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

**FORM 8-K/A**

**CURRENT REPORT**
**PURSUANT TO SECTION 13 OR 15(D) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): May 26, 2021

# Riot Blockchain, Inc.
(Exact name of registrant as specified in its charter)

| **Nevada** | **001-33675** | **84-1553387** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

**202 6th Street, Suite 401**
**Castle Rock, CO 80104**
(Address of principal executive offices)

**(303) 794-2000**
(Registrant’s telephone number, including area code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common Stock | RIOT | NASDAQ Capital Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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. ☐

## Explanatory Note

On May 26, 2021, Riot Blockchain, Inc. ("**Riot**," "**us**," "**we**," "**our**" or the "**Corporation**") filed with the Securities and Exchange Commission a Current Report on Form 8-K (the "**Initial Form 8-K**") reporting that, on May 26, 2021, Riot completed its acquisition (the "**Acquisition**") of all of the issued and outstanding equity interests of Whinstone US, Inc. ("**Whinstone**"), pursuant to the terms and subject to the conditions of the previously announced Stock Purchase Agreement, dated as of April 8, 2021, by and among Riot, Northern Data AG and Whinstone.

This Current Report on Form 8-K/A (the "**Current Report**") amends the Initial Form 8-K to include the financial statements and the pro forma combined financial information required by Item 9.01 of Form 8-K.

The pro forma financial information included in this Current Report has been presented for informational purposes only, as required by Item 9.01 of Form 8-K. It does not purport to represent the actual results of operations that Riot and Whinstone would have achieved had the companies been combined during the periods presented in the pro forma financial information and is not intended to project the future results of operations that the combined company may achieve following the Acquisition.

### Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited consolidated financial statements of Whinstone as of and for the years ended December 31, 2020, and 2019, and the notes related thereto, are filed herewith as Exhibit 99.1 and are incorporated by reference herein.

The unaudited consolidated financial statements of Whinstone as of and for the three months ended March 31, 2021, and 2020, and the notes related thereto, are filed herewith as Exhibit 99.2 and are incorporated by reference herein.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined balance sheet of Riot as of March 31, 2021, the unaudited pro forma condensed combined statements of operations of Riot for the three months ended March 31, 2021 and the unaudited pro forma condensed combined statements of operations of Riot for the year ended December 31, 2020, and the notes related thereto, all giving effect to the Acquisition, are filed herewith as Exhibit 99.3 and are incorporated by reference herein.

| **Exhibit Number** | **Description** |
|---|---|
| 23.1 | Consent of Malcolm M. Dienes, LLC, certified public accounting firm for Whinstone US, Inc. |
| 99.1 | Audited consolidated financial statements of Whinstone US, Inc. as of and for the years ended December 31, 2020, and 2019, and the notes related thereto. |
| 99.2 | Unaudited consolidated financial statements of Whinstone US, Inc. as of and for the three months ended March 31, 2021, and 2020, and the notes related thereto. |
| 99.3 | Unaudited pro forma condensed combined balance sheet of Riot Blockchain, Inc. as of March 31, 2021, the unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021, and for the year ended December 31, 2020, and the notes related thereto, all giving effect to the acquisition by Riot Blockchain, Inc. of Whinstone US, Inc.. |

## S I G N A T U R E

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

RIOT BLOCKCHAIN, INC.

By: */s/ Jeffrey McGonegal*
Jeffrey McGonegal
Chief Financial Officer

Date: August 12, 2021

**Exhibit 23.1**

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement of Riot Blockchain, Inc. on Form S-8 (File No. 333-235355) of our report dated August 12, 2021, with respect to our audits of the consolidated financial statements of Whinstone US, Inc. and Subsidiary as of December 31, 2020 and 2019 and for each of the two years in the period ended December 31, 2020, which report appears in the Form 8-K/A of Riot Blockchain, Inc. dated August 12, 2021.

/s/ Malcolm M. Dienes, LLC

Malcolm M. Dienes, LLC
Metairie, LA
August 12, 2021

Exhibit 99.1

**Whinstone US, Inc. and Subsidiary**

**December 31, 2020**

**and**

**Whinstone US, Inc.**

**December 31, 2019**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors
and Stockholders of
Whinstone US, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Whinstone US, Inc. (a Delaware corporation) and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations, equity and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying financial statements of Whinstone US, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of operations, equity and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whinstone US, Inc. and Subsidiary as of December 31, 2020, and the results of their operations, changes in their equity and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whinstone US, Inc. as of December 31, 2019, and the results of its operations, changes in its equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*/s/ Malcolm M. Dienes, L.L.C*
Metairie, LA
August 12, 2021



**Whinstone US, Inc. and Subsidiary**
**Balance Sheets**
**December 31, 2020 and 2019**

| | | Consolidated 2020 | | Unconsolidated 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | $ | 4,428,595 | $ | 5,949,115 |
| Accounts Receivable | | 1,182,251 | | — |
| Prepaid Expenses | | 108,323 | | 978,274 |
| Prepaid Rent - Related Party | | 80,000 | | 80,000 |
| Total Current Assets | | 5,799,169 | | 7,007,389 |
| Fixed Assets | | | | |
| Construction in Progress | | 3,575,791 | | 10,206,565 |
| Net Property and Equipment | | 51,262,847 | | 3,673,678 |
| Total Fixed Assets | | 54,838,638 | | 13,880,243 |
| Other Assets | | | | |
| Security Deposits | | 25,455,000 | | 2,981,327 |
| Note Receivable - Related Party | | 340,054 | | 328,556 |
| Prepaid Rent - Related Party | | 240,000 | | 320,000 |
| Total Other Assets | | 26,035,054 | | 3,629,883 |
| Total Assets | $ | 86,672,861 | $ | 24,517,515 |
| **Liabilities** | | | | |
| Current Liabilities | | | | |
| Accounts Payable | $ | 7,429,153 | $ | — |
| Accrued Liabilities | | 94,500 | | 414,585 |
| Accrued Liabilities - Related Party | | 576,329 | | — |
| Notes Payable - Related Party | | 49,877,943 | | — |
| Deferred Revenue | | 3,630,818 | | 5,935,000 |
| Current Portion of Notes Payable | | 13,319,845 | | 3,686,940 |
| Total Current Liabilities | | 74,928,588 | | 10,036,525 |
| Long-Term Liabilities | | | | |
| Deferred Revenue | | 10,693,664 | | 1,250,000 |
| Customer Deposits | | 2,500,000 | | 2,500,000 |
| Derivative - Power Contract | | 5,925,000 | | — |
| Notes Payable, Net of Current Portion | | 18,278,247 | | 16,979,275 |
| Total Long-Term Liabilities | | 37,396,499 | | 20,729,275 |
| Total Liabilities | | 112,325,499 | | 30,765,800 |
| **Stockholders' Equity** | | | | |
| Stockholders' Equity | | | | |
| Common Stock - Class A, 800 Shares Issued and Outstanding | | 800 | | 800 |
| Common Stock - Class B, 1,000 Shares Issued and 200 Outstanding | | 200 | | 200 |
| Paid in Capital | | 572,239 | | 572,239 |
| Stockholder Distributions - Return of Capital | | — | | (686,600) |
| Accumulated Deficit | | (26,225,877) | | (6,134,924) |
| Total Stockholders' Equity | | (25,652,638) | | (6,248,285) |
| Total Liabilities and Stockholders' Equity | $ | 86,672,861 | $ | 24,517,515 |

See accompanying notes and accountants review report

**Whinstone US, Inc. and Subsidiary**
**Statements of Operations**
**For the Years Ended December 31, 2020 and 2019**

| | | Consolidated 2020 | | Unconsolidated 2019 |
|---|---|---|---|---|
| Revenues | $ | 11,815,345 | $ | 328,922 |
| Cost of Revenues | | 22,596,528 | | 2,649,527 |
| Gross Profit (Loss) | | (10,781,183) | | (2,320,605) |
| Operating Costs and Expenses (Credit) | | | | |
| G & A Expenses | | 7,620,373 | | 3,394,293 |
| Derivative Power Transactions Expense (Income) | | (3,109,678) | | — |
| Depreciation | | 2,664,065 | | — |
| Total Operating Costs and Expenses (Credit) | | 7,174,760 | | 3,394,293 |
| Operating Loss | | (17,955,943) | | (5,714,898) |
| Other Income (Expense) | | | | |
| Interest Income | | 119,975 | | 20 |
| Interest Expense - Related Party | | (407,789) | | — |
| Interest Expense | | (1,160,596) | | — |
| Other Expense | | — | | (420,046) |
| Total Other Expense | | (1,448,410) | | (420,026) |
| Net Loss | $ | (19,404,353) | $ | (6,134,924) |

See accompanying notes and accountants review report



**Whinstone US, Inc. and Subsidiary**
**Statements of Equity**
**For the Years Ended December 31, 2020 and 2019**

| | Common Stock Class A | | Common Stock Class B | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Paid In Capital | Accumulated Deficit | Total Equity |
| Balance, December 31, 2018 | — | $ — | — | $ — | $ 458,500 | $ (205,261) | $ 253,239 |
| Conversion from LLC to Inc. | 800 | 800 | 200 | 200 | (206,261) | 205,261 | — |
| Unconsolidated Net Loss | — | — | — | — | — | (6,134,924) | (6,134,924) |
| Contributions (Dividends) | — | — | — | — | 320,000 | (686,600) | (366,600) |
| Balance, December 31, 2019 | 800 | 800 | 200 | 200 | 572,239 | (6,821,524) | (6,248,285) |
| Consolidated Net Loss | — | — | — | — | — | (19,404,353) | (19,404,353) |
| Balance, December 31, 2020 | 800 | $ 800 | 200 | $ 200 | $ 572,239 | $ (26,225,877) | $ (25,652,638) |

See accompanying notes and accountants review report



**Whinstone US, Inc. and Subsidiary**
**Statements of Cash Flows**
**For the Years Ended December 31, 2020 and 2019**

| | Consolidated 2020 | Unconsolidated 2019 |
|---|---|---|

| | | |
|---|---|---|
| Cash Flows Used by Operating Activities: | | |
| Net Loss | $ (19,404,353) | $ (6,134,924) |
| Adjustments to Reconcile Net Loss to | | |
| Net Cash Used by Operating Activities: | | |
| Depreciation | 2,664,065 | — |
| Derivative - Power Contract | 5,925,000 | — |
| (Increase) Decrease in Assets | | |
| Accounts Receivable | (1,182,251) | — |
| Prepaid Expenses | 869,951 | (978,274) |
| Prepaid Rent - Related Party | 80,000 | (400,000) |
| Security Deposits | (22,473,673) | (2,981,327) |
| Note Receivable - Related Party | (11,498) | (328,556) |
| Increase (Decrease) in Liabilities | | |
| Accounts Payable | 7,429,153 | — |
| Accrued Liabilities | (320,085) | 414,585 |
| Accrued Liabilities - Related Party | 576,329 | — |
| Deferred Revenue | 7,139,482 | 9,685,000 |
| Total Adjustments | 696,473 | 5,411,428 |
| Net Cash Used by Operating Activities | (18,707,880) | (723,496) |
| Cash Flows Used by Investing Activities: | | |
| Acquisition of Property and Equipment | (43,662,460) | (13,880,243) |
| Net Cash Used by Investing Activities | (43,662,460) | (13,880,243) |
| Cash Flows from Financing Activities: | | |
| Borrowings | 10,931,877 | 20,666,215 |
| Borrowings - Related Party | 49,917,943 | — |
| Net Capital Distributions and Stock Issuance | — | (113,361) |
| Net Cash Provided by Financing Activities | 60,849,820 | 20,552,854 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,520,520) | 5,949,115 |
| Cash and Cash Equivalents at Beginning of Year | 5,949,115 | — |
| Cash and Cash Equivalents at End of Year | $ 4,428,595 | $ 5,949,115 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash Paid During the Year for Interest | $ 1,160,596 | $ — |

See accompanying notes and accountants review report



**Whinstone US, Inc. and Subsidiary**
**(a Delaware Corporation)**

**Notes to Consolidated Financial Statements**

**1. Business Activity, Basis of Presentation, Recent Accounting Pronouncements and Summary of Significant Accounting Policies**

A. Business Activity

Whinstone US, Inc. (the “Company”) was formed as a corporation in May 2019 pursuant to Delaware Corporate Law.

The Company constructs and operates purpose driven data centers to support the latest fiscal technology. The Company’s purpose is to bring the latest in design infrastructure and technology to impact the growth of the data mining industry. Seeking out the most current methods of electrical design and infrastructure, the Company’s facility allows for forms of technology.

In February 2020, the Company entered into a Stock Transfer Agreement and Subscription Deed with Northern Data AG. Northern Data AG (“ND”) owned 100% of the Company’s equity interest as of December 31, 2020.

Subsequent to December 31, 2020, on May 26, 2021, Riot Blockchain, Inc. (“Riot”) acquired all of the issued and outstanding equity interests of the Company, pursuant to terms of a Stock Purchase Agreement dated April 8, 2021, by and among Riot, ND and the Company. At the closing of the Acquisition, as consideration therefor, Riot paid to ND $80,000,000 in cash, subject to customary adjustments set forth in the Stock Purchase Agreement, and issued to ND 11.8 million shares of the common stock, no par value, of Riot.

B. Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting and include the accounts of the Company and its wholly owned and controlled subsidiary. The consolidated subsidiary results are included from the date the subsidiary was formed and are insignificant. Intercompany transactions have been eliminated in consolidation.

C. Recent Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its consolidated financial statements and assures that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change.





In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxe*s ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. The Company adopted this standard on January 1, 2020 and the adoption did not have a material impact on the financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to our current accounting under Accounting Standards Codification ("ASC") 840, *Leases*. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard will be effective for the Company on January 1, 2022, with early adoption permitted. While the Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures, it expects to recognize right-of-use assets and related lease liabilities on the consolidated balance sheets related to the ground lease and office leases where the Company is the lessee.

D. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term, highly liquid investments. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a write-off to accounts receivable based on its assessment of the current status of individual accounts. Accounting principles generally accepted in the United States require that an estimate be made of the allowance for bad debts. The effect of the use of the direct write-off method, however, is not materially different from the results that would have been obtained had the allowance method been followed. During 2020 and 2019, no bad debt expense was recognized.





Prepaid Expenses and Prepaid Rent

Prepaid expenses and prepaid rent primarily consist of prepaid operating expenses, such as insurance and rent.

Security Deposits

Security deposits primarily consist of deposits paid to our electricity supplier and to the lessor of our ground lease.

Fair Value Measurement

Accounting Standards Codification ("ASC") Subtopic 820, *Fair Value Measurements and Disclosures*, ("ASC 820") defines fair value, establishes a framework for measuring fair value, as well as expands on required disclosures regarding fair value measurements. This standard applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. The Company had no assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2020 or 2019.

All of the financial assets and liabilities' carrying amounts approximate fair value because of their short maturities.

Property and Equipment and Construction in Progress

Property and equipment are stated at historical cost. Construction and related costs are capitalized and reported on the balance sheets at historical cost and as construction in progress during development of each capital project. The Company capitalizes costs directly related to the capital project, which include, but are not limited to, building materials and project plans. Professional judgment is used in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. No indirect project costs were capitalized during 2020 and 2019. The balance of construction in progress was $3,600,000 and $10,200,000 at December 31, 2020 and 2019, respectively.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets once they are placed in service. The estimated useful lives of the related assets are 39 years for buildings, 15 years for electrical infrastructure, 10 years for maintenance equipment and 5 years for network and ventilation and cooling equipment.





Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements and replacements related to the improvement of assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

Impairment of Assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. During the years ended December 31, 2020 and 2019, the Company recognized impairment losses of zero and $400,000, respectively, related to costs incurred at our prior facility in Louisiana.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue under ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). The core principle of the new 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:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- 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

The Company has determined that its contracts contain a series of performance obligations which qualify to be recognized under a practical expedient available known as the "right to invoice." This determination allows variable consideration in such contracts to be allocated to and recognized in the period to which the consideration relates, which is typically the period in which it is billed, rather than requiring estimation of variable consideration at the inception of the contract.

Data center hosting services are provided for high-power computing needs. The facility provides hosting services, security, power supply, installation and maintenance of third-party customer equipment at the facility. Hosting services include access to electricity provided through the data center. Customers are typically billed monthly based on actual monthly power usage. Revenue is recognized in the period the power was supplied.

Maintenance services include cleaning, cabling and other services to maintain the customers' equipment. Revenue is recognized as these services are provided.

The Company installs certain hosted customers' equipment and bills the customer at a fixed fee per piece of equipment or at an hourly rate. Revenue is recognized upon completion of the installation.

**Whinstone US, Inc. and Subsidiary**
**(a Delaware Corporation)**

**Notes to Consolidated Financial Statements**

Power Supply Contract and Demand Response Services

In May 2020, Whinstone entered into a Supply Agreement with TXU Energy Retail Company LLC (“TXU”) to provide the delivery of a fixed amount of electricity by TXU to Whinstone (via the transmission facility owned by Oncor Electric Delivery Company LLC (“Oncor”)) for a fixed price through April, 30, 2030. The Supply Agreement provides a consistent and sufficient supply of electricity at the Whinstone data center facility. If Whinstone uses more electricity than contracted, the cost of the excess is incurred at the current spot rate. Concurrently, Whinstone entered into a contract with Oncor for the extension of delivery system transmission/substation facilities to facilitate the delivery of electricity to Whinstone’s location (the “Facilities Agreement”). Power costs incurred under this contract are determined on an hourly basis using settlement information provided by the Electric Reliability Council of Texas (“ERCOT”) and are recorded in cost of revenues in our consolidated statements of operations.

Demand response provides the ERCOT market with valuable reliability and economic services by helping to preserve system reliability, enhancing competition, mitigating price spikes, and encouraging the demand side of the market to respond better to wholesale price signals. In collaboration with market participants such as the Company, ERCOT has developed demand response products and services for customers that have the ability to reduce or modify electricity use in response to instructions or signals. Loads may participate by offering directly into the ERCOT markets or indirectly by voluntarily reducing their energy usage in response to wholesale prices.

Depending on the spot market price of electricity, under this program, the Company sells electricity back to ERCOT in exchange for cash payments, rather than providing the power to customers during these peak times in order to most efficiently manage cost of revenues. During 2020 and 2019, the amount of power sold back to ERCOT totaled approximately $9,000,000 and zero, respectively. These payments are recognized when incurred in the consolidated statements of operations as derivative power transactions expense (income).

While managing facility operating costs in part by periodically selling unused or uneconomical power in the market (to ERCOT), such actions are not considered trading activities, because speculation in the power market is not done as part of ordinary activities. Since the Demand Response Services program allows for net settlement, the Supply Agreement meets the definition of a derivative under ASC 815, *Derivatives and Hedging*. However, because of the ability to sell the power back to the grid rather than take physical delivery, physical delivery is not probable through the entirety of the contract and therefore, the normal purchases and normal sales scope exception does not apply to the Supply Agreement. Accordingly, the Supply Agreement (the non-hedging derivative contract) is recorded at estimated fair value each reporting period with the change in the fair value recorded in derivative power transactions expense (income) in the consolidated statements of operations.



**Whinstone US, Inc. and Subsidiary**
**(a Delaware Corporation)**

**Notes to Consolidated Financial Statements**

The estimated fair value of the derivative liability is classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations. Specifically, the estimation models contain quoted commodity exchange spot and forward prices and are adjusted for basis spreads for load zone-to-hub differentials.

Lease Accounting

In accordance with ASC 840, *Leases*, rental expense for lease payments related to operating leases is recognized on a straight-line basis over the remaining lease term. The Company does not hold any finance leases.

Income Taxes

The Company is taxed as a corporation for federal and state income tax purposes.

The Company accounts 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.

ASC Topic 740, *Income Taxes*, (“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 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.



**Whinstone US, Inc. and Subsidiary**
**(a Delaware Corporation)**

The tax effects of temporary differences and tax loss and credit carry forwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 2020 and 2019 are comprised of the following:

The

| | As of December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Deferred tax assets (liabilities): | | |
| Net operating loss carryforwards | $ 5,962,000 | $ — |
| Derivative asset | 1,244,000 | — |
| Depreciation | (3,161,00) | — |
| Total deferred tax assets (liabilities) | 4,045,000 | — |
| Valuation allowance | (4,045,000) | — |
| Net deferred tax asset | $ — | $ — |

Company has approximately $28,400,000 of federal tax Net Operating Losses ("NOLs") that may be available to offset future taxable income, if any. Under the new Tax Cuts and Jobs Act, all NOLs incurred after December 31, 2017 are carried forward indefinitely for federal tax purposes. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") signed in to law on March 27, 2020, provided that NOLs generated in a taxable year beginning in 2018, 2019, or 2020, may now be carried back five years and forward indefinitely. In addition, the 80% taxable income limitation is temporarily removed, allowing NOLs to fully offset net taxable income.

Furthermore, as a result of changes in the ownership of our common stock, our ability to use our federal NOLs may be limited under Internal Revenue Code Section 382. State NOLs are subject to similar limitations in many cases. As a result, our substantial NOLs may not have any value to us.

The statute of limitations for assessment by the IRS and state tax authorities is open for all of our tax years. Currently, no federal or state income tax returns are under examination by the respective taxing authorities. The Company has not identified any uncertain tax positions requiring a reserve as of December 31, 2020 and 2019. The Company's policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense. The Company did not incur either interest or penalties for the years ended December 31, 2020 and 2019 related to federal or state income taxes.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and taxing strategies in making this assessment. In case the deferred tax assets will not be realized in future periods, the Company has provided a valuation allowance for the full amount of the deferred tax assets at December 31, 2020 and 2019.





The expected tax provision (benefit) based on the U.S. federal statutory rate is reconciled with the actual tax provision (benefit) as follows:

| | For the years ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Statutory federal income tax expense (benefit) | $ (4,068,000) | $ — |
| Other | 8,600 | — |
| Change in valuation allowance | 4,060,000 | — |
| Income tax provision (benefit) | $ — | $ — |

Advertising

Advertising costs are expensed as incurred. Advertising was $30,000 for 2020 and $41,000 for 2019.

Impact of COVID-19

The COVID-19 global pandemic has been unpredictable and unprecedented and could continue to result in significant national and global economic disruption, which may adversely affect our business. Based on the Company's current assessment, however, the Company does not expect any material impact on its long-term development, its operations, or its liquidity due to the worldwide spread of the COVID-19 virus. However, the Company is actively monitoring this situation and the possible effects on its financial condition, liquidity, operations, suppliers, and industry.

## 2. Financing Arrangements

Notes Payable

Financing from Customer

During 2019, one of the Company's customers provided funding for one of the data centers being constructed. Under the terms of the agreement, the Company will repay the construction debt plus an additional $2,000,000 for the restoration of lost profit. The restoration of lost profit was recognized as a reduction of revenue in 2019 and fully paid in July 2020. Payments under this agreement began in June 2020 for a period of 30 months at an interest rate of 7.0%. This debt is secured by the Company stock, as well as the buildings, land lease rights and equipment. The estimated maturities based on the debt at December 31, 2020 are as follows:

| | | |
|---|---|---|
| For the years ending December 31, 2021 | $ | 13,010,765 |
| 2022 | | 18,278,247 |
| Total | $ | 31,289,012 |

Financing from Paycheck Protection Program

During 2020, the Paycheck Protection Program ("PPP") was established with the passing of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), designed to provide financial relief to business owners and employees during the early stages of the COVID-19 outbreak in the United States. The CARES Act stimulus package provided assistance to the U.S. economy via loans, grants, and stimulus checks to citizens. PPP loans can be used to help fund payroll costs, including benefits, and may also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19 and certain supplier costs and expenses for operations.

During 2020, the Company was provided a PPP loan of $309,000 with a fixed-rate of interest of 1.0%. The balance is included in current portion of notes payable in our balance sheet.

Subsequent to December 31, 2020, in March 2021, the Company received confirmation from the Small Business Administration that it qualified for and was granted full forgiveness of the PPP loan balance and the insignificant amount of accrued interest.

Customer Deposits

During 2019, a customer paid a security deposit of $2,500,000. Subsequent to December 31, 2020, in June 2021, the customer's contract was terminated and the deposit was returned by the Company to the customer.

**3. Concentration of Risks**

The Company maintains its cash accounts in a commercial bank. Accounts are guaranteed by the FDIC up to $250,000. The portion of the deposits in excess of this amount is not subject to such insurance and represents a credit risk to the Company. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.





During the years ended December 31, 2020 and 2019, the Company had less than 10 customers. This concentration exposes us to increased credit risk. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable or the extension of payment terms for customers could adversely affect cash flow, liquidity and operating results. The Company has not needed to extend the payment terms for any of its customers and has no reason to believe any will not meet their obligations under the contracts.

Individual counterparties are reviewed in determining the Company's concentrations of credit risk. Certain derivative instruments contain collateral provisions tied to the counterparties' credit ratings and the Company's tangible net worth, as calculated by total assets less intangible assets and total liabilities. If tangible net worth were to deteriorate materially, or if a counterparty with reasonable grounds for uncertainty regarding the Company's ability to satisfy an obligation requested adequate assurance of performance, additional collateral postings might be required. The additional collateral required is the net liability position allowed under the agreement, assuming the credit risk-related contingent features underlying these arrangements were triggered and those counterparties with rights to do so requested collateral.

**4. Net Property and Equipment**

Net property and equipment consisted of the following as of December 31, 2020 and 2019:

| | **2020** | **2019** |
|---|---|---|
| Buildings and improvements | $ 49,491,712 | $ — |
| Equipment and other | 4,435,200 | 3,673,678 |
| Total cost of property and equipment | 53,926,912 | 3,673,678 |
| Less accumulated depreciation | (2,664,065) | — |
| Net property and equipment | $ 51,262,847 | $ 3,673,678 |

Depreciation expense totaled approximately $2,700,000 and zero, for the years ended December 31, 2020 and 2019, respectively.

**5. Commitments and Contingencies**

The Company could be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. Management is not aware of any pending matters that could have a material impact on the financial condition of the Company.

Due to the construction in progress, the Company has various outstanding commitments with vendors.

**6. Related Party Transactions**

A. Related Party Loan

In 2019, the Company advanced funds to a related party. The balance of approximately $340,000 is included in note receivable-related party in our balance sheets at December 31, 2020 and 2019.

B. Related Party Housing

The Company also leased a residence from a related party. The balance of approximately $320,000 and $400,000 is included in prepaid rent-related party in our balance sheets at December 31, 2020 and 2019, respectively. See additional detail in the Operating Leases note disclosure in Note 8.

Subsequent to year-end, in May 2021, both of these related party transactions were terminated by agreement between the parties in connection with assistance in closing the May 2021 sale transaction to Riot as described further in Note 1.

C. Related Party Note Payable

In April 2020, the Company entered into a Facility Agreement with its subsequent former Parent, ND, as lender for financing the operating costs and amplification of the data center facility, as well as the Company's general corporate purposes. In June 2020, the parties to the note amended the original Facility Agreement to increase the maximum amount of the note to $50,000,000. The note balance of $49,900,000 is classified as Notes Payable – Related Party on our balance sheet as of December 31, 2020.

The note bears interest at fixed-rate of 2.0% and interest is paid annually and in arrears. The accrued interest was $408,000 and was included in Accrued Liabilities - Related Party in our balance sheet at December 31, 2020.

Subsequent to year-end, in May 2021, the note was fully repaid in connection with closing the May 2021 sale transaction to Riot as described further in Note 1.

D. Related Party Compensation

Officers' compensation was approximately $1,000,000 for 2020 and is included in G&A expenses.





**7. Deferred Revenue**

During 2019, the Company entered into an agreement with one of its customers for monthly hosting services. These services are provided each month at a specified rate, along with other customary terms and conditions, for a period of 24 months. As part of the agreement, the Company received advance payments of $9,700,000. At December 31, 2020 and 2019, the unrecognized portions of these contracts are reflected in the balance sheet as deferred revenue – current portion of $1,800,000 and $5,900,000, respectively, and as deferred revenue – long-term portion of $4,700,000 and $3,800,000, respectively.

During 2020, the Company entered into an agreement with one of its customers for monthly hosting services. These services are provided each month at a specified rate, along with other customary terms and conditions, for a period of 120 months. As part of the agreement, the Company received advance payments of $6,700,000. At December 31, 2020, the unrecognized portions of this contract are reflected in the balance sheet as deferred revenue – current portion of $600,000 and as deferred revenue – long-term portion of $6,000,000.

**8. Operating Leases**

All of our leases are classified as operating leases through the lease term expiration in accordance with ASC 840,*Lease*s ("ASC 840"). Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the remaining lease term. The Company currently does not hold any finance leases.

In January 2019, the Company entered into a lease to rent space in Louisiana for annual rent of approximately $270,000. The lease is for a period of five years and expires in December 2023. In April 2019, the Company entered into a second lease to rent space in Louisiana for annual rent of approximately $427,000. The lease is for a period of five years and expires in March 2024.

The Company entered into a ground lease in October 2019 for real property in Texas for an annual rent of approximately $888,000, increased annually by 3%. The initial term of the lease is 10 years commencing on January 1, 2020.

On December 31, 2019, the Company leased a residence from a related party with a 60-month term with full payment of $400,000 due in advance. The unamortized balance of $320,000 is included in prepaid rent – related party at December 31, 2020 and 2019. The lease terminates at the end of 2024. Subsequent to year-end, in May 2021, this lease was terminated by agreement between the parties in connection with assistance in closing the May 2021 sale transaction to Riot as described further in Note 1.

During 2020 and 2019, the Company incurred $888,000 and zero, respectively, of ground lease expense, which is recorded as cost of revenues in our statements of operations. During 2020 and 2019, the Company incurred $1,400,000 and $439,000, respectively, of office and other lease expense, which is recorded as G&A expense in our statements of operations.

At December 31, 2020, future minimum lease payments from these leases were as follows:

| | | Ground lease | | Other leases |
|---|---|---|---|---|
| For the years ending December 31, 2021 | $ | 914,000 | | 697,000 |
| 2022 | | 942,000 | | 697,000 |
| 2023 | | 970,000 | | 697,000 |
| 2024 | | 999,000 | | 107,000 |
| 2025 | | 1,029,000 | | — |
| Thereafter | | 4,433,000 | | — |
| Total | $ | 9,287,000 | $ | 2,198,000 |

## 9. Derivative Financial Instruments

Derivatives are used to manage the risk of changes in market prices for power. Such price fluctuations may cause the following:

- an unrealized appreciation or depreciation of contracted commitments to purchase when purchase prices under the commitments are compared with current power prices; and
- actual cash outlays for the purchase of the power that differ from anticipated cash outlays

The derivatives used to manage these risks are governed by the Company's risk management policies. The net positions are continually assessed to determine whether new or offsetting transactions are required. The goal of the program is generally to mitigate financial risks while ensuring that sufficient quantities of power are available to meet Company requirements. Contracts entered into as part of the risk management program may be settled financially, settled by physical delivery, or net settled with the counterparty. All contracts considered to be derivative instruments are recorded on the consolidated balance sheets at their fair values.

As of December 31, 2020, there is one derivative power contract, which had a carrying value of $5,925,000 and is recorded as a derivative liability in the consolidated balance sheet. The contract is not designated as a hedging instrument.

The terms of the Supply Agreement require margin-based collateral, calculated as exposure resulting from fluctuations in the market cost rate of electricity versus the fixed price stated in the contract. The margin-based collateral requirement to the Company is zero as of December 31, 2020.

## 10. Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:





Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment.

Nonperformance risk is considered in the valuation of derivative instruments by analyzing the Company's own credit standing and the credit standing of its counterparties, and by considering any credit enhancements (e.g., collateral). The evaluation is based on current market conditions, and if such risk is deemed to be material, a valuation adjustment would be estimated using market data such as the price of credit default swaps, bond yields, and credit ratings. No gains or losses related to valuation adjustments for counterparty default risk were recorded during 2020. At December 31, 2020, the counterparty default risk valuation adjustment related to derivative contracts was zero.

The estimated fair value of the derivative liability is classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations. Specifically, the estimation models contain quoted commodity exchange spot and forward prices and are adjusted for basis spreads for load zone-to-hub differentials.

## 11. Subsequent Events

The Company evaluated all subsequent events through the date of this report, which is the date the financial statements were available to be issued.

See Note 6, for related party transactions.

As described in Note 1, on May 26, 2021, Riot acquired all of the issued and outstanding equity interests of the Company, pursuant to terms of a Stock Purchase Agreement dated April 8, 2021, by and among Riot, ND and the Company. At the closing of the Acquisition, as consideration therefor, Riot paid to ND $80,000,000 in cash, subject to customary adjustments set forth in the Stock Purchase Agreement, and issued to ND 11.8 million shares of the common stock, no par value, of Riot.

In February 2021, the state of Texas experienced an extreme and unprecedented winter weather event that resulted in prolonged freezing temperatures and caused an electricity generation shortage that was severely disruptive to the whole state. While demand for electricity reached extraordinary levels due to the extreme cold, the supply of electricity significantly decreased in part because of the inability of certain power generation facilities to supply electric power to the grid. Due to the extreme market price of electricity during this time, the Company stopped supplying power to its customers and instead sold power back to the grid.

In April 2021, under the provisions of the TXU Supply Agreement, the Company entered into a Qualified Scheduling Entity ("QSE") Letter Agreement, which resulted in the Company being entitled to receive approximately $125,100,000 for its power sales during the February winter storm, all under the terms and conditions of the QSE Letter Agreement. $29,000,000 was received in cash in April 2021, approximately $69,800,000 is scheduled to be credited against future power bills of Whinstone beginning in 2022 and the remaining $26,300,000 is contingent upon ERCOT being able to collect additional amounts owed from its other customers. These amounts are gross before fair value adjustments and expenses incurred by Whinstone for power management fees and customer settlements of approximately $15,000,000.

In April 2021, the Company amended the ground lease described in Note 8 whereby it obtained a Water Reservation Agreement from the lessor, which provides for a certain quantity of water from a nearby lake to be used by the Company for commercial purposes. The Company use the water for evaporative cooling of the data center. The initial term of the reservation agreement expires in December 2027 and required annual payments of approximately $950,000.

In May 2021, Riot provided a guarantee in favor of the Company for the ground lease payments described in Note 8.

In June 2021, the Company terminated a revenue contract with one of its customers whose contract was originally scheduled to mature on July 9, 2022. As part of the termination agreement and the underlying hosting service agreement with the customer, Whinstone will refund to the customer its security deposit of $2,500,000 and the unamortized amount of its One-Time Prepayment totaling $4,300,000.

**Whinstone US, Inc. and Subsidiary**

**March 31, 2021**

**and**

**Whinstone US, Inc.**

**March 31, 2020**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
and Stockholders of
Whinstone US, Inc. and Subsidiary
Rockdale, Texas

We have revieed the accompanying consolidated financial statements of Whinstone US, Inc. (a Delaware corporation) and Subsidiary, which comprise the consolidated balance sheets as of March 31, 2021 and March 31, 2020, and the related statements of operations, stockholders' equity and cash flows for the three months then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*/s/ Malcolm M. Dienes, L.L.C*
Metairie, LA
August 12, 2021

**Whinstone US, Inc. and Subsidiary**
**Balance Sheets**
**March 31, 2021 and 2020**
**(Unaudited)**

| | Consolidated March 31, 2021 | Unconsolidated March 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 6,017,857 | $ 1,403,705 |
| Accounts Receivable | 215,034 | 2,075 |
| Current Portion of Derivative - Power Contract | 29,000,000 | — |
| Prepaid Expenses | 1,301,364 | 740,657 |
| Prepaid Rent - Related Party | 80,000 | 80,000 |
| Total Current Assets | 36,614,255 | 2,226,437 |
| Fixed Assets | | |
| Construction in Progress | 8,069,057 | — |
| Net Property and Equipment | 51,905,894 | 28,468,923 |
| Total Fixed Assets | 59,974,951 | 28,468,923 |
| Other Assets | | |
| Security Deposits | 9,275,000 | 2,923,223 |
| Derivative - Power Contract, Net of Current Portion | 95,716,000 | — |
| Note Receivable - Related Party | 361,249 | 328,556 |
| Prepaid Rent - Related Party | 220,000 | 300,000 |
| Total Other Assets | 105,572,249 | 3,551,779 |
| Total Assets | $ 202,161,455 | $ 34,247,139 |
| **Liabilities** | | |
| Current Liabilities | | |
| Accounts Payable | $ 2,584,189 | $ 747,584 |
| Accrued Liabilities | 16,335,948 | 1,077,968 |
| Accrued Liabilities - Related Party | 847,810 | — |
| Notes Payable - Related Party | 66,108,078 | — |
| Deferred Revenue | 4,024,271 | 5,935,000 |
| Current Portion of Notes Payable | — | 16,360,082 |
| Total Current Liabilities | 89,900,296 | 24,120,634 |
| Long-Term Liabilities | | |
| Deferred Revenue | 20,900,563 | 3,750,000 |
| Customer Deposits | 6,314,748 | |
| Deferred Tax Liability | 18,800,000 | — |
| Notes Payable, Net of Current Portion | — | 14,949,872 |
| Total Long-Term Liabilities | 46,015,311 | 18,699,872 |
| Total Liabilities | 135,915,607 | 42,820,506 |
| **Stockholders' Equity** | | |
| Stockholders' Equity | | |
| Common Stock - Class A, 800 Shares Issued and Outstanding | 800 | 800 |
| Common Stock - Class B, 1,000 Shares Issued and 200 Outstanding | 200 | 200 |
| Paid in Capital | 572,239 | 572,239 |
| Retained Earnings (Accumulated Deficit) | 65,672,609 | (9,146,606) |
| Total Stockholders' Equity | 66,245,848 | (8,573,367) |
| Total Liabilities and Stockholders' Equity | $ 202,161,455 | $ 34,247,139 |

See accompanying notes and accountants review report



**Whinstone US, Inc. and Subsidiary**
**Statements of Operations**
**For the Three Months Ended March 31, 2021 and 2020**
**(Unaudited)**

| | Consolidated 2021 | Unconsolidated 2020 |
|---|---|---|
| Revenues | $ 4,061,253 | $ 10,209 |

| | | |
|---|---|---|
| Cost of Revenues | 19,668,816 | 295,128 |
| Gross Profit (Loss) | (15,607,563) | (284,919) |
| Operating Costs and Expenses (Credit) | | |
| G & A Expenses | 3,108,408 | 1,851,621 |
| Derivative Power Transactions Expenses (Income) | (131,037,813) | — |
| Depreciation | 1,191,962 | 188,589 |
| Total Operating Costs and Expenses (Credit) | (126,737,443) | 2,040,210 |
| Operating Income or (Loss) | 111,129,880 | (2,325,129) |
| Other Income (Expense) | | |
| Interest Income | 21,195 | 48 |
| Interest Expense - Related Party | (228,929) | — |
| Interest Expense | (532,739) | — |
| Other Income | 309,080 | — |
| Total Other Income or (Expense) | (431,393) | 48 |
| Income or (Loss) before Income Taxes | 110,698,487 | (2,325,081) |
| Provision for Income Taxes | | |
| Current | — | — |
| Deferred | 18,800,000 | — |
| Total Provision for Income Taxes | 18,800,000 | — |
| Net Income or (Loss) | $ 91,898,487 | $ (2,325,081) |

See accompanying notes and accountants review report



**Whinstone US, Inc. and Subsidiary**
**Statement of Stockholders' Equity**
**Three Months Ended March 31, 2021 and 2020**
**(Unaudited)**
**Three Months Ended March 31, 2021**

| | Common Stock - Class A | | Common Stock - Class B | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Paid in Capital | Retained Earnings (Accumulated Deficit) | Total Stockholders' Equity |
| Balance as of January 1, 2021 | 800 | $ 800 | 200 | $ 200 | $ 572,239 | $ (26,225,877) | $ (25,652,638) |
| Net Income or (Loss) | | | | | | 91,898,487 | 91,898,487 |
| Balance as of March 31, 2021 | 800 | $ 800 | 200 | $ 200 | $ 572,239 | $ 65,672,610 | $ 66,245,849 |

**Three Months Ended March 31, 2020**

| | Common Stock - Class A | | Common Stock - Class B | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Paid in Capital | Retained Earnings (Accumulated Deficit) | Total Stockholders' Equity |
| Balance as of January 1, 2020 | 800 | $ 800 | 200 | $ 200 | $ 572,239 | $ (6,821,525) | $ (6,248,286) |
| Net Income or (Loss) | | | | | | (2,325,081) | (2,325,081) |
| Balance as of March 31, 2020 | 800 | $ 800 | 200 | $ 200 | $ 572,239 | $ (9,146,606) | $ (8,573,367) |

See accompanying notes and accountants review report

**Whinstone US, Inc. and Subsidiary**
**Statements of Cash Flows**
**For the Three Months Ended March 31, 2021 and 2020**
**(Unaudited)**

| | Consolidated 2021 | Unconsolidated 2020 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net Income or (Loss) | $ 91,898,487 | $ (2,325,081) |
| Adjustments to Reconcile Net Income or (Loss) to | | |
| Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,191,962 | 188,589 |
| Provision for Deferred Income Taxes | 18,800,000 | — |
| Derivative - Power Contract | (130,641,000) | — |
| (Increase) Decrease in Assets | | |
| Accounts Receivable | 967,216 | (2,075) |
| Prepaid Expenses | (1,193,041) | 237,617 |
| Prepaid Rent - Related Party | 20,000 | 20,000 |
| Security Deposits | 16,180,000 | 58,104 |
| Note Receivable - Related Party | (21,195) | — |
| Increase (Decrease) in Liabilities | | |
| Accounts Payable | (4,844,964) | 747,584 |
| Accrued Liabilities | 16,238,999 | 663,383 |
| Accrued Liabilities - Related Party | 273,929 | — |
| Customer Deposits | 3,814,748 | — |
| Deferred Revenue | 10,600,352 | 12,673,142 |
| Total Adjustments | (68,612,994) | 14,586,344 |
| Net Cash Provided by Operating Activities | 23,285,493 | 12,261,263 |
| Cash Flows from Investing Activities: | | |
| Acquisition of Property and Equipment | (6,388,274) | (14,777,270) |
| Net Cash Used in Investing Activities | (6,388,274) | (14,777,270) |
| Cash Flows from Financing Activities: | | |
| Payments on Notes Payable | (31,598,092) | (2,029,403) |
| Borrowings - Related Party | 16,290,135 | — |
| Net Cash Used in Financing Activities | (15,307,957) | (2,029,403) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,589,262 | (4,545,410) |
| Cash and Cash Equivalents at Beginning of Period | 4,428,595 | 5,949,115 |
| Cash and Cash Equivalents at End of Period | $ 6,017,857 | $ 1,403,705 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash Paid During the Period for Interest | $ 532,739 | $ — |

See accompanying notes and accountants review report



**Whinstone US, Inc. and Subsidiary**
**(a Delaware Corporation)**

**Notes to Consolidated Financial Statements**
**As of March 31, 2021 and March 31, 2020**

**1. Business Activity, Basis of Presentation, Recent Accounting Pronouncements and Summary of Significant Accounting Policies**

A. Business Activity

Whinstone US, Inc. (the "Company") was formed as a corporation in May 2019 pursuant to Delaware Corporate Law.

The Company constructs and operates purpose driven data centers to support the latest fiscal technology. The Company's purpose is to bring the latest in design infrastructure and technology to impact the growth of the data mining industry. Seeking out the most current methods of electrical design and infrastructure, the Company's facility allows for forms of technology.

In February 2020, the Company entered into a Stock Transfer Agreement and Subscription Deed with Northern Data AG. Northern Data AG ("ND") owned 100% of the Company's equity interest as of March 31, 2021.

Subsequent to March 31, 2021, on May 26, 2021, Riot Blockchain, Inc. ("Riot") acquired all of the issued and outstanding equity interests of the Company, pursuant to terms of a Stock Purchase Agreement dated April 8, 2021, by and among Riot, ND and the Company. At the closing of the Acquisition, as consideration therefor, Riot paid to ND $80.0 million in cash, subject to customary adjustments set forth in the Stock Purchase Agreement, and issued to ND 11.8 million shares of the common stock, no par value, of Riot.

B. Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting and include the accounts of the Company and its wholly owned and controlled subsidiary. The consolidated subsidiary results are included from the date the subsidiary was formed and are insignificant. Intercompany transactions have been eliminated in consolidation. The results for the unaudited interim consolidated statements of operations for the period ended March 31, 2021, are not necessarily indicative of results to be expected for the year ending December 31, 2021, or for any future interim period.

C. Recent Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its consolidated financial statements and assures that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change.





In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxe*s ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. The Company adopted this standard on January 1, 2020 and the adoption did not have a material impact on the financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to our current accounting under Accounting Standards Codification ("ASC") 840, *Leases*. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard will be effective for the Company on January 1, 2022, with early adoption permitted. While the Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures, it expects to recognize right-of-use assets and related lease liabilities on the consolidated balance sheets related to the ground lease and office leases where the Company is the lessee.

D. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term, highly liquid investments. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a write-off to accounts receivable based on its assessment of the current status of individual accounts. Accounting principles generally accepted in the United States require that an estimate be made of the allowance for bad debts. The effect of the use of the direct write-off method, however, is not materially different from the results that would have been obtained had the allowance method been followed. During the three months ended March 31, 2021 and 2020, no bad debt expense was recognized.





Prepaid Expenses and Prepaid Rent

Prepaid expenses and prepaid rent primarily consist of prepaid operating expenses such as insurance and rent.

Security Deposits

Security deposits primarily consist of deposits paid to our electricity supplier and to the lessor of our ground lease.

Fair Value Measurement

Accounting Standards Codification ("ASC") Subtopic 820, *Fair Value Measurements and Disclosures*, ("ASC 820") defines fair value, establishes a framework for measuring fair value, as well as expands on required disclosures regarding fair value measurements. This standard applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. The Company had no assets or liabilities measured at fair value on a nonrecurring basis at March 31, 2021 or March 31, 2020.

All of the financial assets and liabilities' carrying amounts approximate fair value because of their short maturities.

Property and Equipment and Construction in Progress

Property and equipment are stated at historical cost. Construction and related costs are capitalized and reported on the balance sheets at historical cost and as construction in progress during development of each capital project. The Company capitalizes costs directly related to the capital project, which include, but are not limited to, building materials and project plans. Professional judgment is used in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. No indirect project costs were capitalized during the three months ended March 31, 2021 or 2020. The balance of construction in progress was $8.1 million and zero at March 31, 2021 and March 31, 2020, respectively.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets once they are placed in service. The estimated useful lives of the related assets are 39 years for buildings, 15 years for electrical infrastructure, 10 years for maintenance equipment and 5 years for network and ventilation and cooling equipment.





Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements and replacements related to the improvement of assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

Impairment of Assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. During the three months ended March 31, 2021 and 2020, the Company did not recognize any impairment.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue under ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). The core principle of the new 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:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- 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

The Company has determined that its contracts contain a series of performance obligations which qualify to be recognized under a practical expedient available known as the "right to invoice." This determination allows variable consideration in such contracts to be allocated to and recognized in the period to which the consideration relates, which is typically the period in which it is billed, rather than requiring estimation of variable consideration at the inception of the contract.

Data center hosting services are provided for high-power computing needs. The facility provides hosting services, security, power supply, installation and maintenance of third-party customer equipment at the facility. Hosting services include access to electricity provided through the data center. Customers are typically billed monthly based on actual monthly power usage. Revenue is recognized in the period the power was supplied.

Maintenance services include cleaning, cabling and other services to maintain the customers' equipment. Revenue is recognized as these services are provided.





The Company installs certain hosted customers' equipment and bills the customer at a fixed fee per piece of equipment or at an hourly rate. Revenue is recognized upon completion of the installation.

<u>Power Supply and Demand Response Services</u>

In May 2020, Whinstone entered into a Supply Agreement with TXU Energy Retail Company LLC ("TXU") to provide the delivery of a fixed amount of electricity by TXU to Whinstone (via the transmission facility owned by Oncor) for a fixed price through April, 30, 2030. The Supply Agreement provides a consistent and sufficient supply of electricity at the Whinstone data center facility. If Whinstone uses more electricity than contracted, the cost of the excess is incurred at the current spot rate. Concurrently, Whinstone entered into a contract with Oncor Electric Delivery Company LLC ("Oncor") for the extension of delivery system transmission/substation facilities to facilitate the delivery of electricity to Whinstone's location (the "Facilities Agreement"). Power costs incurred under this contract are determined on an hourly basis using settlement information provided by the Electric Reliability Council of Texas ("ERCOT") and are recorded in cost of revenues in our unaudited statements of operations.

Demand response provides the ERCOT market with valuable reliability and economic services by helping to preserve system reliability, enhancing competition, mitigating price spikes, and encouraging the demand side of the market to respond better to wholesale price signals. In collaboration with market participants such as the Company, ERCOT has developed demand response products and services for customers that have the ability to reduce or modify electricity use in response to instructions or signals. Loads may participate by offering directly into the ERCOT markets or indirectly by voluntarily reducing their energy usage in response to wholesale prices.

Depending on the spot market price of electricity, under this program, the Company sells electricity back to ERCOT in exchange for cash payments, rather than providing the power to customers during these peak times in order to most efficiently manage our cost of revenues. The Company sold approximately $125 million in electricity back to ERCOT during the three months ended March 31, 2021. These payments are recognized when incurred in the consolidated statements of operations as derivative power transactions expense (income).

While the Company manages facility operating costs in part by periodically selling unused or uneconomical power in the market (to ERCOT), the Company does not consider such actions as trading activities. That is, it does not engage in speculation in the power market as part of its ordinary activities. Because the Demand Response Services program allows for net settlement, the Company has determined the Supply Agreement meets the definition of a derivative under ASC 815, *Derivatives and Hedging*. However, because the Company has the ability to sell the power back to the grid rather than take physical delivery, physical delivery is not probable through the entirety of the contract and therefore, the Company does not believe the normal purchases and normal sales scope exception applies to the Supply Agreement. Accordingly, the Supply Agreement (the non-hedging derivative contract) is recorded at estimated fair value each reporting period with the change in the fair value recorded in derivative power transactions expense (income) in our unaudited statements of operations.





The estimated fair value of the derivative asset is classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations. Specifically, the estimation models contain quoted commodity exchange spot and forward prices and are adjusted for basis spreads for load zone-to-hub differentials.

<u>Lease Accounting</u>

In accordance with ASC 840, *Leases*, rental expense for lease payments related to operating leases is recognized on a straight-line basis over the remaining lease term. The Company does not hold any finance leases.

<u>Income Taxes</u>

The Company is taxed as a corporation for federal and state income tax purposes.

The Company accounts 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.

ASC Topic 740, *Income Taxes*, ("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 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.

The tax effects of temporary differences and tax loss and credit carry forwards that give rise to significant portions of deferred tax assets and liabilities at March 31, 2021 and 2020 are comprised of the following:

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Deferred tax assets (liability): | | |
| Net operating loss carryforwards | $ 11,150,000 | $ — |
| Derivative asset | (26,180,000) | — |
| Depreciation | (3,770,000) | — |
| Net deferred tax liability | $ (18,800,000) | $ — |





The Company has approximately $53,100,000 of federal net operating losses ("NOLS") that may be available to offset future taxable income, if any. Under the new Tax Cuts and Jobs Act, all NOLS incurred after December 31, 2017 are carried forward indefinitely for federal tax purposes. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") signed in to law on March 27, 2020, provided that NOLs generated in a taxable year beginning in 2018, 2019, or 2020, may now be carried back five years and forward indefinitely. In addition, the 80% taxable income limitation is temporarily removed, allowing NOLs to fully offset net taxable income.

Furthermore, as a result of changes in the ownership of our common stock, our ability to use our federal NOLs may be limited under Internal Revenue Code Section 382. State NOLs are subject to similar limitations in many cases. As a result, our substantial NOLs may not have any value to us.

The statute of limitations for assessment by the IRS and state tax authorities is open for all the Company's tax years. Currently, no federal or state income tax returns are under examination by the respective taxing authorities. The Company has not identified any uncertain tax positions requiring a reserve as of March 31, 2021 and December 31, 2020. The Company's policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense. The Company did not incur either interest or penalties for the three months ended March 31, 2021 and 2020 related to federal or state income taxes.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and taxing strategies in making this assessment. In case the deferred tax assets will not be realized in future periods, the Company has provided a valuation allowance for the full amount of the deferred tax assets at March 31, 2021 and March 31, 2020.

The expected tax provision (benefit) based on the U.S. federal statutory rate is reconciled with the actual tax provision (benefit) as follows:

| | For the three months ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Statutory federal income tax expense (benefit) | $ 23,246,000) | $ — |
| Change in valuation allowance | (4,446,000) | — |
| Deferred income tax provision | $ 18,800,000 | $ — |





Advertising

Advertising costs are expensed as incurred. Advertising costs were $13,000 and $21,000 for the periods ended March 31, 2021 and March 31, 2020, respectively.

Impact of COVID-19

The COVID-19 global pandemic has been unpredictable and unprecedented and could continue to result in significant national and global economic disruption, which may adversely affect our business. Based on the Company's current assessment, however, the Company does not expect any material impact on its long-term development, its operations, or its liquidity due to the worldwide spread of the COVID-19 virus. However, the Company is actively monitoring this situation and the possible effects on its financial condition, liquidity, operations, suppliers, and industry.

**2. Financing Arrangements**

Notes Payable

Financing from Customer

During 2019, one of the Company's customers provided funding for one of the data centers being constructed. Under the terms of the agreement, the Company will repay the construction debt plus an additional $2.0 million for the restoration of lost profit. The restoration of lost profit was recognized as a reduction of revenue in 2019 and fully paid in July 2020. Payments under this agreement began in June 2020 for a period of 30 months at a fixed interest rate of 7.0%. This debt was secured by the Company stock, as well as the buildings. In March 2021, the unpaid balance of approximately $30.0 million was repaid in full.

Financing from Paycheck Protection Program

During 2020, the Paycheck Protection Program ("PPP") was established with the passing of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), designed to provide financial relief to business owners and employees during the early stages of the COVID-19 outbreak in the United States. The CARES Act stimulus package provided assistance to the U.S. economy via loans, grants, and stimulus checks to citizens. PPP loans can be used to help fund payroll costs, including benefits, and may also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19 and certain supplier costs and expenses for operations.

During 2020, the Company was provided a PPP loan of $309,000 with a fixed-rate of interest of 1.0%.

In March 2021, the Company received confirmation from the Small Business Administration that it qualified for and was granted full forgiveness of the PPP loan balance and the insignificant amount of accrued interest. The $309,000 is recorded in other income in the Company's statement of operations for the three months ended March 31, 2021.





Customer Deposits

During 2019, a customer paid a security deposit of $2.5 million. Subsequent to March 31, 2021, in June 2021, the customer's contract was terminated and the deposit was returned by the Company to the customer.

**3. Concentration of Risks**

The Company maintains its cash accounts in a commercial bank. Accounts are guaranteed by the FDIC up to $250,000. The portion of the deposits in excess of this amount is not subject to such insurance and represents a credit risk to the Company. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

Through March 31, 2021 the Company had less than ten customers. This concentration exposes the Company to increased credit risk. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable or the extension of payment terms for customers could adversely affect the Company's cash flow, liquidity and operating results. The Company has not needed to extend the payment terms for any customers and has no reason to believe any will not meet their obligations under the contracts.

Individual counterparties are reviewed in determining the Company's concentrations of credit risk. Certain derivative instruments contain collateral provisions tied to the counterparties' credit ratings and the Company's tangible net worth, as calculated by total assets less intangible assets and total liabilities. If tangible net worth were to deteriorate materially, or if a counterparty with reasonable grounds for uncertainty regarding the Company's ability to satisfy an obligation requested adequate assurance of performance, additional collateral postings might be required. The additional collateral required is the net liability position allowed under the agreement, assuming the credit risk-related contingent features underlying these arrangements were triggered and those counterparties with rights to do so requested collateral.





**4. Net Property and Equipment**

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Buildings and improvements | $ 50,950,425 | $ 24,810,852 |

| | | |
|---|---|---|
| Equipment and other | 4,811,495 | 3,846,660 |
| Total cost of property and equipment | 55,761,920 | 28,657,512 |
| Less accumulated depreciation | (3,856,026) | (188,589) |
| Net property and equipment | $ 51,905,894 | $ 28,468,923 |

Depreciation expense totaled approximately $1,200,000 and $200,000, for the three months ended March 31, 2021 and 2020, respectively.

**5. Commitments and Contingencies**

The Company could be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. Management is not aware of any pending matters that could have a material impact on the financial condition of the Company.

Due to the construction in progress, the Company has various outstanding commitments with vendors.

**6. Related Party Transactions**

A. Related Party Loan

In 2019, the Company advanced funds to a related party. The balance of approximately $340,000 is included in note receivable-related party in our balance sheets at March 31, 2021 and March 31, 2020.

B. Related Party Housing

The Company also leased a residence from a related party. The balance of approximately $300,000 and $380,000, respectively, is included in prepaid rent-related party in our balance sheets at March 31, 2021 and March 31, 2020. See additional detail in the Operating Leases note disclosure in Note 8.

Subsequent to March 31, 2021, in May 2021, both of these related party transactions were terminated by agreement between the parties in connection with assistance in closing the May 2021 sale transaction to Riot as described further in Note 1.





C. Related Party Note Payable

In April 2020, the Company entered into a Facility Agreement with its former Parent, ND, as lender for financing the operating costs and amplification of the data center facility as well as the Company's general corporate purposes. In June 2020, the parties to the note amended the original Facility Agreement to increase the maximum amount of the note. The note balance of $65.5 million and zero is classified as notes payable – related party on our balance sheet as of March 31, 2021 and March 31, 2020, respectively.

The note bears interest at a fixed-rate of 2.0% and interest is paid annually and in arrears. The accrued interest of $0.6 million and $0.4 million and was included in notes payable-related party in our balance sheet at March 31, 2021 and March 31, 2020, respectively.

Subsequent to March 31, 2021, in May 2021, the note was fully repaid in connection with closing the May 2021 sale transaction to Riot as described further in Note 1.

D. Related Party Compensation

Officers' compensation was approximately $485,000 and $180,000, respectively, for the periods ended March 31, 2021 and March 31, 2020 and is included in G&A expenses in our statements of operations.

**7. Deferred Revenue**

During 2019, the Company entered into an agreement with one of its customers for monthly hosting services. These services are provided each month at a specified rate, along with other customary terms and conditions, for a period of 24 months. As part of the agreement, the Company received advance payments of $9,700,000. At March 31, 2021 and March 31, 2020, the approximate unrecognized portions of these contracts are reflected in the balance sheet as deferred revenue – current portion of $1,800,000 and $5,935,000, respectively, and as deferred revenue – long-term portion of $4,200,000 and $3,750,000, respectively.

During 2020, the Company entered into an agreement with one of its customers for monthly hosting services. These services are provided each month at a specified rate, along with other customary terms and conditions, for a period of 120 months. As part of the agreement, the Company received advance payments of $6,700,000 in 2020 and approximately $12.4 million during the three months ended March 31, 2021. At March 31, 2021 and March 31, 2020, the approximate unrecognized portions of this contract are reflected in the balance sheet as deferred revenue – current portion of $2,200,000 and zero, respectively, as deferred revenue – long-term portion of $16,700,000 and zero, respectively.





**8. Operating Leases**

All of our leases are classified as operating leases through the lease term expiration in accordance with ASC 840,*Leases* ("ASC 840"). Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the remaining lease term. The Company currently does not hold any finance leases.

In January 2019, the Company entered into a lease to rent space in Louisiana for annual rent of approximately $270,000. The lease is for a period of five years and expires in December 2023. In April 2019, the Company entered into a second lease to rent space in Louisiana for annual rent of approximately $427,000 million. The lease is for a period of five years and expires in March 2024.

The Company entered into a ground lease in October 2019 for real property in Texas for an annual rent of approximately $888,000. The initial term of the lease is 10 years commencing on January 1, 2020.

On December 31, 2019, the Company leased a residence from a related party with a 60-month term with full payment of $400,000 due in advance. The unamortized balance of $300,000 and $380,000 is included in prepaid rent – related party at March 31, 2021 and March 31, 2020. The lease terminates at the end of 2024. Subsequent to March 31, 2021, in May 2021, this lease was terminated by agreement between the parties in connection with assistance in closing the May 2021 sale transaction to Riot as described further in Note 1.

During the three months ended March 31, 2021 and 2020, the Company incurred $220,000 and $220,000, respectively, of ground lease expense, which is recorded as cost of revenues in our statements of operations. During the three months ended March 31, 2021 and 2020, we incurred $200,000 and $200,000, respectively, of office and other lease expense, which is recorded as G&A expense in our statements of operations.

At March 31, 2021, future minimum lease payments from these leases were as follows:

| | Ground lease | Other leases |
|---|---|---|
| For the years ending December 31, 2021 | $ 686,000 | $ 523,000 |
| 2022 | 942,000 | 697,000 |
| 2023 | 970,000 | 697,000 |
| 2024 | 999,000 | 107,000 |
| 2025 | 1,029,000 | — |
| Thereafter | 4,433,000 | — |
| Total | $ 9,059,000 | $ 2,181,000 |





## 9. Derivative Financial Instruments

Derivatives are used to manage the risk of changes in market prices for power. Such price fluctuations may cause the following:

- an unrealized appreciation or depreciation of contracted commitments to purchase when purchase prices under the commitments are compared with current power prices; and
- actual cash outlays for the purchase of the power that differ from anticipated cash outlays

The derivatives used to manage these risks are governed by the Company's risk management policies. The net positions are continually assessed to determine whether new or offsetting transactions are required. The goal of the program is generally to mitigate financial risks while ensuring that sufficient quantities of power are available to meet Company requirements. Contracts entered into as part of the risk management program may be settled financially, settled by physical delivery, or net settled with the counterparty. All contracts considered to be derivative instruments are recorded on the consolidated balance sheets at their fair values.

As of March 31, 2021, there is one derivative power contract, which had a carrying value of $124.7 million and is recorded as a derivative asset in the consolidated balance sheet. The contract is not designated as a hedging instrument.

The terms of the Supply Agreement require margin-based collateral, calculated as exposure resulting from fluctuations in the market cost rate of electricity versus the fixed price stated in the contract. The margin-based collateral requirement to the Company is zero as of March 31, 2021.

## 10. Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment.

Nonperformance risk is considered in the valuation of derivative instruments by analyzing the Company's own credit standing and the credit standing of its counterparties, and by considering any credit enhancements (e.g., collateral). The evaluation is based on current market conditions, and if such risk is deemed to be material, a valuation adjustment would be estimated using market data such as the price of credit default swaps, bond yields, and credit ratings. No gains or losses related to valuation adjustments for counterparty default risk were recorded during 2021 or 2020. At March 31, 2021, the counterparty default risk valuation adjustment related to derivative contracts was zero.

The estimated fair value of the derivative asset is classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations. Specifically, the estimation models contain quoted commodity exchange spot and forward prices and are adjusted for basis spreads for load zone-to-hub differentials. The discount rate utilized includes observable judgment related to company-specific risk factors.

**11. Subsequent Events**

The Company evaluated all subsequent events through the date of this report, which is the date the financial statements were available to be issued.

See Note 6, for related party transactions.

As described in Note 1, on May 26, 2021, Riot acquired all of the issued and outstanding equity interests of the Company, pursuant to terms of a Stock Purchase Agreement dated April 8, 2021, by and among Riot, ND and the Company. At the closing of the Acquisition, as consideration therefor, Riot paid to ND $80.0 million in cash, subject to customary adjustments set forth in the Stock Purchase Agreement, and issued to ND 11.8 million shares of the common stock, no par value, of Riot.

In April 2021, under the provisions of the TXU Supply Agreement, the Company entered into a Qualified Scheduling Entity ("QSE") Letter Agreement, which resulted in the Company being entitled to receive approximately $125,100,000 for its power sales during the February winter storm, all under the terms and conditions of the QSE Letter Agreement. $29,000,000 was received in cash in April 2021, approximately $69,800,000 is scheduled to be credited against future power bills of Whinstone beginning in 2022 and the remaining $26,300,000 is contingent upon ERCOT being able to collect additional amounts owed from its other customers. These amounts are gross before fair value adjustments and expenses incurred by Whinstone for power management fees and customer settlements of approximately $15,000,000.

In April 2021, the Company amended the ground lease described in Note 8 whereby it obtained a Water Reservation Agreement from the lessor, which provides for a certain quantity of water from a nearby lake to be used by the Company for commercial purposes. The Company uses the water for evaporative cooling of the data center. The initial term of the reservation agreement expires in December 2027 and requires annual payments of approximately $950,000.

In May 2021, Riot provided a guarantee in favor of the Company for the ground lease payments described in Note 8.

In June 2021, the Company terminated a revenue contract with one of its customers whose contract was originally scheduled to mature in mid-July 2021. As part of the termination agreement and the underlying hosting service agreement with the customer, Whinstone will pay to the customer its security deposit of $2.5 million and the unamortized amount of its One-Time Prepayment totaling $4.3 million.

**Exhibit 99.3**

**RIOT BLOCKCHAIN, INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

## INDEX





**Riot Blockchain, Inc. and Subsidiaries**
**Unaudited Pro Forma Condensed Combined Financial Information**

On April 8, 2021, Riot Blockchain, Inc. ("we," "us," "our," the "Company," "Riot Blockchain, Inc.," and "Riot") entered into a stock purchase agreement with Northern Data AG, a German stock corporation (the "Seller"), and Whinstone US, Inc., a Delaware corporation and a wholly owned subsidiary of the Seller ("Whinstone"), which provided for Riot to acquire all of the issued and outstanding equity interests of Whinstone (the "Acquisition"). We completed the Acquisition on May 26, 2021 (the "Acquisition Date"). At the closing of the Acquisition, Riot paid to the Seller $80.0 million in cash, adjusted for net working capital and other items, and issued to the Seller 11,800,000 shares of Riot's common stock, no par value. As part of cash at closing, net debt outstanding from Whinstone to its parent (seller) totaling $38 million was repaid as part of cash paid and certain seller transaction costs were paid. The Company also agreed to pay Seller up to approximately $86 million in additional consideration if certain future power credits are realized by Whinstone.

The unaudited pro forma condensed combined financial statements ("pro forma financial information") have been prepared based on the historical financial statements of Riot and Whinstone, and are intended to provide you with information about how the Acquisition might have affected our historical financial statements. The unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021, and for the year ended December 31, 2020, combines the historical consolidated statement of operations of Riot for the corresponding periods, derived from the Company's Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission ("SEC") on May 17, 2021, and Annual Report on Form 10-K filed with the SEC on March 31, 2021, with the respective historical statement of operations information of Whinstone as indicated below as if the Acquisition had occurred on January 1, 2020. The unaudited pro forma condensed combined balance sheet as of March 31, 2021, combines the historical unaudited condensed consolidated balance sheet of Riot, derived from the Company's Quarterly Report on Form 10-Q filed with the SEC on May 17, 2021, and the historical unaudited balance sheet of Whinstone as of March 31, 2021, as if the Acquisition had occurred on March 31, 2021.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the accompanying notes to the unaudited pro forma financial information and:

- the historical unaudited financial statements of Riot for the quarter ended March 31, 2021, included in Riot's Quarterly Report on Form 10-Q filed with the SEC on May 17, 2021; and
- the historical audited financial statements of Riot for the year ended December 31, 2020, included in Riot's Annual Report on Form 10-K filed with the SEC on March 31, 2021: and
- the Audited consolidated financial statements of Whinstone US, Inc. as of and for the years ended December 31, 2020, and 2019, and the notes related thereto, included in this Form 8-K, at Exhibit 99.1: and
- The Unaudited consolidated financial statements of Whinstone US, Inc. as of and for the three months ended March 31, 2021, and 2020, and the notes related thereto, included in this Form 8-K at Exhibit 99.2.

The unaudited pro forma condensed combined financial statements are presented using the acquisition method of accounting, with Riot as the acquirer. The unaudited pro forma condensed combined financial statements will differ from our final acquisition accounting for a number of reasons, including that our estimates of fair values of assets acquired, liabilities assumed and consideration transferred, are preliminary and subject to change during the measurement period when our formal valuation is finalized. The differences that will occur between the preliminary estimates and the final acquisition accounting could be material.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only. They have been prepared in accordance with Article 11 of Regulation S-X of the SEC and are not necessarily indicative of what our financial position or results of operations actually would have been had we completed the Acquisition as of the dates indicated, nor do they purport to project the future financial position or operating results of the combined company. The pro forma financial information is presented for illustrative purposes only and does not reflect the costs of any integration activities or cost savings or synergies that may be achieved as a result of the Acquisition.



**Riot Blockchain, Inc. and Subsidiaries**
**Unaudited Pro Forma Condensed Combined Balance Sheet**
**As of March 31, 2021**

| (In thousands except share and per share amounts) | Riot | Whinstone (As Adjusted Note 2) | Transaction Accounting Adjustments | Notes | Pro Forma Combined |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets | | | | | $ — |
| Cash and cash equivalents | 241,012 | 6,018 | (71,155) | 3 4.(e). | 175,875 |
| Accounts receivable | — | 215 | | | 215 |
| Derivative asset - current portion | — | — | | 2. | — |
| Prepaid expenses and other current assets | 629 | 1,382 | | | 2,011 |
| Cryptocurrencies | 34,567 | — | | | 34,567 |
| Total current assets | 276,208 | 7,615 | (71,155) | | 212,668 |
| Property and equipment, net | 28,306 | 51,906 | | | 80,212 |
| Construction in progress | — | 8,069 | | | 8,069 |
| Deposits | 70,730 | 9,275 | | | 80,005 |
| Intangible assets, net | 351 | — | 111,490 | 4. (a). | 111,841 |
| Goodwill | — | — | 271,195 | 3 4.(c) | 271,195 |
| Derivative asset | — | 95,716 | | | 95,716 |
| Other long-term assets – related party | — | 581 | | | 581 |
| Other long-term assets | 310 | — | 6,380 | 4. (d) | 6,690 |
| **Total assets** | **$ 375,905** | **$ 173,162** | **$ 317,910** | | **$ 866,977** |
| | | | | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current liabilities | | | | | |
| Accounts payable | $ 2,904 | $ 2,584 | $ — | | $ 5,488 |
| Accrued expenses | 4,432 | 16,336 | | | 20,768 |
| Customer deposits | — | 6,315 | | | 6,315 |
| Notes payable - related party, current portion | — | 37,957 | (37,957) | 2., 3. | — |
| Deferred revenue, current portion | 97 | 4,024 | | | 4,121 |
| Other current liabilities | — | — | | | — |
| Total current liabilities | 7,433 | 67,216 | (37,957) | | 36,692 |
| Deferred tax liability | — | 18,800 | 23,000 | 4.(b). | 41,500 |
| Right of Use liability | — | — | 8,350 | 4. (d). | 8,350 |
| Deferred revenue, less current portion | 655 | 20,900 | | | 21,555 |
| Contingent Purchase Price Payable | — | — | 82,953 | 3. (1) | 82,953 |
| **Total liabilities** | **8,088** | **106,913** | **76,346** | | **191,350** |
| | | | | | |
| **Stockholders' equity** | | | | | |
| Preferred stock | 11 | — | | | 11 |
| Common stock | 590,188 | 1 | 326,151 | 4. (h). | 916,340 |
| Additional paid-in capital | — | 572 | (572) | 4. (h). | — |
| Retained earnings (accumulated deficit) | (222,382) | 65,673 | (84,015) | 4. (h). | (240,724) |
| Total stockholders' equity | 367,817 | 66,246 | 241,564 | | 675,627 |
| **Total liabilities and stockholders' equity** | **$ 375,905** | **$ 173,162** | **$ 317,910** | | **$ 866,977** |

See Accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements



**Riot Blockchain, Inc. and Subsidiaries**
**Unaudited Pro Forma Condensed Combined Statement of Operations**
**For the Three Months Ended March 31, 2021**

| (In thousands except share and per share amounts) | Riot | Whinstone | Transaction Accounting Adjustments | Notes | Pro Forma Combined |
|---|---|---|---|---|---|
| Revenue | $ 23,197 | $ 4,061 | $ — | | $ 27,258 |
| | | | | | |
| Costs and expenses: | | | | | |
| Cost of revenues (exclusive of depreciation and amortization shown below) | 7,534 | 19,669 | 124 | 4. (d), (f) | 27,327 |
| Selling, general and administrative | 5,462 | 3,108 | 36 | 4. (d), (f) | 8,606 |
| Depreciation and amortization | 2,846 | 1,192 | 3 | 4. (d), (f) | 4,041 |
| Impairment of long-term investments | — | — | | | — |
| Impairment of cryptocurrencies | — | — | | | — |

| | | | | | |
|---|---|---|---|---|---|
| Derivative Power transactions expense (income) | — | (131,038) | | | (131,038) |
| Total costs and expenses (credit) | 15,842 | (107,069) | 163 | | (91,064) |
| Operating income (loss) | 7,355 | 111,130 | (163) | | 118,322 |
| Other income (expense): | | | | | |
| Interest expense – related party | — | (229) | 229 | 4. (g). | — |
| Interest income | 175 | 21 | | | 196 |
| Interest expense | — | (533) | | | (533) |
| Realized gain on sale/exchange of cryptocurrencies | — | — | | | — |
| Other income (expense) | — | 309 | | | 309 |
| Total other income (expense) | 175 | (432) | 229 | | (28) |
| Income (loss) before income taxes | 7,530 | 110,698 | 66 | | 118,294 |
| Income tax benefit (expense) | — | (18,800) | — | | (18,800) |
| Net income (loss) | $ 7,530 | $ 91,898 | $ 66 | | $ 99,494 |
| Basic net income (loss) per share | $ 0.09 | | | | $ 1.05 |
| Diluted net income (loss) per share | $ 0.09 | | | | $ 1.04 |
| Basic weighted average number of shares outstanding | 83,163,400 | | 11,800,000 | 3 | 94,963,400 |
| Diluted weighted average number of shares outstanding | 83,712,151 | | 11,800,000 | 3 | 95,512,151 |

See Accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements



**Riot Blockchain, Inc. and Subsidiaries**
**Unaudited Pro Forma Condensed Combined Statement of Operations**
**For the Year Ended December 31, 2020**

| (In thousands except share and per share amounts) | Riot | Whinstone | Transaction Accounting Adjustments | Notes | Pro Forma Combined |
|---|---|---|---|---|---|
| Revenue | $ 12,081 | $ 11,815 | $ — | | $ 23,896 |
| Costs and expenses: | | | | | |
| Cost of revenues (exclusive of depreciation and amortization shown below) | 6,251 | 22,596 | 468 | 4. (d), (f) | 29,315 |
| Selling, general and administrative | 10,251 | 7,620 | 18,510 | 4. (d)., (e). | 36,381 |
| Depreciation and amortization | 4,494 | 2,664 | 13 | 4. (d) | 7,171 |
| Impairment of long-term investments | 9,413 | — | | | 9,413 |
| Impairment of cryptocurrencies | 989 | — | | | 989 |
| Derivative Power transactions expense (income) | — | (3,110) | | | (3,110) |
| Total costs and expenses | 31,398 | 29,770 | 18,991 | | 80,159 |
| Operating income (loss) | (19,317) | (17,955) | (18,991) | | (56,263) |
| Other income (expense): | | | | | |
| Interest expense – related party | — | (408) | 408 | 4. (g). | — |
| Interest income | 85 | 120 | | | 205 |
| Interest expense | — | (1,161) | | | (1,161) |
| Realized gain on sale/exchange of cryptocurrencies | 5,184 | — | | | 5,184 |
| Other income (expense) | 1,381 | — | | | 1,381 |
| Total other income (expense) | 6,650 | (1,449) | 408 | | 5,609 |

| | | | | | |
|---|---|---|---|---|---|
| Income (Loss) before income taxes | (12,667) | (19,404) | (18,583) | | (50,654) |
| Income tax benefit (expense) | | | | | — |
| Net income (loss) | (12,667) | (19,404) | (18,583) | | (50,654) |
| Net (income) loss attributable to non-controlling interest | — | — | — | | — |
| Net income (loss) attributable to Riot Blockchain | $ (12,667) | $ (19,404) | $ (18,583) | | $ (50,654) |
| Basic and diluted net income (loss) per share | $ (0.30) | | | | $ (0.94) |
| Basic and diluted weighted average number of shares outstanding | 41,976,704 | | 11,800,000 | 3 | 53,776,704 |

See Accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements



**Note 1. Basis of Presentation**

The unaudited pro forma condensed combined balance sheet as of March 31, 2021, combines our historical condensed consolidated balance sheet with the historical condensed balance sheet of Whinstone and has been prepared as if our acquisition of Whinstone had occurred on March 31, 2021. The unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021, and for the year ended December 31, 2020, combine our historical condensed consolidated statements of operations with Whinstone's historical statements of operations and have been prepared as if the acquisition had occurred on January 1, 2020. All amounts are in thousands, except share and per share amounts.

We have accounted for the acquisition in this unaudited pro forma condensed combined financial information using the acquisition method of accounting in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"). In accordance with ASC 805, we use our best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the Acquisition Date. Goodwill as of the Acquisition Date is measured as the excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired.

The pro forma adjustments described below were developed based on Riot management's assumptions and estimates, including assumptions relating to the consideration paid and the allocation thereof to the assets acquired and liabilities assumed from Whinstone based on preliminary estimates of fair value. The final allocation of the purchase consideration will differ from that reflected in the unaudited pro forma condensed combined financial information after final valuation procedures are performed and amounts are finalized following the completion of the acquisition.

The unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of the combined company would have been had the acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

The unaudited pro forma condensed combined financial information does not reflect any integration activities or cost savings from operating efficiencies, synergies, or other restructurings that could result from the Acquisition.



**Note 2. Adjustment to Historical Whinstone Balance Sheet**

The historical condensed balance sheet of Whinstone as of March 31, 2021, has been revised on a pro forma basis to reflect the April 2021 settlement and collection of a $29 million current asset related to the power agreement with TXU, that is accounted for as a derivative and classified as a current asset with such funds thereupon used to reduce the note payable related party due to Northern Data, the Seller and former parent to Whinstone. The impact on the Whinstone historical balance sheet as of March 31, 2021, is as follows:

| (In thousands except share and per share amounts) | Whinstone (Historical) | Whinstone Pro Forma Adjustments | Whinstone (As Adjusted) |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 6,018 | $ — | $ 6,018 |
| Accounts receivable | 215 | | 215 |
| Derivative asset - Current Portion | 29,000 | (29,000) | — |
| Prepaid expenses and other current assets | 1,382 | | 1,382 |
| Cryptocurrencies | — | | — |
| Total current assets | 36,615 | (29,000) | 7,615 |
| Property and equipment, net | 51,906 | | 51,906 |
| Construction in progress | 8,069 | | 8,069 |
| Deposits | 9,275 | | 9,275 |
| Intangible assets, net | — | | — |
| Goodwill | — | — | — |

| | | | |
|---|---|---|---|
| Derivative asset | 95,716 | | 95,716 |
| Other long-term assets – related party | 581 | | 581 |
| Other long-term assets | — | | — |
| **Total assets** | **$ 202,162** | **$ (29,000)** | **$ 173,162** |
| | | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Current liabilities | | | |
| Accounts payable | $ 2,584 | $ — | $ 2,584 |
| Accrued expenses | 16,336 | | 16,336 |
| Customer deposits | 6,315 | | 6,315 |
| Notes payable - related party, current portion | 66,957 | (29,000) | 37,957 |
| Deferred revenue, current portion | 4,024 | | 4,024 |
| Other current liabilities | — | | — |
| Total current liabilities | 96,216 | (29,000) | 67,2186 |
| Deferred tax liability | 18,800 | | 18,800 |
| Right of Use liability | — | — | — |
| Deferred revenue, less current portion | 20,900 | | 20,900 |
| Contingent Purchase Price Payable | — | — | — |
| **Total liabilities** | **135,916** | **(29,000)** | **106,916** |
| | | | |
| **Stockholders' equity** | | | |
| Preferred stock | — | | — |
| Common stock | 1 | | 1 |
| Additional paid-in capital | 572 | | 572 |
| Retained earnings (accumulated deficit) | 65,673 | | 65,673 |
| Total stockholders' equity | 66,246 | — | 66,246 |
| **Total liabilities and stockholders' equity** | **$ 202,162** | **$ (29,000)** | **$ 173,162** |



**Note 3. Preliminary Purchase Consideration and Related Allocation**

Pursuant to the Agreement, Riot paid to the Seller $80.0 million in cash, (net of $27 million of net working capital and other adjustments) and issued to the Seller 11,800,000 shares of Riot's common stock, no par value. The following table summarizes the components of the purchase consideration transferred (in thousands):

Merger Consideration:

| | |
|---|---|
| Cash (including $38.1 million of debt pay off and certain Seller transaction costs) | $ 53,005 |
| Common stock (11,800,000 shares at $27.64 per share) | 326,152 |
| Contingent purchase price payable (1) | 82,953 |
| Other | (192) |
| | $ 461,918 |

(1) Under the terms of the purchase agreement, the Seller is entitled to receive defined amounts, as realized by Whinstone, (net of income taxes) which arose as a result of the February weather event, which is further discussed in the March 31, 2021, financial statements included at Exhibit 99.2 with this Form 8-K filing. The amount represents the current preliminary fair value estimate and the timing payable, is contingent on the receipt or realization of the benefits by Whinstone. The measurement period is still open, and the amount is subject to adjustment as additional information becomes available and as additional analyses and final allocations are complete.

The pro forma cash utilized in the transaction totaled $71 million, consisting of the net purchase cash of $53 million plus closing expenses of $18 million.

The Acquisition will be accounted for using the acquisition method of accounting, which requires an allocation of the purchase price to the net assets acquired, based on their fair values as of the date of the Acquisition. Pro forma purchase price allocation adjustments have been made for the purpose of providing pro forma financial information based on current estimates and currently available information. These amounts are preliminary and subject to revision based on final determination of fair value and the final allocation of the purchase price to the assets and liabilities of Whinstone, and the revisions could be material. Any changes to the preliminary estimates of the fair value of the assets acquired and liabilities assumed will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill. The Company expects to finalize the valuation of acquired assets and liabilities assumed, and consideration transferred, as soon as practicable but not later than one year from the acquisition date.

The following table summarizes the preliminary allocation of the assets acquired and liabilities assumed based on their fair values on the assumed acquisition date (in thousands):

| | |
|---|---|
| Purchase Price Allocation: | |
| Cash and cash equivalents | $ 6,018 |
| Accounts receivable | 215 |
| Prepaid and other current assets | 1,382 |
| Property and equipment | 59,975 |
| Intangible assets | 111,490 |
| Derivative asset | 95,716 |
| Other long-term assets | 9,856 |

| | |
|---|---|
| Accounts payable | (2,584) |
| Accrued expenses | (16,336) |
| Deferred revenues and customer deposits | (31,239) |
| Deferred tax liabilities | (41,800) |
| Operating lease liabilities | (1,970) |
| | |
| Total identifiable assets and liabilities acquired | 190,723 |
| | |
| Goodwill (1) | 271,195 |
| | |
| Total purchase consideration | $ 461,918 |

(1) Goodwill represents the excess of Merger Consideration over the preliminary fair value of the underlying assets acquired and liabilities assumed. Goodwill is attributable to the assembled workforce of experienced personnel at Whinstone and synergies expected to be achieved from the combined operations of Riot and Whinstone.



**Note 4. Transaction Accounting Adjustments**

The pro forma adjustments included in the unaudited pro forma condensed combined financial information are as follows:

(a) The net pro forma adjustment of $111 million to intangible assets reflects the identifiable intangible assets acquired, consisting of customer contracts, with an estimated useful average life of approximately 8.5 years based on the remaining lives of the customer contracts acquired. Fair value of the contracts was estimated by applying an income approach – multi period excess earnings method. The fair value was determined by calculating the present value of estimated future operating cash flows generated from the existing customers less costs to realize the revenue. The Company applied a discount rate of 21%, which reflected the nature of the assets as they relate to the risk and uncertainty of the estimated future operating cash flows. Other significant assumptions used to estimate the fair value of the customer contracts include, an assumed income tax rate of 21% and for expiring contracts a renewal probability of 80%, The straight-line amortization related to the identifiable intangible assets is reflected as a pro forma adjustment in the unaudited statements of operations at the rate of approximately $3.2 million per quarter.

(b) The increase in long-term deferred tax liability of $23 million results from a $23 million increase in deferred tax liabilities related to fair value adjustments for fixed assets and non-deductible intangible assets using an estimated blended federal and state statutory rate of 21%.

(c) The goodwill arising from the Acquisition will not be amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment exists. In the event that Riot determines that the value of goodwill has become impaired, we will incur an accounting charge for the amount of the impairment during the period in which the determination is made. The goodwill is not deductible for tax purposes.

(d) The pro forma adjustments to other long-term assets, other current liabilities and other long-term liabilities include the right of use assets from acquired leases and the associated amortization to reflect as if Whinstone had adopted ASU 2016-02, *Leases* (Topic 842). Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by the fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term. The standard was effective for Riot on January 1, 2019, but since Whinstone was not a public business enterprise (more specifically, it was a private company), it was not required to adopt the guidance until the acquisition by Riot, when the lease classification was assessed. As of March 31, 2021, the right of use asset totaled $6.4 million and is included with other long-term assets and the operating lease liability totaled $8.4 million. The difference of approximately $2.0 million, pertains to abandoned acquired leases that still have a remaining lease term. Additional expenses recorded for the right of use reporting totaled $682 thousand and $160 thousand in the 2020 and 2021 periods, respectively.

(e) The transaction expenses totaling approximately $18 million is recorded as a pro forma adjustment in the pro forma combined statement of operations as of January 1, 2020, as selling, general and administrative expense for the year ended December 31, 2020. For the pro forma balance sheet as of March 31, 2021, the transaction expenses totaling approximately $18 million is recorded as a use of cash and as an increase in the accumulated deficit.

(f) The pro forma adjustment to selling, general and administrative expense eliminates the $15 thousand per month management fees Whinstone was historically required to pay to its parent, the Seller.



(g) The pro forma adjustment to interest expense totaling $408 thousand and $229 thousand, for the periods ended December 31, 2020, and March 31, 2021, respectively, eliminates the interest paid to Seller since the debt was paid in full as provided in the purchase agreement, in connection with the closing of the Acquisition on May 26, 2021.

(h) The pro forma adjustments to stockholders' equity are as follows:

| (In thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings (Deficit) |
|---|---|---|---|
| Value of Riot common shares issued in acquisition | $ 326,152 | $ — | $ — |
| Accrual of transaction fees and expenses | — | — | (18,342) |
| Elimination of Whinstone historical stockholders' equity | (1) | (572) | (65,673) |

| | | | |
|---|---|---|---|
| | $ 326,151 | $ (572) | $ (84,015) |