



Consensus Mining and Seigniorage Corporation

Quarterly Report

Q3 2022

Financial Results Summary

Consensus Mining and Seigniorage Corporation (“CMSC” or the “Company”) is pleased to announce that, during its third quarter ending September 30, 2022 (the “Period”), the Company earned \$1,117,392 in revenue, and \$3,610,597 in revenue for the three quarters ending September 30, 2022.

During the Period, the Company mined 37 BTC and 747 LTC, of which 21.65 BTC and 110 LTC were sold to pay for operating expenses, with the remainder being retained on the balance sheet.

As of the end of the quarter, CMSC held 159.81 BTC, 3,130 LTC and de-minimis amounts of ZEC, BCH, ETH and ETC.

Operating expenses of \$671,402, primarily consisting of hosting costs, were incurred during the Period, resulting in a net operating income (excluding depreciation and any cryptocurrency valuation impairment) of \$445,990. For the three quarters ending September 30th, 2022, the net operating income (excluding depreciation and cryptocurrency valuation impairment) was \$1,875,234.

Non-operating expenses for the quarter were \$1,780,771, primarily consisting of depreciation expenses for the mining equipment.

Upon advice of its auditor, the Company’s financial statements have been adjusted to deduct both the depreciation of the mining equipment and impairment charges on the value of the cryptocurrency held on its balance sheet, in its GAAP net operating expenses. These adjustments are reflected in the financial statements.

Net of the depreciation of the mining equipment and impairment of its cryptocurrency holdings, as well as other non-operating expenses, the Company’s GAAP net loss for Q3 2022 and YTD 2022 were (\$1,754,416) and (\$7,320,314) respectively.



Operations Update

During the Period the Company purchased 5 Antminer L7's at a cost of \$60,000 which were deployed in August 2022, increasing the Company's Litecoin hashrate by 32% to 190GH.

In our last update, we reported that we had procured additional equipment for deployment in June, which was delayed due to ERCOT¹ energization delays at the hosting provider. The site has now been energized and the equipment has been fully deployed, having come online in the third quarter, adding 33PH to our Bitcoin mining hashrate.

The hosting provider that was building 2.1MW of expansion space for CMSC's use, on a right of first refusal basis, came online during Q3. The cleaned and consolidated mining equipment from a different, terminated hosting provider (as reported in Q1), is now online. This resulted in an additional increase of 14.2 PH of additional processing power. The company still has additional hosting capacity at this hosting site, which it plans to deploy strategically over the coming months.

During the Period, the Company's total Bitcoin hashrate increased by approximately 56% to 120PH.

One of the Company's hosting service providers experienced significantly higher power costs for a number of its facilities during the quarter. The hosting provider made the decision, as permitted by its hosting contracts, to pass through to its customers these increased power costs, which have resulted in a significant increase in our hosting expense, which, along with increases in network difficulty and the fall in cryptocurrency prices, has made profitability at this hosting site very challenging. More recently, the hosting provider has stated that it believes that power costs will go back down, which would then be reflected in future power cost pass-through expenses. We are monitoring the situation very closely and will take any steps necessary to protect Consensus Mining.

We continue to engage with existing and new hosting providers to secure space as we procure new mining equipment.

Further, the Company is actively looking at opportunities to purchase or partner with other mining hosting facilities that will allow the Company to have more control of the fundamental costs of hosting.

¹ The Texas electrical grid operator.



Update on Upcoming Listing

We continue to pursue a path to become a publicly traded company, via direct listing on OTC Markets. In September, we started the listing process ahead of the end of the 12-month hold/restriction period. That process is ongoing, and we expect the listing to commence sometime in late 1Q2023.

Management Commentary

The cryptocurrency mining industry continues to come under considerable pressure. This is due to the price of cryptocurrencies falling, network hashrate and mining difficulty increases and higher global power costs. The chart below clearly illustrates how quickly the operating environment has changed over the period of a year, with difficulty (the amount of processing power required to validate a block and earn mining rewards) increasing approximately 65% and the price of bitcoin (and therefore the revenue earned through mining) falling by approximately 70%. This has had a significant impact on the profitability of the cryptocurrency mining industry. What this portends for the Company can be very different than is either intuitively obvious or reported in the financial press.



Source: Blockchain.com



As can be read in the media, many cryptocurrency mining operators, whether they are service providers or mining companies, public or private, have come under significant financial stress in recent months. However, there are many factors at work, over and above the price of Bitcoin and the increase in difficulty.

The cost of power has risen significantly, making the cost to mine a bitcoin correspondingly higher. Hosting providers, their clients and self-miners are all feeling the impact. While the profit margins are still there, those margins are significantly tighter. Mining companies could simply shut down their equipment during times when certain mining equipment or hosting costs turn profitability negative, however hosting contracts and power purchase agreements sometimes prevent short term suspension of mining activities.

The knock-on effect of these reduced profit margins is being exacerbated for mining companies that utilized debt leverage to fund their operations, to build facilities and/or buy the mining rigs themselves. As their profits have been squeezed, their ability to make payments on their loan obligations has become challenged. Although there are always inducements in a rapidly expanding industry to borrow extensively in order to try to capitalize on that growth, the greatest risk a company can face in a cyclical or even just highly variable business, even greater than the threats posed by competitors, is debt and lack of balance sheet flexibility.

The institutional custodian for CMSC also operates in this lending space (both cash and crypto) and therefore has potential exposure to defaults on their loans. The custodian has provided assurances that the custodial side of the business is fully segregated from their lending business, and as such our crypto balances are not at risk should their lending business suffer material losses.

A number of cryptocurrency mining related operators that have recently made announcements regarding the challenges their businesses are facing. For example, Compute North, a major institutional hosting provider, announced bankruptcy proceedings; Argo Blockchain, a self-mining company, announced that a capital raise deal had fallen through and that their cashflow could turn negative in the near term; and Core Scientific, a hosting provider and self-mining company, announced that it was having cashflow and liquidity issues and was seeking restructuring solutions.

The cost of procuring new mining equipment continues to fall. According to Luxor's Asic Price Index, at the end of Q2, current generation (S19jPro or similar) equipment was priced at around \$45 per TH, having fallen from \$106/TH in December. At the end of Q3, the prices were closer to \$30/TH, and as at the time of this writing we are seeing the pricing at around \$20/TH. Distressed assets, which is to say those that are being sold by miners that have been met with financial issues, can be even lower.



The Company has held firm to its prudent approach to capital deployment and continues to do so. During 5+ years of our operating history, both before and after the formation of Consensus Mining and Seigniorage Corporation, we have consistently employed a capital allocation methodology designed to mitigate the unexpected swings in operating margins, such that we deliberately acquire our equipment over time to diversify our cost basis. By having not borrowed to purchase additional equipment, we do not have interest payments that eat into the slim mining margins of today, nor need we be concerned with debt repayment or roll-over obligations. By maintaining a lean and low-cost organizational operating model we are not adding unnecessary expenses to the Company's net operating cash flow. In addition, by not purchasing equipment at the inflated prices of a year ago, we have maintained a strong balance sheet that continues to have capital to deploy. And, of course, the cost of equipment powerfully determines the future returns on investment. Rapid growth can be entirely illusory if the embedded cost of the operating assets is excessive. The crypto-mining industry is very dynamic, in ways that can provide continued periodic advantages. Given CMSC's patient positioning, and the current pressures on the industry, opportunities are arising for putting the capital to work at attractive reduced prices.

A handwritten signature in black ink, appearing to read "Alun Williams".

Alun Williams
President and Treasurer
Consensus Mining and Seigniorage Corporation

Upcoming Shareholder Call

Alun Williams, President and Treasurer, and Kevin McRae, Chief Technology Officer, will host a conference call on **Wednesday, December 7, 2022 at 3:00 p.m. ET**. *Questions should be submitted to ir@consensusmining.com before 1:00 p.m. EST on the day of the call.* The call is open only to current CMSC investors. The call will be available for replay following the meeting, to request a replay, please email ir@consensusmining.com.

Online webinar: [REGISTER HERE](#)

Phone Access: +1 (914) 614-3221 Audio Access Code: 242-897-571



Consensus Mining and Seigniorage Corporation
Statement of Financial Condition
As of September 30, 2022

Assets	
Cash	65,501,433
Cryptocurrency miners ⁽¹⁾	7,916,667
Mined & held <u>cryptocurrency</u> ⁽²⁾	3,221,048
Prepaid miner hosting	524,027
Loans	350,000
Prepaid insurance	16,830
Interest receivable	15,406
Total assets	<u>77,545,411</u>
Liabilities	
Accrued expenses	39,099
Total liabilities	<u>39,099</u>
Equity	
Common Stock ⁽³⁾	22,500
Additional paid-in capital	86,286,813
Retained earnings	(8,803,001)
Total equity	<u>77,506,312</u>
Total liabilities and equity	<u>77,545,411</u>

Notes

- ⁽¹⁾ Net of \$5,010,983 accumulated depreciation
- ⁽²⁾ Net of \$5,267,107 impairment assessed on cost of \$8,488,155
- ⁽³⁾ \$0.01 par value, 5,000,000 shares authorized, 2,250,009 shares issued and outstanding



Consensus Mining and Seigniorage Corporation
Statement of Income
For the Three Months Ended September 30, 2022

Revenues	
Cryptocurrency mining	824,220
Interest revenue	293,172
Total revenues	<u>1,117,392</u>
Operating expenses	
Depreciation expense	1,780,771
Hosting fees	550,395
Repair expenses	84,416
Audit & Tax expenses	15,000
Insurance expense	6,311
Advertising fees	6,060
Transfer agent fees	3,913
Management fees	3,000
Custody fees	2,076
Other operating expenses	231
Total operating expenses	<u>2,452,173</u>
Other expenses	
Tax expense	256,618
Loss on Disposal of Fixed Assets	163,017
Total other expenses	<u>419,635</u>
Total expenses	<u>2,871,808</u>
Net income	<u>(1,754,416)</u>



Consensus Mining and Seigniorage Corporation

Statement of Income

For the Nine Months Ended September 30, 2022

Revenues	
Cryptocurrency mining ⁽¹⁾	3,246,244
Interest revenue	364,353
Total revenues	3,610,597
Operating expenses	
Depreciation expense	4,772,874
Impairment of cryptocurrencies	3,813,581
Hosting fees	1,400,098
Coinmint fees	160,149
Repair expenses	87,746
Audit & Tax expenses	30,000
Transfer agent fees	12,583
Advertising fees	11,685
Management fees	9,000
Insurance expense	8,415
Custody fees	7,925
Registered agent fees	6,117
Other operating expenses	1,646
Total operating expenses	10,321,819
Other expenses	
Tax expense	422,919
Loss on Disposal of Fixed Assets	186,173
Total other expenses	609,092
Total expenses	10,930,911
Net income	(7,320,314)

Notes

⁽¹⁾ *Gross of Coinmint fees*



Important Disclosures:

Consensus Mining and Seigniorage Corporation ("CMSC") is an operating business and is not a registered investment adviser or broker-dealer. CMSC does not provide investment, legal or tax advice. Certain information set forth in this letter may contain "forward-looking information". Forward-looking statements are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment.

These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance of result expressed or implied by such forward-looking statements. CMSC undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change.

Cryptocurrencies in general, including the mining of cryptocurrencies, represents a relatively new industry and therefore carries special and substantial risks. Investors should appreciate the risks associated with holding and mining cryptocurrencies before investing in such companies.

All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. Opinions stated herein may change at any time without notice, and past results are not a guarantee of future results. Under no circumstances does the information contained herein represent a recommendation to buy, hold or sell any security.

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