment Financing Transactions" for more information regarding our financing arrangements. These cash sources provided additional short and long-term liquidity to support our operations in fiscal year 2021 and through the second quarter of 2022.

As of June 30, 2022, we held 268 Bitcoin on hand, of which 250 were pledged as collateral. On July 27, 2022, we closed out the forward sale derivative agreement with NYDIG for a gain of approximately \$0.2 million and sold the above

referenced 250 Bitcoin pledged as collateral and associated with the agreement. As of June 30, 2022 and August 12, 2022, we had approximately \$33.3 million and \$27.5 million of cash and cash equivalents on our balance sheet, which included 18 and 44 unrestricted Bitcoin, respectively. As of June 30, 2022 and August 12, 2022, we had outstanding indebtedness of \$127.9 million and \$141.0 million, respectively, and availability under our financing agreements of \$7.2 million and \$3.6 million, respectively.

If our cash flows from operations continue to fall short of uses of capital, we may need to seek additional sources of capital to fund our short-term and long-term capital needs. We may further sell assets or seek potential additional debt or equity financing to fund our short-term and long-term needs. If we are unable to raise additional capital, there is a risk that we could default on our obligations and could be required to discontinue or significantly reduce the scope of our operations, including through the sale of our assets, if no other means of financing options are available.

Operations have not yet established a consistent record of covering our operating expenses and we incurred a net loss of \$40.2 million and \$72.5 million for the three and six months ended June 30, 2022, respectively, and an accumulated deficit of \$155.7 million as of June 30, 2022. We experienced a number of previously disclosed setbacks and unexpected challenges, including a longer-than-expected and continuing delay of the MinerVa miners and longer than expected downtime at our Scrubgrass Plant for maintenance, the Panther Creek Plant's mining operations shutdown in April 2022 and the outages of our mining operations due to higher than anticipated requirements from PJM. As a result of the delay in delivery of the MinerVa miners, we were at risk of defaulting on our obligations under the WhiteHawk debt facility because those miners were to be provided as collateral to WhiteHawk by April 30, 2022. Pursuant to the Second WhiteHawk Amendment, the MinerVa miners were exchanged for collateral for additional miners received by the Company. Due to the delay, we determined an impairment charge totaling \$12.2 million that was recognized on March 31, 2022. We spent approximately \$5.1 million in fiscal year 2021 on maintenance and repair costs at the Scrubgrass Plant, and we estimate that we will spend an aggregate of approximately \$5 million on major repairs and upgrades during fiscal year 2022. In addition to incurred expenses, we were also unable to mine Bitcoin at the Scrubgrass Plant during such downtime, which directly and negatively affects our results of operations.

As previously disclosed, the Panther Creek Plant's mining operations were offline for ten days in April due to the failure of a switchgear and the need to source, deliver and install a new piece of equipment, causing ten days of no mining revenue generation at the facility and resulting in an estimated loss of approximately \$1.4 million.

As previously disclosed in the Company's Form 8-K dated July 25, 2022, the Panther Creek Plant experienced approximately 8.5 days of unplanned downtime in the month of June from damaged transmission lines caused by a storm, and other plant maintenance issues. The Company estimates the financial impact of the June outages to be lost revenue of \$1.8 million and a net income impact of \$1.4 million.

Taking into account the Second WhiteHawk Amendment, 2022 Private Placement, the Bitmain Sale, other miner sales, and transactions subsequent to the June 30, 2022 quarter end which include the WhiteHawk Refinancing Agreement, NYDIG debt extinguishment and equitization of the May 2024 Convertible Notes, we believe our liquidity position, combined with expected improvements in operating cash flows, and the proceeds of additional asset sales, will be sufficient to meet our existing commitments and fund our operations for the next twelve months.

We have no material off balance sheet arrangements.

## Cash Flows

### Analysis of Cash Flow Changes Between the Six Months Ended June 30, 2022 and 2021

The following table summarizes our cash flows for the periods indicated:

	Six Months Ended June 30,		
	2022	2021	Change
	(in thousands)		
Net cash provided by (used in) operating activities	\$ (7,628.2)	\$ 2,225.2	\$ (9,853.4)
Net cash provided by (used in) investing activities	(55,303.8)	(91,457.2)	36,153.4
Net cash provided by (used in) financing activities	64,129.1	132,643.6	(68,514.5)
Net change in cash	<u>\$ 1,197.1</u>	<u>\$ 43,411.6</u>	<u>\$ (42,214.5)</u>

*Operating Activities.* Net cash used in operating activities was \$7.6 million for the six months ended June 30, 2022 compared to \$2.2 million provided by operating activities for the six months ended June 30, 2021. The \$9.9 million net

decrease in cash from operating activities was primarily due to increases in operations and maintenance expenses related to the November 2021 Panther Creek Acquisition and increases in general and administrative expenses from higher legal and professional fees, insurance costs, and compensation as we continue to organize and scale operations. Interest expense increased for the same period driven by incremental borrowings discussed in Note 6 – Long-Term Debt in the notes to our financial statements. These increases in cash paid were partially offset by higher proceeds from the sale of digital currencies and higher energy revenue after the acquisition of the Panther Creek Plant.

*Investing Activities.* Net cash used in investing activities was \$55.3 million for the six months ended June 30, 2022 compared to \$91.5 million used in investing activities for the six months ended June 30, 2021. The \$36.2 million decrease in net cash used in investing activities was primarily attributable to lower outflows for equipment deposits, partially offset by higher outflows for the purchase of property, plant and equipment for the continued ramp up of cryptocurrency mining operations. These investments require significant deposits to be made with equipment vendors as commitments for future deliveries of miners and cryptocurrency mining infrastructure. Cash outflows were partially offset by the sale of some of our unproductive, excess or not-in-use assets. See Note 4 – Equipment Deposits and Miner Sales.

*Financing Activities.* Net cash provided by financing activities was \$64.1 million for the six months ended June 30, 2022 compared to \$132.6 million provided by financing activities for the six months ended June 30, 2021. The \$68.5 million net decrease in cash provided by financing activities was due to lower proceeds from private placements in 2022 payments on long-term debt and financed insurance premiums, partially offset by higher proceeds from debt, net of issuance costs paid in cash and payments on long-term debt. See the promissory note, equipment financing agreements and convertible note discussed in Note 6 – Long-Term Debt and Note 14 – Stock Issued Under Master Financing Agreements and Warrants and Note 32 – Convertible Note.

## **Debt Agreements**

We have entered into various debt agreements used to purchase equipment to operate our business.

We entered into the WhiteHawk Financing Agreement on June 30, 2021 and amended the agreement on December 31, 2021 and March 28, 2022. As of June 30, 2022, the amount owed under the debt agreements totaled \$65.0 million with repayment terms extending through March 31, 2024. As of June 30, 2022, the repayment amounts, including interest, totaled \$46.4 million. For additional information, see Note 6 – Long-Term Debt in the notes to our financial statements.

Four draws against the Arctos/NYDIG Financing Agreement (as defined below) totaled \$37.3 million (net of debt issuance costs) secured by our equipment contract commitments for future miner deliveries. As of June 30, 2022, the amount owed under the debt agreements totaled \$20.9 million with repayment terms extending through October 25, 2023. Of the total amount outstanding of \$20.9 million, \$19.5 million was classified as current portion of long-term debt (less discounts and debt issuance costs) and will be repaid as of June 30, 2023. The remaining portion of long-term debt is \$1.3 million (less discounts and debt issuance costs). As of June 30, 2022, the repayment amounts, including interest, totaled \$23.5 million. For additional information, see Note 6 – Long-Term Debt in the notes to our financial statements.

Three draws against the Second NYDIG Financing Agreement totaled \$46.8 million (net of debt issuance costs) secured by our equipment contract commitments for future miner deliveries. As of June 30, 2022, the amount owed under the debt agreements totaled \$44.1 million with repayment terms extending through January 25, 2024. Of the total amount outstanding of \$44.1 million, \$31.5 million was classified as current portion of long-term debt (less discounts and debt issuance costs) and will be repaid as of June 30, 2023. The remaining portion of long-term debt is \$12.6 million (less discounts and debt issuance costs). As of June 30, 2022, the repayment amounts, including interest, totaled \$49.5 million. For additional information, see Note 6 – Long-Term Debt in the notes to our financial statements.

Total net obligations under all debt agreements as of June 30, 2022 were \$127.5 million.

Effective October 21, 2021, we entered into a director and officer insurance policy with annual premiums totaling \$6.9 million. We have executed a Commercial Premium Finance Agreement with AFCO Premium Credit LLC over a term of nine months, with an annual interest rate of 3.454%, that finances the payment of the total premiums owed. The agreement requires a \$1.4 million down payment, with the remaining \$5.5 million plus interest paid over nine months. Monthly payments of \$621.3 thousand started November 21, 2021 and end July 21, 2022. As of June 30, 2022, the premiums were paid in full.



Effective April 29, 2022, we entered into a commercial property insurance policy with annual premiums totaling \$523,076. The Company has executed a Commercial Premium Finance Agreement with AFCO Premium Credit LLC, over a term of eleven months, with an annual interest rate of 5.99%, that finances the payment of the total premiums owed. The agreement requires a \$44,793 down payment, with the remaining \$478,283 plus interest paid over eleven months. Monthly payments of \$44,793 started May 29, 2022 and end March 29, 2023. As of June 30, 2022, the unpaid balance is \$393,260.

### **May 2022 Notes**

On May 15, 2022, we issued \$33.75 million aggregate principal amount of May 2022 Notes to the Purchasers (the "May 2022 Notes"), bearing an interest rate of 10.00% per annum (in arrears) and a maturity date of May 15, 2024. The maturity date for the May 2022 Notes may be accelerated upon certain instances, and the May 2022 Notes may be prepaid at any time in whole or in part, at our election. The holders of the May 2022 Notes (the "Holders") have certain conversion rights. In the event that we, by September 30<sup>th</sup>, 2022, (i) have achieved a total equity market capitalization of at least \$400 million, based on the 20-day VWAP of our common stock and (ii) have at least 60 million shares of common stock outstanding, the full amount outstanding and accrued but unpaid interest on the May 2022 Notes shall automatically convert into a number of shares of Series C Preferred Stock, provided that the Series C Preferred Certificate of Designation has been filed. Upon such conversion, dividends will accrue at a rate of 8.0% per annum on the Series C Preferred Stock. Beginning October 1, 2022, if the May 2022 Notes have not converted into shares of Series C Preferred Stock, we will begin paying off the May 2022 Notes in quarterly installments in amounts equal to the greater of (i) 8% of our consolidated revenue from each trailing quarter or (ii) \$5.4 million, payable at our option in either cash or up to 50% of the shares of common stock at a 20% discount to the 20-day VWAP. Each of our subsidiaries, subject to the exclusions therein, executed a guaranty agreement with the Holders to guaranty our obligations under the May 2022 Notes.

### **Equipment Purchase and Financing Transactions**

#### **MinerVa Semiconductor Corp Purchase Agreement**

On April 2, 2021, we entered into the MinerVa Purchase Agreement for the acquisition of 15,000 of their MV7 ASIC SHA256 model cryptocurrency miner equipment (miners) with a total terahash to be delivered equal to 1.5 million terahash. The price per miner is \$4,892.50 for an aggregate purchase price of \$73,387,500 to be paid in installments. The first installment of 60% of the purchase price, or \$44,032,500, was paid on April 2, 2021, and an additional payment of 20% of the purchase price, or \$14,677,500, was paid on June 2, 2021. As of December 31, 2021, there are no remaining deposits owed. In December 2021, we extended the deadline for delivery of the MinerVa miners to April 2022. In March 2022, MinerVa was again unable to meet its delivery date and had only delivered approximately 3,350 of the 15,000 miners. We do not know when the remaining MinerVa miners will be received, if at all. As a result, we may write off some or all of the approximately 7,800 undelivered MinerVa miners. Refer to Note 30 – Covenants that describes covenants referencing the anticipated final delivery timeframe of April 2022. On July 18, 2022, the Company provided written notice of dispute to MinerVa pursuant to the MinerVa Purchase Agreement obligating the Company and MinerVa to work together in good faith towards a resolution for a period of sixty (60) days. In accordance with the MinerVa Purchase Agreement, if no settlement has been reached after sixty (60) days, Stronghold may end discussions and declare an impasse and adhere to the dispute resolution provisions of the MinerVa Purchase Agreement. The aggregate purchase price does not include shipping costs, which are our responsibility and shall be determined at which time the miners are ready for shipment.

#### **Nowlit Solutions Corp Purchase Agreement**

We entered into a hardware purchase and sales agreement with Nowlit Solutions Corp effective April 1, 2021. Hardware includes, but is not limited to, ASIC miners, power supply units, power distribution units and replacement fans for ASIC miners. All hardware must be paid for in advance before it is shipped to us. We made payments totaling \$5,657,432 in April 2021 and costs have been capitalized and reported as property and equipment.

We also entered into two additional separate purchases of miners from Nowlit Solutions Corp. The first purchase payment was made on November 23, 2021, in the amount of \$1,605,360 for 190 miners. The second purchase payment was made on November 26, 2021, in the amount of \$2,486,730 for an additional 295 miners.

#### **Cryptech Solutions Purchase Agreement**

We entered into a hardware purchase and sales agreement with Cryptech effective April 1, 2021. Hardware includes, but is not limited to, ASIC miners, power supply units, power distribution units and replacement fans for ASIC miners. Total purchase price is \$12,660,000 for 2,400 BitmainS19j miners to be delivered monthly in equal quantities (200 per month) from November 2021 through October 2022. All hardware must be paid for in advance before it is shipped to us. We made a 30% down payment of \$3,798,000 on April 1, 2021 with the remaining 70% or \$8,862,000, agreed to be paid in 17 installments.

On December 7, 2021, we entered into the Cryptech Purchase Agreement with Cryptech to acquire the Cryptech miners with a hash rate of 96 TH/s for a total purchase price of \$8,592,000. Pursuant to the Cryptech Purchase Agreement, all hardware will be paid for in advance of being shipped to the Company.

#### Supplier Purchase Agreements

On April 14, 2021, we entered into an agreement with a supplier to provide approximately 9,900 miners for \$21,011,287. We were required to make an initial payment on the miners that are currently being delivered starting in October 2021 (refer to Note 33 – Subsequent Events in the notes to our financial statements for further discussions). We made a 75% deposit of \$15,758,432 in April 2021, and the remaining 25%, or \$5,252,755 plus sales taxes has been invoiced in October 2021. Once operational, after deducting an amount equal to \$0.027 per kWh for the actual power used, 65% of all cryptocurrency revenue generated by the miners in the supplier's pods shall be payable to us and 35% of all cryptocurrency revenue generated by the miners shall be payable to this party or its designee. As of June 30, 2022, there are no miners operating that will contractually obligate the Company to pay the 35% revenue share (refer to Note 33 – Subsequent Events in the notes to our financial statements for further discussions).

On December 10, 2021, we entered into a Hardware Purchase and Sale Agreement (the “First Supplier Purchase Agreement”) to acquire 3,000 M30S Miners with a hash rate per unit of 87 TH/s. Pursuant to the First Supplier Purchase Agreement, the unit price per M30S Miner is \$6,960 for a cumulative purchase price of \$20,880,000 that was paid in full within five business days of the execution of the First Supplier Purchase Agreement.

On December 16, 2021, we entered into a Second Hardware Purchase and Sale Agreement (the “Second Supplier Purchase Agreement”) to acquire a cumulative amount of approximately 4,280 M30S+ Miners. Pursuant to the Second Supplier Purchase Agreement, the unit price per M30S Miner is \$2,714 and the unit price per M30S+ Miner is \$3,520 for a cumulative purchase price of \$11,340,373.

#### Bitmain Technologies Limited Purchase Agreement

On October 28, 2021, we entered into the first of two Non-Fixed Price Sales and Purchase Agreements with Bitmain. This first agreement covers six batches of 2,000 miners, or 12,000 in total, arriving on a monthly basis from April through September 2022. Each batch has an assigned purchase price that totals to \$75,000,000, to be paid in three installments of 25%, 35% and 40% over the six-month delivery period. Per the agreement, on October 29, 2021, the Company made a \$23,300,000 payment comprised of the 25% installment payment plus 35% of the April 2022 batch of 2,000 miners that have an assigned purchase price of \$13,000,000. On November 18, 2021, the Company made an additional payment of 35% or \$4,550,000 towards the April 2022 batch of miners. During the three-month period ending June 30, 2022, the Company paid installments totaling \$17.4 million.

On November 16, 2021, we entered into the second Non-Fixed Price Sales and Purchase Agreement with Bitmain. This second agreement covers six batches of 300 miners, or 1,800 in total, arriving on a monthly basis from July 2022 through December 2022. Each batch has an assigned purchase price that totals \$19,350,000, to be paid in three installments of 35%, 35%, and 30% of the total purchase price over the six-month delivery period. Per the second Non-Fixed Price Sales and Purchase Agreement, on November 18, 2021, the Company paid the first installment payment of 35% or \$6,835,000. During the three-month period ending March 31, 2022, the Company paid three installments totaling \$3,528,000.

The miners purchased pursuant to the two agreements with Bitmain will have an aggregate hash rate capacity of approximately 1,450 PH/s.

#### Luxor Technology Corporation Purchase Agreement

We paid for three separate purchases of miners from Luxor. The first purchase payment was made on November 26, 2021, in the amount of \$4,312,650 for 770 miners. The second and third purchase payments were made on November 29, 2021, in the amount of \$5,357,300 and \$3,633,500 respectively; for an additional 750 and 500 miners.

On November 30, 2021, we entered into a fourth purchase agreement with Luxor to acquire 400 Antminer T19 miners with a hash rate of 84 TH/s and 400 Antminer T19 miners with a hash rate of 88 TH/s for a total purchase price of \$6,260,800.

#### Arctos/NYDIG Financing Agreement

On June 25, 2021, we entered into a \$34,481,700 ("Maximum Advance Amount") master equipment financing agreement with an affiliate of Arctos Credit, LLC ("Arctos," now known as "NYDIG") (the "Arctos/NYDIG Financing Agreement"). The aggregate principal outstanding bears interest of 10% and will be repaid in 24 monthly payments, with a 1.25% fee due if the Maximum Advance Amount is not requested prior to August 15, 2021. Outstanding borrowings under the Arctos/NYDIG Financing Agreement are secured by certain miners and the contracts to acquire such miners. The Arctos/NYDIG Financing Agreement includes customary restrictions on additional liens on the Arctos/NYDIG Financed Equipment. As of June 30, 2022, \$35.7 million (net of debt issuance costs) has been borrowed, leaving zero funds available to be drawn under the Arctos/NYDIG Financing Agreement. The Arctos/NYDIG Financing Agreement may not be terminated by us or prepaid in whole or in part. In conjunction with the Arctos/NYDIG Financing Agreement, we issued 126,273 shares of Class A common stock to Arctos (adjusted for the Stock Split) and may issue additional shares of Class A common stock to Arctos in consideration of future financings.

On January 31, 2022, we and NYDIG amended the Arctos/NYDIG Financing Agreement (the "NYDIG Amendment") to include (i) 2,140 M30S+ Miners and (ii) 2,140 M30S Miners we purchased pursuant to a purchase agreement dated December 16, 2021, totaling \$12,622,816 of additional borrowing capacity. We will pay an aggregate closing fee of \$504,912 to NYDIG. The NYDIG Amendment requires that we maintain a blocked wallet or other account for deposits of all mined currency.

#### NYDIG ABL LLC Financing Agreement

On December 15, 2021, we entered into the Second NYDIG Financing Agreement with NYDIG whereby NYDIG agreed to lend us up to \$53,952,000 to finance the purchase of the Second NYDIG-Financed Equipment. Outstanding borrowings under the Second NYDIG Financing Agreement are secured by the Second NYDIG-Financed Equipment, contracts to acquire Second NYDIG-Financed Equipment, and the Bitcoin mined by the Second NYDIG-Financed Equipment. The Second NYDIG Financing Agreement includes customary restrictions on additional liens on the Second NYDIG-Financed Equipment. The Second NYDIG Financing Agreement may not be terminated by us or prepaid in whole or in part.

#### WhiteHawk Financing Agreement

On June 30, 2021, we entered into an equipment financing agreement (the "WhiteHawk Financing Agreement") with WhiteHawk whereby WhiteHawk agreed to lend to us an aggregate amount not to exceed \$40.0 million (the "Total Advance") to finance the purchase of certain Bitcoin miners and related equipment (the "WhiteHawk-Financed Equipment"). At August 30, 2021, the entirety of the Total Advance was drawn under the WhiteHawk Financing Agreement. The aggregate principal outstanding bears interest of 10% and will be repaid in 24 monthly payments. Outstanding borrowings under the WhiteHawk Financing Agreement are secured by the WhiteHawk Financed Equipment and the contracts to acquire the WhiteHawk-Financed Equipment. The WhiteHawk Financing Agreement includes customary restrictions on additional liens on the WhiteHawk-Financed Equipment and is guaranteed by the Company. The WhiteHawk Financing Agreement may be terminated early if we, among other things, pay the Early Termination Fee (as defined therein). In conjunction with the WhiteHawk Financing Agreement, we issued a stock purchase warrant to WhiteHawk, which provides for the purchase of a number of shares of Class A common stock at \$0.01 per share, equal to approximately \$2.0 million, subject to adjustment as described in the warrant agreement (the "WhiteHawk Warrant"). The WhiteHawk Warrant expires on June 30, 2031.

On December 31, 2021, we amended the WhiteHawk Financing Agreement (the "WhiteHawk Amendment") to extend the final MinerVa delivery date from December 31, 2021 to April 30, 2022. Pursuant to the WhiteHawk Amendment, Equipment, LLC paid an amendment fee in the amount of \$250,000 to WhiteHawk. On March 28, 2022, Equipment LLC and WhiteHawk again amended the WhiteHawk Financing Agreement to exchange the collateral under the WhiteHawk Financing Agreement. Pursuant to the Second WhiteHawk Amendment, (i) the approximately 11,700 remaining miners

under the MinerVa Purchase Agreement were exchanged as collateral for additional miners received by us from other suppliers and (ii) WhiteHawk agreed to lend to us the Second Total Advance. Pursuant to the Second WhiteHawk Amendment, Equipment, LLC paid an amendment fee in the amount of \$275,414.40 and a closing fee with respect to the Second Total Advance of \$500,000. In addition to the purchased Bitcoin miners and related equipment, Panther Creek and Scrubgrass each agreed to a negative pledge of the Panther Creek Plant and Scrubgrass Plant, respectively, and guaranteed the WhiteHawk Financing Agreement. Each of the negative pledge and the guaranty by Panther Creek and Scrubgrass will be released upon payment in full of the Second Total Advance, regardless of whether the Total Advance remains outstanding. In conjunction with the Second WhiteHawk Amendment, we issued a warrant to WhiteHawk to purchase 125,000 shares of Class A common stock, subject to certain antidilution and other adjustment provisions as described in the Second WhiteHawk Warrant, at an exercise price of \$0.01 per share. The Second WhiteHawk Warrant expires on March 28, 2032. While we continue to engage in discussions with MinerVa on the delivery of the remaining miners, we do not know when the remaining miners will be delivered, if at all.

### **Tax Receivable Agreement**

The TRA generally provides for the payment by Stronghold Inc. to certain of the Stronghold Unit Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax and franchise tax (computed using the estimated impact of state and local taxes) that Stronghold Inc. actually realizes (or is deemed to realize in certain circumstances) as a result of (i) certain increases in tax basis that occur as a result of Stronghold Inc.'s acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such holder's Stronghold LLC Units pursuant to an exercise of Redemption Right or the Call Right and (ii) imputed interest deemed to be paid by Stronghold Inc. as a result of, and additional tax basis arising from, any payments Stronghold Inc. makes under the TRA. Stronghold Inc. will retain the remaining net cash savings, if any. The TRA generally provides for payments to be made as Stronghold Inc. realizes actual cash tax savings from the tax benefits covered by the TRA. However, the TRA provides that if Stronghold Inc. elects to terminate the TRA early (or it is terminated early due to Stronghold Inc.'s failure to honor a material obligation thereunder or due to certain mergers, asset sales, other forms of business combinations or other changes of control), Stronghold Inc. is required to make an immediate payment equal to the present value of the future payments it would be required to make if it realized deemed tax savings pursuant to the TRA (determined by applying a discount rate equal to one-year LIBOR (or an agreed successor rate, if applicable) plus 100 basis points, and using numerous assumptions to determine deemed tax savings), and such early termination payment is expected to be substantial and may exceed the future tax benefits realized by Stronghold Inc.

The actual timing and amount of any payments that may be made under the TRA are unknown at this time and will vary based on a number of factors. However, Stronghold Inc. expects that the payments that it will be required to make to Q Power (or its permitted assignees) in connection with the TRA will be substantial. Any payments made by Stronghold Inc. to Q Power (or its permitted assignees) under the TRA will generally reduce the amount of cash that might have otherwise been available to Stronghold Inc. or Stronghold LLC. To the extent Stronghold LLC has available cash and subject to the terms of any current or future debt or other agreements, the Stronghold LLC Agreement will require Stronghold LLC to make pro rata cash distributions to holders of Stronghold LLC Units, including Stronghold Inc., in an amount sufficient to allow Stronghold Inc. to pay its taxes and to make payments under the TRA. Stronghold Inc. generally expects Stronghold LLC to fund such distributions out of available cash. However, except in cases where Stronghold Inc. elects to terminate the TRA early, the TRA is terminated early due to certain mergers or other changes of control or Stronghold Inc. has available cash but fails to make payments when due, generally Stronghold Inc. may defer payments due under the TRA if it does not have available cash to satisfy its payment obligations under the TRA or if its contractual obligations limit its ability to make these payments. Any such deferred payments under the TRA generally will accrue interest at the rate provided for in the TRA, and such interest may significantly exceed Stronghold Inc.'s other costs of capital. If Stronghold Inc. experiences a change of control (as defined under the TRA, which includes certain mergers, asset sales and other forms of business combinations), and in certain other circumstances, payments under the TRA may be accelerated and/or significantly exceed the actual benefits, if any, Stronghold Inc. realizes in respect of the tax attributes subject to the TRA. In the case of such an acceleration in connection with a change of control, where applicable, Stronghold Inc. generally expects the accelerated payments due under the TRA to be funded out of the proceeds of the change of control transaction giving rise to such acceleration, which could have a significant impact on our ability to consummate a change of control or reduce the proceeds received by our stockholders in connection with a change of control. However, Stronghold Inc. may be required to fund such payment from other sources, and as a result, any early termination of the TRA could have a substantial negative impact on our liquidity or financial condition.

## Recent Accounting Pronouncements

As an “emerging growth company”, the Jumpstart Our Business Startups Act (“JOBS Act”) allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We have elected to use this extended transition period under the JOBS Act. The adoption dates discussed below reflect this election.

In February 2016, FASB issued ASU 2016-02, Leases (“Topic 842”), which supersedes ASC Topic 840, Leases. Topic 842 requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. Topic 842 will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In November 2020, FASB deferred the effective date for implementation of Topic 842 by one year and, in June 2020, FASB deferred the effective date by an additional year. Beginning after December 15, 2021 and the six months ended June 30, 2021, the guidance under Topic 842 is effective. We are still in the process of developing our new accounting policies and determining the potential aggregate impact this guidance is likely to have on our unaudited consolidated financial statements as of its adoption date.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of such date for the reasons stated below.

During the course of preparing for the IPO, we and our independent registered public accounting firm identified a material weakness in internal control over financial reporting. We concluded that our internal control over financial reporting did not result in the proper classification of our outstanding shares of Class V common stock as mezzanine equity which, due to its impact on our consolidated financial statements, we determined to be a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements could not be prevented or detected on a timely basis. We identified a material weakness in our controls over the accounting for mezzanine and permanent equity and complex financial instruments. The controls to evaluate the accounting for complex financial instruments, such as mezzanine and permanent equity, did not operate effectively to appropriately apply the provisions of ASC 480-10-10- S99-3A. This material weakness resulted in the failure to prevent a material error in the accounting for mezzanine and permanent equity and the resulting restatement of our previously issued financial statements. The previous restatement to our June 30, 2021 interim balance sheet resulted in a balance sheet adjustment that reclassified the shares of Class V common stock as mezzanine equity at the maximum redemption value under the Redemption Right, net of the non-controlling equity interest. As a result, \$167.7 million of permanent equity was reclassified to mezzanine equity. The reason for the reclassification from permanent equity to mezzanine equity related to the fact that the Class V common stock, together with the corresponding Class A common units of Stronghold LLC, held by Q Power can be redeemed by Q Power and, in response to a redemption request from Q Power, can be repurchased by the Company in exchange for either shares of the Company’s Class A common stock or, at the Company’s election, cash of equivalent value. In addition, during our year-end audit, we and our independent registered public accounting firm identified deficiencies that constitute an additional material weakness in internal control over financial reporting as of and for the year ended December 31, 2021. There was a lack of cohesion between departments within the organization, reduced discipline

in the accuracy of recording transactions, and a lack of review and reconciliation in areas of the accounting function. We have concluded that the Company's internal controls over financial reporting did not timely detect material misstatements.

#### ***Remediation Plan for Material Weaknesses***

Remediation generally requires making changes to how controls are designed and implemented and then adhering to those changes for a sufficient period of time such that the effectiveness of those changes is demonstrated with an appropriate amount of consistency. In response to the material weaknesses, we implemented, and are continuing to implement, measures designed to improve our internal control over financial reporting. These measures include formalizing our processes and internal control documentation, strengthening supervisory reviews by our financial management, hiring additional qualified accounting and finance personnel, and engaging financial consultants to enable the implementation of internal control over financial reporting. Additionally, we are implementing certain accounting systems to upgrade our existing systems and to automate certain manual processes. The measures we are implementing are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. Management remains committed to the implementation of remediation efforts to address the material weakness. We will continue to implement measures to remedy our internal control deficiencies, though there can be no assurance that our efforts will ultimately have the intended effects.

Notwithstanding the identified material weaknesses, management believes the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented in accordance with U.S. generally accepted accounting principles.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) during the six months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

Due to the nature of our business, we are, from time to time, involved in other litigation or subject to disputes or claims related to our business activities, including workers' compensation claims and employment related disputes. In the opinion of our management, none of the pending litigation, disputes or claims against us, if decided adversely, will have a material adverse effect on our financial condition, cash flows or results of operations. For more information, please reference "Note 8 – Commitments and Contingencies" in the notes to our financial statements.

Except as set forth below, there have been no material changes in our legal proceedings from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

#### *Allegheny Mineral Corporation v. Scrubgrass Generating Company, L.P., Butler County Court of Common Pleas, No. AD 19-11039*

In November 2019, Allegheny Mineral filed suit against the Company seeking payment of approximately \$1,200,000 in outstanding invoices. In response, the Company filed counterclaims against Allegheny Mineral asserting breach of contract, breach of express and implied warranties, and fraud in the amount of \$1,300,000. The case was unsuccessfully mediated in August 2020. At this time, there is a discovery deadline currently scheduled for October 31, 2022. Management believes that this litigation is unlikely to have a material adverse effect on the Company's consolidated financial position or results of operations.

#### *McClymonds Supply & Transit Company, Inc. and DTA, L.P. vs. Scrubgrass Generating Company, L.P.*

This matter has been finally determined. On May 9, 2022, an award in the amount of \$5.0 million plus interest computed as of May 15, 2022 in the amount of \$0.8 million was issued in favor of the McClymonds Supply & Transit Company, Inc. in the previously disclosed dispute over a trucking contract between the claimant and our subsidiary. The two managing members of Q Power, LLC, our primary Class V shareholder, have agreed to pay the full amount of the award such that there will be no effect on the financial condition of the Company. See "Note 33- Subsequent Events".

#### *PJM Notice of Breach*

On November 19, 2021, Scrubgrass received a notice of breach from PJM alleging that Scrubgrass breached Interconnection Service Agreement – No. 1795 (the "ISA") by failing to provide advance notice to PJM Interconnection, LLC and Mid-Atlantic Interstate Transmission, LLC ("MAIT") pursuant to ISA, Appendix 2, section 3, of modifications made to the Scrubgrass Plant. On December 16, 2021, Scrubgrass responded to the notice of breach and respectfully disagreed that the ISA had been breached. On January 7, 2022, Scrubgrass participated in an information gathering meeting with representatives from PJM regarding the notice of breach and Scrubgrass continues to work with PJM regarding the dispute, including conducting a necessary study agreement with respect to the Scrubgrass Plant. On January 20, 2022, the Company sent PJM a letter regarding the installation of a resistive computational load bank at the Panther Creek Plant. On March 1, 2022, the Company executed a necessary study agreement with respect to the Panther Creek Plant. On May 11, 2022, the Division of Investigations of the FERC Office of Enforcement ("OE") informed the Company that the Office of Enforcement is conducting a non-public preliminary investigation concerning Scrubgrass' compliance with various aspects of the PJM tariff. The OE requested that the Company provide certain information and documents concerning Scrubgrass' operations by June 10, 2022. On July 13, 2022, after being granted an extension to respond by the OE, the Company submitted a formal response to the OE's request. The OE has not alleged any specific instances of non-compliance by Scrubgrass. The Company does not believe the PJM notice of breach, the Panther Creek necessary study agreement, or the investigation by the OE will have a material adverse effect on the Company's reported financial position or results of operations.

#### *Winter v. Stronghold Digital Mining Inc., et al., U.S. District Court for the Southern District of New York*

Additionally, on April 14, 2022, the Company, and certain of our current and former directors, officers and underwriters were named in a putative class action complaint filed in the United States District Court for the Southern District of New York. In the complaint, the plaintiffs allege that the Company made misleading statements and/or failed to disclose material facts in violation of Section 11 of the Securities Act, 15 U.S.C. §77k and Section 15 of the Securities Act, about the Company's business, operations, and prospects in the Company's registration statement on Form S-1 related to its initial public offering, and when subsequent disclosures were made regarding these operational issues when the

Company announced its fourth quarter and full year 2021 financial results, the Company's stock price fell, causing significant losses and damages. As relief, the plaintiffs are seeking, among other things, compensatory damages. On August 4, 2022, co-lead plaintiffs were appointed. We anticipate plaintiffs will file an amended complaint in the next few weeks and anticipate that defendants will move to dismiss the amended complaint. The defendants believe the allegations in the initial complaint are without merit and intend to defend the suit vigorously.

#### **Item 1A. Risk Factors**

Investing in our Class A common stock involves risks. You should carefully consider the information in this Quarterly Report on Form 10-Q, including the matters addressed under "Cautionary Note Regarding Forward-Looking Statements" and the following risks before making an investment decision. Our business, financial condition and results of operations could be materially adversely affected by any of these risks or uncertainties. The trading price of our Class A common stock could decline due to any of these risks, and you may lose all or part of your investment.

Except as set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

##### ***We may be unable to raise additional capital needed to grow our business.***

We have operated and expect to continue to operate at a loss as we continue to establish our business model and if Bitcoin prices continue to be low or decline further. In addition, we expect to need to raise additional capital to expand our operations, pursue our growth strategies and to respond to competitive pressures or working capital requirements. We may not be able to obtain additional debt or equity financing on favorable terms, if at all, which could impair our growth and adversely affect our existing operations. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per share value of our Class A common stock could decline. Furthermore, if we engage in additional debt financing, the holders of debt likely would have priority over the holders of our Class A common stock on order of payment preference. We may be required to accept terms that restrict our ability to incur additional indebtedness, take other actions including accepting terms that require us to maintain specified liquidity or other ratios that could otherwise not be in the interests of our stockholders.

##### ***Our substantial indebtedness could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations.***

As of June 30, 2022 and August 12, 2022, we had outstanding indebtedness of \$127.9 million and \$141.0 million, respectively. Our outstanding indebtedness could have important consequences such as:

- limiting our ability to obtain additional financing to fund growth, such as mergers and acquisitions; working capital; capital expenditures; debt service requirements; future asset and power-generation facility purchases; or other cash requirements, either on more favorable terms or at all;
- requiring much of our cash flow to be dedicated to interest or debt repayment obligations and making it unavailable for other purposes;
- causing us to need to sell assets or properties at inopportune times;
- exposing us to the risk of increased interest costs if the underlying interest rates rise on our variable rate debt;
- limiting our ability to invest operating cash flow in our business (including to obtain new assets and power-generation facilities or make capital expenditures) due to debt service requirements;
- limiting our ability to compete effectively with companies that are not as leveraged and that may be better positioned to withstand economic downturns, operational challenges and fluctuations in the price of cryptocurrency;
- limiting our ability to acquire new assets and power-generation facilities needed to conduct operations; and
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and general economic and market conditions.

We may incur substantially more debt in the future. If our indebtedness is further increased, the related risks that we now face, including those described above, would increase. In addition to the principal repayments on outstanding debt, we have other demands on our cash resources, including significant maintenance and other capital expenditures and operating expenses. Our ability to pay our debt depends upon our operating performance. If we do not have enough cash to satisfy our debt service obligations, we may be required to refinance all or part of our debt, restructure our debt, sell assets, limit



certain capital expenditures, or reduce spending or we may be required to issue equity at prices that dilute our existing shareholders. Whether or not those kinds of actions are successful, we might seek protections of applicable bankruptcy laws. We may not be able to, at any given time, refinance our debt or sell assets and we may not be able to, at any given time, issue equity, in either case on acceptable terms or at all. Additionally, all of our indebtedness is senior to the existing common stock in our capital structure. As a result, if we were to seek certain restructuring transactions, either within or outside of Chapter 11, our creditors would experience better returns as compared to our equity holders. Any of these actions could have a material adverse effect on the value of our equity.

***We are dependent on third-party brokers and direct suppliers to source some of our miners and we have experienced delays in the delivery of some of the miners we have purchased from certain brokers and suppliers, which delays have had, and additional delays could continue to have, a material adverse effect on our business, prospects or operations.***

We rely on third-party brokers and direct suppliers to source some of our miners. We have experienced significant delays in the delivery of certain of the miners we have purchased, which delays have materially adversely affected us. For example, due to a delay in miner deliveries from MinerVa, we recorded an impairment charge totaling \$12,228,742 on March 31, 2022. There is no assurance that we will not experience additional delays in the future. Many of the competitors in our industry have also been purchasing mining equipment at scale, which has caused a world-wide shortage of mining equipment and extended the corresponding delivery schedules for new miner purchases. We cannot ensure that our brokers or suppliers will perform services to our satisfaction or on commercially reasonable terms. The recent increased demand for miners has also limited the supply of miners that brokers may source for us. Our brokers or suppliers may also decline our orders to fulfill those of our competitors, putting us at competitive harm. There are no assurances that any miner manufacturers will be able to keep pace with the surge in demand for mining equipment. Further, resource constraints or regulatory actions could also impact our ability to obtain and receive miners. For example, China has been experiencing power shortages, and certain of our miner suppliers have been impacted by related intermittent power outages. Additionally, certain companies, including Bitmain, may move their production of miners out of China and into other countries following the September 2021 blanket ban on crypto mining and transactions by Chinese regulators. Such power outages and production relocations could result in cancellations or delays and may negatively impact our ability to receive mining equipment on a timely basis or at all. If our brokers or suppliers are not able to provide the agreed services at the level of quality and quantity we require or become unable to handle the volume of miners we seek, we may not be able to replace such brokers or suppliers in a timely manner. Any delays, interruption or increased costs could have a material adverse effect on our business, prospects or operations.

***We cannot predict the outcome of the legal proceedings with respect to our current and past business activities. An adverse determination could have a material adverse effect on our business, financial condition and results of operations.***

We are involved in legal proceedings, claims and litigation arising out of our business operations, including disputes with suppliers of raw materials to our power generation facility, with truckers on whom we rely for the delivery of coal refuse and other raw materials, labor and employment disputes, and other commercial disputes. For example, on May 9, 2022, an arbitration award in the amount of \$5,042,350.46 plus interest computed as of May 15, 2022 in the amount of \$793,193.99 was issued in favor of the claimant, a trucking company, against one of our subsidiaries in a commercial dispute over a trucking contract between the claimant and our subsidiary. In addition, we were recently served with a putative class-action lawsuit by a stockholder relating to a drop in our stock price following our disclosure about the delays we have experienced in the delivery of certain miners we have purchased from MinerVa and other recent operational issues that have adversely affected our results of operations. We cannot predict the ultimate outcome of these types of matters before they are resolved, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

***We have experienced unexpected operational downtime or outages at our power generation facilities and may experience such downtime or outages again in the future, resulting in increased expenses and reduced revenues.***

The operation of our power generation facilities, information technology systems and other assets and conduct of other activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply, failure to receive spare parts in a timely manner, and performance below expected levels. During the second quarter of 2022 to date, the Panther Creek Plant's mining operations were offline for ten days due to the failure of a switchgear and the need to source, deliver and install a new piece of equipment, causing ten days of no mining revenue generation at the facility and resulting in an estimated loss of approximately \$1.4 million.

As previously disclosed in the Company's Form 8-K dated July 25, 2022, the Panther Creek Plant experienced approximately 8.5 days of unplanned downtime in the month of June from damaged transmission lines caused by a storm,

and other plant maintenance issues. The Company estimates the financial impact of the June outages to be lost revenue of \$1.8 million and a net income impact of \$1.4 million. **Further, in the third quarter of 2022, both the Scrubgrass Plant and the Panther Creek Plant will undergo planned maintenance, during which time they will not be generating power.**

These events have impacted, and may in the future impact, our ability to conduct our businesses efficiently, leading to increased costs, expenses or losses. Planned and unplanned outages at our power generation facilities may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them. Having to purchase power at then-market rates could also have a negative impact on the cost structure of our crypto asset mining operations.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us fully in the event losses occur.

***Our coal refuse power generation facilities are members of PJM, a regional transmission organization, which can require that we supply power to the grid at times that are not optimal to our operations.***

As a member of PJM, we are subject to the operations of PJM, and our coal refuse power generation facilities are under dispatch control of PJM. PJM balances its participants' power requirements with the power resources available to supply those requirements. Based on this evaluation of supply and demand, PJM schedules and dispatches available generating facilities throughout its region in a manner intended to meet the demand for energy in the most reliable and cost-effective manner. During the first quarter of 2022 and the beginning of the second quarter of 2022, higher than anticipated requirements from PJM resulted in unplanned and extended outages of our mining operations, diverting capacity away from our mining operations at a time that was not economical for our business strategy. These diversions of power away from our mining operations had a material adverse effect on our business, financial condition and results of operations. To the extent we are required to supply power to PJM for a sustained period of time in the future, we could experience additional unplanned and extended outages of our mining operations, which could have a material adverse effect on our business, financial condition and results of operations.

***The trading price of shares of our common stock has been volatile.***

The trading price of our common stock has been, and is likely to continue to be, volatile, and may be influenced by various factors beyond our control as well as those discussed in our "Risk Factors" set forth in our Annual Report on Form 10-K and herein, including, but not limited to:

- the underlying volatility in pricing of, and demand for, energy and/or Bitcoin.
- price and volume fluctuations in the stock markets generally which create highly variable and unpredictable pricing of equity securities;
- actual or anticipated variations in our annual or quarterly results of operations, including our earnings estimates and whether we meet market expectations with regard to our earnings;
- significant volatility in the market price and trading volume of securities of companies in the sectors in which our business operates, which may not be related to the operating performance of these companies and which may not reflect the performance of our businesses;
- loss of a major funding source;
- operating performance of companies comparable to us;
- changes in regulations or tax law, including those affecting the holding, transferring or mining of cryptocurrency;
- share transactions by principal stockholders;
- recruitment or departure of key personnel;
- general economic trends and other external factors including inflation and interest rates;
- increased scrutiny by governmental authorities or individual actors or community groups regarding our business, our competitors or the industry in which we operate;
- publication of research reports by analysts and others about us or the cryptocurrency mining industry, which may be unfavorable, inaccurate, inconsistent or not disseminated on a regular basis;
- sentiment of retail investors about our Class A common stock and business generally (including as may be expressed on financial trading and other social media sites and online forums); and speculation in the media or investment community about us or the cryptocurrency industry more broadly.

***Our future success will depend upon the value of Bitcoin and other crypto assets; the value of Bitcoin may be subject to pricing risk and has historically been subject to wide swings.***

Our operating results will depend on the value of Bitcoin because it is the only crypto asset we currently mine. Specifically, our revenues from our Bitcoin mining operations are based on two factors: (1) the number of Bitcoin rewards we successfully mine and (2) the value of Bitcoin. In addition, our operating results are directly impacted by changes in the

value of Bitcoin, because under the value measurement model, both realized and unrealized changes will be reflected in our statement of operations (i.e., we will be marking Bitcoin to fair value each quarter). This means that our operating results will be subject to swings based upon increases or decreases in the value of Bitcoin. Further, our current miners are principally utilized for mining Bitcoin and do not generally mine other crypto assets, such as Ether, that are not mined utilizing the “SHA-256 algorithm.” If other crypto assets were to achieve acceptance at the expense of Bitcoin causing the value of Bitcoin to decline, or if Bitcoin were to switch its proof of work encryption algorithm from SHA-256 to another algorithm for which our miners are not specialized, or the value of Bitcoin were to decline for other reasons, particularly if such decline were significant or over an extended period of time, our operating results would be adversely affected, and there could be a material adverse effect on our ability to continue as a going concern or to pursue our strategy at all, which could have a material adverse effect on our business, prospects or operations, and harm investors.

The market price of Bitcoin has historically and recently been volatile. For example, since the IPO, the price of Bitcoin has dropped over 70%, resulting in an adverse effect on our results of operations, liquidity and strategy. The market price of Bitcoin is impacted by a variety of factors (including those discussed herein), and is determined primarily using data from various exchanges, over-the-counter markets and derivative platforms. Furthermore, such prices may be subject to factors such as those that impact commodities, more so than business activities, which could be subjected to additional influence from fraudulent or illegitimate actors, real or perceived scarcity, and political, economic, regulatory or other conditions. Pricing may be the result of, and may continue to result in, speculation regarding future appreciation in the value of Bitcoin, or our share price, inflating and making their market prices more volatile or creating “bubble” type risks for both Bitcoin and shares of our securities.

***As a result of the depressed price of Bitcoin as compared to its historical high, the cryptocurrency industry has experienced increased credit pressures that could result in additional demands for credit support by third parties or decisions by banks, surety bond providers, investors or other companies to reduce or eliminate their exposure to Bitcoin and the cryptocurrency industry as a whole, including our company. These credit pressures could materially and adversely impact our liquidity.***

Our business is heavily dependent on the spot price of Bitcoin. The prices of cryptocurrencies, including Bitcoin, have experienced substantial volatility, meaning that high or low prices may be based on speculation and incomplete information, may be subject to rapidly changing investor sentiment, and may be influenced by factors such as technology, regulatory void or changes, fraudulent actors, manipulation, and media reporting. For example, the price of Bitcoin ranged from a low of approximately \$29,000 to a high of approximately \$69,000 during 2021 and has ranged from approximately \$18,000 to approximately \$48,000 year-to-date as of August 12, 2022

Ongoing depressed Bitcoin prices, including the recent decrease to the price of Bitcoin, have resulted in, and could result further in, increased credit pressures on the cryptocurrency industry. These credit pressures, have had a material impact on our business, include, for example, banks, investors and other companies reducing or eliminating their exposure to the cryptocurrency industry. While many of these pressures are directed to the cryptocurrency industry in general, we have had to amend our credit facility with WhiteHawk because of delays in the delivery of miners collateralizing the agreement.

***The closing of the transaction under the Asset Purchase Agreement will be completed in stages as various milestones under a master bill of sale are achieved and will be subject to a number of conditions, some of which are outside of our control. If we are unable to achieve a reduction of the NYDIG Debt through a sale of the APA Collateral, our liquidity and our ability to continue operating as a going concern could be adversely affected.***

On August 16, 2022, we entered into the Asset Purchase Agreement pursuant to which the Sellers have agreed to sell, and the Purchasers or their respective designees have agreed to purchase, the APA Collateral in a private disposition in exchange for the forgiveness, reduction and release of all NYDIG Debt, as various tranches of the APA Collateral are delivered to the Purchasers or their respective designees. The complete closing of the transaction is subject to certain conditions, including the achievement of certain delivery milestones pursuant to a master bill of sale and the completion of an inspection of the APA Collateral by the Purchasers. In the event of material failures to satisfy the inspection conditions, we would be subject to the obligation to replace such APA Collateral with comparable assets, provided that such obligation only applies once the aggregate value exceeds \$426,183.02. If such milestone and related inspection conditions are not met or are not otherwise waived, the closing under the Asset Purchase Agreement may not occur, and portions of the NYDIG Debt may remain outstanding. Further, APA Collateral could become damaged during the cleaning, servicing, packaging, shipping and delivery phases, and we may be obligated to replace such miners for like assets, which could negatively impact our liquidity and cash position.

Even if the closing is achieved in part, we may not realize all of the desired benefits, such as reduced leverage and cost of debt from the cancellation of the NYDIG Debt and resulting increased liquidity, from the transactions contemplated by the Asset Purchase Agreement.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

## Item 6. Exhibits

Exhibit Number	Description
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of Stronghold Digital Mining, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-40931) filed on October 25, 2021).</a>
3.2	<a href="#">Amended and Restated Bylaws of Stronghold Digital Mining, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-40931) filed on October 25, 2021).</a>
4.1	<a href="#">Form of 10% Convertible Note, dated May 15, 2022 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-40931) filed on May 19, 2022).</a>
4.2	<a href="#">Form of 10% Warrant Agreement, dated May 15, 2022 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-40931) filed on May 19, 2022).</a>
10.1†	<a href="#">Transition and Separation Agreement and General Release of Claims, dated April 14, 2022, by and between Stronghold Digital Mining, Inc. and Ricardo R.A. Larroudé (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2022 (File No. 001-40931) filed on May 16, 2022).</a>
10.2†‡	<a href="#">Offer Letter, dated April 14, 2022, by and between Stronghold Digital Mining, Inc. and Matthew J. Smith (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2022 (File No. 001-40931) filed on May 16, 2022).</a>
10.3†	<a href="#">Indemnification Agreement (Indira Agarwal) (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on the Form 10-Q for its quarterly period ended March 31, 2022 (File No. 001-40931) filed on May 16, 2022).</a>
10.4†	<a href="#">Confidentiality, Intellectual Property, Arbitration, Non-Competition and Non-Solicitation Agreement, dated April 13, 2022, by and between Stronghold Digital Mining, Inc. and Matthew J. Smith (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2022 (File No. 001-40931) filed on May 16, 2022).</a>
10.5‡	<a href="#">Note and Warrant Purchase Agreement, dated as of May 15, 2022, by and among Stronghold Digital Mining, Inc. and the Purchasers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-40931) filed on May 19, 2022).</a>
10.6	<a href="#">Guaranty Agreement, dated as of May 15, 2022 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-40931) filed on May 19, 2022).</a>
10.7*‡	<a href="#">Stock Purchase Warrant, dated as of August 3, 2022.</a>
31.1*	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.</a>
31.2*	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.</a>
32.1**	<a href="#">Section 1350 Certification of Chief Executive Officer.</a>
32.2**	<a href="#">Section 1350 Certification of Chief Financial Officer.</a>
101.INS(a)	Inline XBRL Instance Document.
101.SCH(a)	Inline XBRL Schema Document.
101.CAL(a)	Inline XBRL Calculation Linkbase Document.
101.DEF(a)	Inline XBRL Definition Linkbase Document.
101.LAB(a)	Inline XBRL Label Linkbase Document.
101.PRE(a)	Inline XBRL Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

\* Filed herewith.

\*\* Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.

‡ Certain schedules and exhibits to this agreement have been omitted in accordance with Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the SEC on request.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 17, 2022 STRONGHOLD DIGITAL MINING, INC.  
(registrant)

By: /s/ Matthew J. Smith  
Matthew J. Smith  
Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

THE SECURITY REPRESENTED BY THIS CERTIFICATE WAS ORIGINALLY ISSUED ON AUGUST 3, 2022, HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR APPLICABLE STATE SECURITIES LAWS (“STATE ACTS”), AND MAY NOT BE SOLD, ASSIGNED, PLEDGED OR TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR STATE ACTS OR AN EXEMPTION FROM REGISTRATION THEREUNDER. THE TRANSFER OF THE SECURITY REPRESENTED BY THIS CERTIFICATE MAY ALSO BE SUBJECT TO THE RESTRICTIONS DESCRIBED IN SECTION 8 HEREOF, AND NO TRANSFER OF THE SECURITY REPRESENTED BY THIS CERTIFICATE SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL THE TERMS AND CONDITIONS RELATING TO SUCH RESTRICTIONS HAVE BEEN COMPLIED WITH.

**Stronghold Digital Mining, Inc.**

**STOCK PURCHASE WARRANT**

Date of Issuance: August 3, 2022  
(the “Date of Issuance”)

Certificate No. W-3

FOR VALUE RECEIVED, Stronghold Digital Mining, Inc., a Delaware corporation (the “Company”), hereby grants to WhiteHawk Finance LLC, a Delaware limited liability company, and/or its registered assigns (the “Registered Holder”) the right (this “Warrant”) to purchase from the Company a number of shares of Class A common stock, par value \$0.0001 per share, of the Company (“Common Stock”), equal to the Warrant Share Number at a price per share equal to \$0.01 (the “Exercise Price”). This Warrant, and any additional warrants issued from time to time pursuant to the terms hereof, are collectively referred to herein as the “Warrants.” Certain capitalized terms used herein are defined in Section 6, unless the context otherwise requires. The amount and kind of securities obtainable pursuant to the rights granted hereunder are subject to adjustment pursuant to the provisions contained in this Warrant.

This Warrant is being issued pursuant to Section 2B of each of (i) the Stock Purchase Warrant Agreement between the Company and the Registered Holder dated June 30, 2021 and (ii) the Stock Purchase Warrant Agreement between the Company and the Registered Holder dated March 28, 2022.

This Warrant is subject to the following provisions:

Section 1. Exercise of Warrant.

1A. Exercise Period. The holder of this Warrant may exercise, in whole or in part (but not as to a fractional share of Common Stock), the purchase rights represented by this Warrant at any time and from time to time after the Date of Issuance to and including the tenth (10<sup>th</sup>) anniversary hereof (the “Exercise Period”).

1B. Exercise Procedures.

(i) This Warrant shall be deemed to have been exercised (in whole or in part) when the Company has received all of the following items (as the case may be from time to time, the "Exercise Time"):

(a) a completed Exercise Agreement, executed by the Person exercising all or part of the purchase rights represented by this Warrant (the "Purchaser");

(b) this Warrant;

(c) if this Warrant is not registered in the name of the Purchaser, an assignment or assignments in the form of Exhibit A attached hereto (each, an "Assignment") evidencing the assignment of this Warrant to such Purchaser, in which case the Registered Holder shall have complied with the provisions set forth in Section 8; and

(d) either (x) wire transfer of immediately available funds or a check payable to the Company in an amount equal to the product of the Exercise Price and the number of shares of Common Stock being purchased upon such exercise (the "Aggregate Exercise Price") or (y) the surrender to the Company of debt or equity securities of the Company having a Market Price equal to the Aggregate Exercise Price (provided that, for purposes of this Section 1B.(i)(d), the Market Price of any note or other debt security or any preferred stock shall be deemed to be equal to the aggregate outstanding principal amount or liquidation value thereof plus all accrued and unpaid interest thereon or accrued or declared and unpaid dividends thereon).

(ii) As an alternative to the exercise of this Warrant as provided in Section 1B.(i), the holder of this Warrant may exchange all or part of the purchase rights represented by this Warrant by surrendering this Warrant to the Company, together with a written notice to the Company that such holder is exchanging this Warrant (or a portion thereof) for an aggregate number of shares of Common Stock specified in the notice, from which the Company shall withhold and not issue to such holder a number of shares of Common Stock with an aggregate Market Price equal to the Aggregate Exercise Price of the shares of Common Stock specified in such notice (and such withheld shares shall no longer be issuable under this Warrant).

(iii) The Company shall deliver to the Purchaser, no later than five (5) Business Days after any Exercise Time, shares of Common Stock issued upon the applicable exercise of this Warrant ("Warrant Exercise Shares"). Unless the Exercise Period has expired or all of the purchase rights represented hereby have been exercised, the Company shall, in the case of each Exercise Time, prepare a new Warrant, substantially identical hereto, representing the rights formerly represented by this Warrant which have not expired or been exercised and shall, within such five (5) Business Day period, deliver such new Warrant to the Person designated for such delivery in the Exercise Agreement.

(iv) Notwithstanding the five (5) Business Day period described in Section 1B.(iii), the Warrant Exercise Shares shall be deemed to have been issued to the Purchaser at the Exercise Time, and the Purchaser shall be deemed for all purposes to have become the record holder of such Warrant Exercise Shares at the Exercise Time.

(v) The issuance from time to time of Warrant Exercise Shares or any new Warrant shall be made without charge to the Registered Holder or the Purchaser for any issuance tax in respect thereof or other cost incurred by the Company in connection therewith.



Each Warrant Exercise Share shall upon payment of the Exercise Price therefor, be fully paid and nonassessable and free and clear of all liens.

(vi) The Company shall not close its books against the transfer of this Warrant or any Warrant Exercise Shares in any manner which interferes with the timely exercise of this Warrant. The Company shall from time to time take all such action as may be necessary to assure that the par value per share of the unissued Common Stock acquirable upon exercise of this Warrant is at all times equal to or less than the Exercise Price then in effect.

(vii) The Company shall provide reasonable assistance and cooperation to any Registered Holder or Purchaser in connection with any filings required to be made with, or approvals required to be obtained of, any Governmental Authority by such Registered Holder or Purchaser prior to or in connection with any exercise of this Warrant (including by making any filings required to be made by the Company).

(viii) Notwithstanding any other provision hereof, if an exercise of any portion of this Warrant is to be made in connection with a registered public offering or the sale of the Company or any direct or indirect parent of the Company, the exercise of any portion of this Warrant may, at the election of the holder hereof, be conditioned upon the consummation of such registered public offering or sale, in which case such exercise shall not be deemed to be effective until the consummation of such transaction.

(ix) The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock issuable upon the exercise of all outstanding Warrants. The Company shall take all such actions as may be necessary to assure that all such shares of Common Stock may be so issued without violating the Company's governing documents, any applicable Law or any requirements of any U.S. securities exchange upon which shares of Common Stock may be listed. The Company shall not take any action which would cause the number of authorized but unissued shares of Common Stock to be less than the number of such shares required to be reserved hereunder for issuance upon exercise of the Warrants.

(i) Upon any exercise of this Warrant, the Company may require customary investment representations from the Purchaser to the extent necessary to assure that the issuance of the Common Stock hereunder shall not require registration or qualification under the Act, or the rules and regulations promulgated thereunder, or any other applicable securities Laws (including as to the Purchaser's investment intent and as to its status as an "accredited investor" (as defined in Regulation D promulgated under the Act)).

1A. Exercise Agreement. Upon any exercise of this Warrant, the exercise agreement to be delivered by the Purchaser pursuant to Section 1B.(i)(a) shall be substantially in the form attached hereto as Exhibit B (the "Exercise Agreement"), except that if the Warrant Exercise Shares are not to be issued in the name of the Purchaser, the Exercise Agreement shall also state the name of the Person to whom the certificates for such Warrant Exercise Shares are to be issued, and if the number of Warrant Exercise Shares to be issued in connection with such exercise does not include all the shares of Common Stock purchasable hereunder, it shall also state the name of the Person to whom a new Warrant for the unexercised portion of the rights hereunder is to be delivered. Such Exercise Agreement shall be dated the actual date of execution thereof.

Section 2. Adjustment of Number of Warrant Exercise Shares. In order to prevent dilution of the rights granted under this Warrant, the number of shares of Common Stock

obtainable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 2 (including Sections 2A, 2B, 2C and 2D).

2A. Customary Adjustments.

(i) Subdivision or Combination of Common Stock. If the Company at any time prior to the expiration of the Exercise Period subdivides (by any stock split, stock dividend, reclassification, recapitalization or other similar transaction) one or more classes of its Common Stock into a greater number of shares, the number of shares of Common Stock obtainable upon exercise of this Warrant shall be proportionately increased. If the Company at any time prior to the expiration of the Exercise Period combines (by reverse stock split, reclassification, recapitalization or other similar transaction) one or more classes of its Common Stock into a smaller number of shares, the number of shares of Common Stock obtainable upon exercise of this Warrant shall be proportionately decreased.

(ii) Reorganization, Reclassification, Consolidation, Merger or Sale. Prior to the consummation of any Organic Change, the Company shall make appropriate provision to insure that each holder of the Warrants shall thereafter have the right to acquire and receive, in lieu of or in addition to (as the case may be) the shares of Common Stock immediately theretofore acquirable and receivable upon the exercise of such holder's Warrant, such cash, stock, securities or other assets or property as would have been issued or payable in such Organic Change (if the holder had exercised this Warrant immediately prior to such Organic Change) with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of such holder's Warrant had such Organic Change not taken place. In any such case, the Company shall make appropriate provision with respect to such holders' rights and interests to insure that the provisions of this Section 2 and Sections 3 and 4 shall thereafter be applicable to the Warrants (including, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is other than the Company, an immediate adjustment in the number and class of securities acquirable and receivable upon exercise of the Warrants). The Company shall not effect any Organic Change, unless prior to the consummation thereof, the successor entity (if other than the Company) which would result from such Organic Change assumes irrevocably and in writing, expressly for the benefit of each holder of Warrants (which assumption shall, unless such Organic Change is a bona fide third party transaction undertaken with a Person or Persons who are not Affiliates of the Company or its Subsidiaries, be in form and substance reasonably satisfactory to the Requisite Holders), the obligation to deliver to each holder of the Warrants such cash, stock, securities or other assets or property as, in accordance with the foregoing provisions, such holder may be entitled to acquire.

(iii) Certain Events. If any event occurs of the type contemplated by the provisions of this Section 2A, but not expressly provided for by such provisions (including the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company shall make an appropriate adjustment in the number of shares of Common Stock obtainable upon exercise of this Warrant so as to protect the rights of the holder of this Warrant; provided that, no such adjustment pursuant to this Section 2A.(iii) shall decrease the number of shares of Common Stock obtainable as otherwise determined pursuant to this Section 2A.

2A. Anti-Dilution Adjustments.

(iv) Additional Warrants. If at any during the Exercise Period, the Company issues or sells, or, pursuant to Section 2B.(ii), is deemed to have issued or sold, any share of Common Stock for a consideration per share (the "Per Share Issue Price") less than the Base Share Value (subject to equitable adjustments to reflect stock splits, stock combinations,

stock dividends, recapitalizations or other similar transactions), then immediately upon such issuance or sale or deemed issuance or sale (a "Triggering Issuance"), the Company shall issue to the Registered Holder additional Warrants to acquire a number of shares Common Stock equal to the product of (i) the Base Ownership Proportion, (ii) the number of shares of Common Stock issued or issuable pursuant to such Triggering Issuance and (iii) a fraction (A) the numerator of which is the aggregate number of shares of Common Stock then purchasable under the Warrants and Warrant Exercise Shares then held by such Registered Holder, and (B) the denominator of which is the aggregate number of shares of Common Stock for which Warrants theretofore have been issued by the Company (whether or not then exercised). Any such additional Warrants shall be in substantially the same form as this Warrant.

(v) Deemed Issuance or Sale; Determination of Per Share Issue Price. For purposes Section 2B.(i), the following shall be applicable to determining the "Per Share Issue Price" of deemed issuances of Common Stock:

(a) Issuance of Rights or Options. If the Company in any manner grants or sells any rights or options to subscribe for or purchase Common Stock or Convertible Securities (any such rights or options, "Options"), then such share or shares of Common Stock shall be deemed to have been issued and sold by the Company at such time for the Per Share Issue Price. For purposes of this paragraph, "Per Share Issue Price" for the Common Stock issuable upon the exercise of any such Option, or upon conversion or exchange of any Convertible Security issuable upon exercise of such Option, shall be equal to the sum of the lowest amounts of consideration (if any) received or to be received by the Company with respect to any one share of Common Stock upon the granting or sale of the Option, upon exercise of the Option and upon conversion or exchange of the Convertible Security. No further issuance of Warrants shall be made upon the actual issue of such Common Stock or of such Convertible Security upon the exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Security.

(b) Issuance of Convertible Securities. If the Company in any manner issues or sells any securities directly or indirectly convertible into or exchangeable for Common Stock (any such securities, "Convertible Securities"), then such share or shares of Common Stock shall be deemed to have been issued and sold by the Company at such time for the Per Share Issue Price. For purposes of this paragraph, "Per Share Issue Price" for the Common Stock issuable upon conversion or exchange of any Convertible Security shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the issuance of the Convertible Security and upon the conversion or exchange of such Convertible Security. No further issuance of Warrants shall be made upon the actual issue of such Common Stock upon conversion or exchange of any Convertible Security, and if any such issue or sale of such Convertible Security is made upon exercise of any Options with respect to which Warrants had been or are to be issued pursuant to Section 2B.(ii)(a), no further issuance of Warrants shall be made by reason of such issue or sale.

(c) Change in Option Price or Conversion Rate. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock changes at any time so as to reduce the Per Share Issue Price for the Common Stock issuable with respect thereto, the Company shall immediately issue to the Registered Holder a number of additional Warrants that, taken together with any Warrants previously issued pursuant to this Section 2B with respect to the initial issuance or sale or

deemed issuance or sale of such Options or Convertible Securities, equals the number of Warrants which would have been issued at the time of such initial issuance or sale or deemed issuance or sale had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially issued or sold or deemed to have been issued or sold. If the terms of any Option or Convertible Security which was outstanding as of the Date of Issuance are changed in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such change for purposes of this Section 2B.

(d) Calculation of Consideration Received. If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received in connection therewith shall be deemed to be the amount received by the Company therefor. In case any Common Stock, Options or Convertible Securities are issued or sold for any consideration other than cash, the amount of the consideration other than cash received by the Company shall be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company shall be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving corporation, the amount of consideration therefor shall be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Common Stock, Options and/or Convertible Securities, as the case may be. The fair value of any such consideration, other than cash or securities, shall be reasonably determined in good faith by the Board of Directors of the Company (the "Company Board") at the time of such issuance or sale or deemed issuance or sale; provided that, if the Requisite Holders in good faith dispute such determination, fair value shall be determined by an appraiser jointly selected by the Company and the Requisite Holders. The Company and the Requisite Holders shall instruct such appraiser that it may not assign a fair value greater than the greatest value determined by either such party nor less than the lowest value determined by either such party. The determination of such appraiser shall be final and binding on the Company and the holders of the Warrants, and the fees and expenses of such appraiser shall be paid by the Company; provided that, if such appraiser determines that the actual fair value of the relevant consideration is (i) less than five percent (5%) less than the fair value as determined by the Company Board, and (ii) closer to the fair value as determined by the Company Board than to the fair value as determined by the Requisite Holders, then such fees and expenses shall be paid by the Requisite Holders; provided, further, that each holder of Warrants agrees that it shall reimburse, upon demand, the Requisite Holders for such holder's proportional share of such fees and expenses based on the number of Warrants held by such holder.

(e) Integrated Transactions. In case any Common Stock, Options or Convertible Securities are issued in connection with the issue or sale of other securities of the Company, including the incurrence of any indebtedness by the Company or any of its Subsidiaries, together comprising one integrated transaction in which no specific consideration is allocated to such Common Stock, Options or Convertible Securities by the parties thereto, the Company Board shall reasonably determine in good faith the consideration to be allocated to such Common Stock, Options or Convertible Securities for purposes hereof; provided that, if the Company Board fails to make such determination at the time of such issuance or sale, such Common Stock, Options or Convertible Securities shall be deemed to have been issued without consideration.

(f) Record Date. If the Company takes a record of the holders of any securities of the Company for the purpose of entitling them (x) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or (y) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

2B. Notwithstanding anything contained herein to the contrary, there shall be no adjustment to the number of shares of Common Stock obtainable upon exercise of any Warrant with respect to (i) Common Stock issued or issuable upon exercise of the Warrants or in respect of any Purchase Rights granted, issued or sold to the holder of this Warrant pursuant to Section 4, or (ii) the issuance of any Common Stock or other securities upon conversion, exchange or exercise of any securities outstanding on the date hereof.

2C. Notices. The Company shall give written notice to the Registered Holder:

(vi) promptly and in any event within one (1) day, upon any adjustment to the number of shares of Common Stock obtainable upon exercise of this Warrant pursuant to Section 2A, setting forth in reasonable detail and certifying the calculation of such adjustment;

(vii) at least ten (10) Business Days prior to the date on which the Company consummates a Triggering Issuance, setting forth in reasonable detail the terms and conditions of such Triggering Issuance (including the Per Share Issue Price of Common Stock with respect thereto) and the estimated number of additional Warrants to be issued pursuant to Section 2B;

(viii) at least ten (10) Business Days prior to the date on which the Company closes its books or takes a record (x) with respect to any dividend or distribution upon the Common Stock, (y) with respect to any *pro rata* subscription offer to holders of Common Stock or (z) for determining rights to vote with respect to any Organic Change, dissolution or liquidation; and

(ix) at least ten (10) Business Days prior to the date on which any Organic Change, dissolution or liquidation shall take place;

or, in the case of any of the foregoing clauses (ii) through (iv) above, such shorter period of time to the extent determined by the Company Board in good faith that it would not be reasonably practicable for the Company to provide such notice at least ten (10) Business Days prior, in which case the Company shall provide such notice as promptly as reasonably practicable prior.

Section 3. Liquidating Dividends. If at any time prior to the expiration of the Exercise Period, the Company declares or pays a dividend upon the Common Stock payable otherwise than in cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles, consistently applied) except for a stock dividend payable in shares of Common Stock (a "Liquidating Dividend"), then the Company shall pay to the Registered Holder, at the time of payment thereof, cash, in an amount equal to the portion of the Liquidating Dividend that would have been paid to the Registered Holder had this Warrant been fully exercised immediately prior to the date on which a record is taken for such Liquidating Dividend, or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends are to be determined.

Section 4. Purchase Rights. If at any time prior to the expiration of the Exercise Period, the Company grants, issues or sells any Options, Convertible Securities or other rights to acquire securities of the Company or other property *pro rata* to the record holders of any class of Common Stock (“Purchase Rights”), then the Registered Holder shall be entitled to aggregate Purchase Rights, upon terms no less favorable than those offered to the record holders of Common Stock, equal to the Purchase Rights that the Registered Holder would have been entitled had this Warrant been fully exercised immediately prior to the date on which a record is taken for the issuance of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the issuance of such Purchase Rights.

Section 5. No Duplication Notwithstanding anything contained herein to the contrary, if the provisions of more than one sub-section of Section 2 (including Sections 2A, 2B, 2C and 2D), Section 3 or Section 4 could require, in connection with a single transaction or issuance, an adjustment to the number of shares of Common Stock obtainable upon exercise of this Warrant and/or issuance of additional Warrants, rights or securities to the Registered Holder under this Warrant, only one such provision shall apply, without duplication, and only one adjustment or issuance shall be made in connection therewith (it being understood, for the avoidance of doubt, that with respect to any single transaction, the holder of this Warrant may be entitled either to such an adjustment or to the issuance of additional rights or securities, as is more favorable to the holder, as determined by the Requisite Holders, but not both), and there shall be no adjustment or issuance of rights or other securities to the Registered Holder pursuant to this Warrant with respect to (i) Common Stock issued or issuable upon exercise of the Warrants or in respect of any Purchase Rights granted, issued or sold to the holder of this Warrant pursuant to Section 4, or (ii) the issuance of any Common Stock or other securities upon conversion, exchange or exercise of any securities outstanding on the date hereof.

Section 6. Definitions. The following terms have meanings set forth below:

“Affiliate” has the meaning set forth in Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

“Base Ownership Proportion” means a fraction (A) the numerator of which is the Warrant Share Number, and (B) the denominator of which is the total number of shares of Common Stock outstanding as of the Date of Issuance expressed on a fully-diluted basis.

“Base Share Value” means the quotient of \$425,000,000 divided by the total number of shares of Common Stock outstanding as of June 30, 2021 expressed on a fully-diluted basis.

“Business Day” means a day other than Saturday, Sunday or any day on which banks located in the State of New York are authorized or obligated to close.

“Governmental Authority” means any (i) government, (ii) governmental or quasi- governmental authority of any nature (including any governmental agency, branch, department, official or entity and any court or other tribunal) or (iii) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature, in each case, whether federal, state, local, municipal, U.S. or non U.S., supranational or of any other jurisdiction.

“Law” means all laws, statutes, rules, regulations, codes, injunctions, decrees, orders, ordinances, registration requirements, disclosure requirements and other pronouncements having the effect of law of the United States, the Republic of the Marshall Islands, any other

country or any U.S. or non-U.S. state, county, city or other political subdivision or of any Governmental Authority.

“Market Price” means as to any security the average of the closing prices of such security’s sales on all U.S. securities exchanges on which such security may at the time be listed, or, if there have been no sales on any such exchange on any day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day, or, if on any day such security is not so listed, the average of the highest bid and lowest asked prices on such day in the U.S. over-the-counter market as reported by OTC Market Group Inc., or any similar successor organization, in each such case averaged over a period of eleven (11) days consisting of the day as of which “Market Price” is being determined and the ten (10) consecutive Business Days prior to such day; provided that, if such security is listed on any U.S. securities exchange or quoted in a U.S. over-the-counter market the term “Business Day” as used in this sentence means Business Days on which such exchange or market, as applicable, is open for trading. If at any time such security is not listed on any U.S. securities exchange or quoted in the U.S. over-the-counter market, the “Market Price” shall be the fair value thereof reasonably determined in good faith by the Company Board (without applying any marketability, minority or other discounts); provided that, if the Requisite Holders in good faith dispute such determination, fair value shall be determined (without applying any marketability, minority or other discounts) by an appraiser jointly selected by the Company and the Requisite Holders. The Company and the Requisite Holders shall instruct such appraiser that it may not assign a fair value greater than the greatest value determined by either such party nor less than the lowest value determined by either such party. The determination of such appraiser shall be final and binding on the Company and the holders of the Warrants, and the fees and expenses of such appraiser shall be paid by the Company; provided that, if such appraiser determines that the actual fair value of the relevant consideration is (i) less than five percent (5%) more or less (as the case may be) than the fair value as determined by the Company Board, and (ii) closer to the fair value as determined by the Company Board than to the fair value as determined by the Requisite Holders, then such fees and expenses shall be paid by the Requisite Holders; provided, further, that each holder of Warrants agrees that it shall reimburse, upon demand, the Requisite Holders for such holder’s proportional share of such fees and expenses based on the number of Warrants held by such holder.

“Organic Change” means any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company’s assets or other similar transaction, in each case which is effected in such a way that the holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) cash, stock, securities or other assets or property with respect to or in exchange for Common Stock.

“Person” means an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, a Governmental Authority or another entity.

“Requisite Holders” means Registered Holders of Warrants representing a majority of the Common Stock obtainable upon exercise of all Warrants then outstanding.

“Subsidiary” means, with respect to any Person, any corporation, partnership, limited liability company, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a partnership, limited liability company or other business entity, a majority of the partnership, limited liability company or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof.

For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a partnership, limited liability company or other business entity if such Person or Persons shall be allocated a majority of partnership, limited liability company or other business entity gains or losses or shall be or control the managing member or general partner of such partnership, limited liability company or other business entity.

“Warrant Share Number” means 46,696.

Section 7. No Voting Rights; Limitations of Liability. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision hereof, in the absence of affirmative action by the holder of this Warrant to purchase Common Stock, and no enumeration herein of the rights or privileges of such holder shall give rise to any liability of such holder for the Exercise Price of Common Stock acquirable by exercise hereof or as a shareholder of the Company.

Section 8. Assignment and Transfer. Subject to the transfer conditions and restrictions referred to in the legend endorsed hereon, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the Registered Holder, upon surrender of this Warrant with a properly executed Assignment at the principal office of the Company. In connection with any such transfer, the Company shall issue in the name of the transferee a new Warrant of like kind representing the same rights represented by this Warrant. Any transfer in violation of the transfer conditions or restrictions referred to in the legend endorsed hereon shall be void *ab initio*.

Section 9. Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the Registered Holder at the principal office of the Company, for new Warrants of like tenor representing in the aggregate the purchase rights hereunder, and such new Warrants shall represent such portion of the rights hereunder as is designated by the Registered Holder at the time of such surrender. The date the Company initially issues this Warrant shall be deemed to be the “Date of Issuance” hereof regardless of the number of times new certificates representing the unexpired and unexercised rights formerly represented by this Warrant shall be issued. All Warrants representing portions of the rights hereunder are referred to herein as “Warrants.”

Section 10. Replacement. If any certificate evidencing the Warrants is lost, stolen, destroyed or mutilated, the Company shall (at its expense), upon receipt of evidence reasonably satisfactory to the Company (an affidavit of the Registered Holder shall be deemed to be satisfactory) of the ownership of the Warrants, execute and deliver in lieu of such certificate a new certificate of like kind representing the same rights represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

Section 11. Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission against facsimile confirmation or mailed by prepaid first class certified mail, return receipt requested, or mailed by overnight courier prepaid, to (x) the Company, at its principal executive office, with copies (which shall not constitute notice) to Stronghold Digital Mining Equipment, LLC, 2151 Lisbon Road, Kennerdell, PA 16374 to the attention of Matthew Smith, and (y) the Registered Holder, at WhiteHawk Finance LLC, 11601 Wilshire Boulevard, Suite 1250, Los Angeles, CA 90025 to the attention of Brad Hugel, with copies (which shall not constitute notice) to Kramer Levin Naftalis & Frankel LLP at 1177 6th Ave, New York, NY 10036 to the attention of Sanjay Thapar and Terrence Shen. All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section 11, be deemed given on the day so



delivered, or, if delivered after 5:00 p.m. local time of the recipient or on a day other than a Business Day, then on the next proceeding Business Day, or if delivered by facsimile transmission or email as provided in this Section 11, be deemed delivered upon confirmation of receipt, (ii) if delivered by mail in the manner described above to the address as provided in this Section 11, be deemed given on the earlier of the third (3<sup>rd</sup>) Business Day following mailing or upon receipt and (iii) if delivered by overnight courier to the address as provided for in this Section 11, be deemed given on the earlier of the first (1<sup>st</sup>) Business Day following the date sent by such overnight courier or upon receipt, in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice is to be delivered pursuant to this Section 11. Either party hereto from time to time may change its address, facsimile number, email address or other information for the purpose of notices to that party by giving notice specifying such change to the other party.

Section 12. Remedies. The Company hereby agrees that, in the event that the Company violates any provisions of this Warrant (including the obligation to deliver shares of Common Stock upon the exercise thereof), the remedies at Law available to the holder of this Warrant may be inadequate. In such event, the Requisite Holders and, with the prior written consent of the Requisite Holders, the holder of this Warrant, shall have the right, in addition to all other rights and remedies any of them may have, to specific performance and/or injunctive or other equitable relief to enforce or prevent any violations by the Company of this Warrant and/or any other Warrants.

Section 13. Amendment and Waiver. No amendment of any provision of this Warrant shall be valid unless the same shall be in writing and signed by the Company and the Requisite Holders.

Section 14. Descriptive Headings; Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. All matters arising out of or relating to this Warrant and the transactions contemplated hereby (including its interpretation, construction, performance and enforcement) shall be governed by and construed in accordance with the internal laws of the State of Delaware without giving effect to any choice or conflict of Law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of laws of any jurisdictions other than those of the State of Delaware.

\* \* \* \* \*

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer as of the Date of Issuance.

**STRONGHOLD DIGITAL MINING, INC.**

By: \_\_  
Name: Greg Beard  
Title: CEO

*[Signature Page – Warrant]*

**ACKNOWLEDGED AND AGREED:**

**WHITEHAWK FINANCE LLC**

By: \_\_\_\_\_

Name:

Title:

*[Signature Page – Warrant]*

**ASSIGNMENT**

[Intentionally Omitted]

**EXERCISE AGREEMENT**

[Intentionally Omitted]

**CERTIFICATION**  
**PURSUANT TO EXCHANGE ACT RULE 13A-14(a) OR RULE 15D-14(a)**  
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gregory A. Beard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stronghold Digital Mining, Inc. (the “registrant”) for the quarter ended June 30, 2022;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 15, 2022

By: /s/ Gregory A. Beard

Gregory A. Beard

Chief Executive Officer

*(Principal Executive Officer)*

**CERTIFICATION**  
**PURSUANT TO EXCHANGE ACT RULE 13A-14(a) OR RULE 15D-14(a)**  
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew J. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stronghold Digital Mining, Inc. (the “registrant”) for the quarter ended June 30, 2022;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 15, 2022

By: /s/ Matthew J. Smith

Matthew J. Smith

Chief Financial Officer

*(Principal Financial Officer)*

**CERTIFICATION**  
**PURSUANT TO 18 U.S.C. § 1350,**  
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Stronghold Digital Mining, Inc. (the "Company") for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory A. Beard, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
  
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 15, 2022

By: /s/ Gregory A. Beard

Gregory A. Beard

Chief Executive Officer

*(Principal Executive Officer)*



**CERTIFICATION**  
**PURSUANT TO 18 U.S.C. § 1350,**  
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Stronghold Digital Mining, Inc. (the "Company") for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew J. Smith, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
  
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 15, 2022

By: /s/ Matthew J. Smith  
Matthew J. Smith  
Chief Financial Officer  
(Principal Financial Officer)