



Consensus Mining & Seigniorage Corporation

Quarterly Report

Q2 2023

Financial Results Summary

Consensus Mining & Seigniorage Corporation (“CMSC” or the “Company”) is pleased to announce that, during its second quarter ending June 30, 2023 (the “Period”), the Company earned \$1,733,542 in revenue, compared to \$1,489,683 in Q1 2023.

During the Period, the Company mined 33 BTC and 435 LTC, of which 10 BTC and 265 LTC were sold to pay for operating expenses, with the remainder being retained on the balance sheet.

Quarter-end cryptocurrency holdings totaled 211.17 BTC, 4091 LTC and de-minimis amounts of ZEC, BCH, ETH and ETC. The period end value, of the cryptocurrency holdings was approximately \$6.85 million.

Cost of revenues, consisting of hosting costs, were \$688,824, compared to \$527,279 for Q1 2023, with the increase coming largely from growth of our mining activities and associated hosting expenses.

Operating costs, consisting of depreciation expense for the mining equipment, non-cash impairment of the crypto currency values and administrative expenses, were \$1,555,130, compared to \$1,887,688 for Q1 2023.

The lower operating costs were primarily from a reduction in depreciation charges. This was due to a significant portion of our older equipment fulfilling its 18-month depreciation schedule at the end of May. The result was a materially lower depreciation expense for just one of the three months of the quarter. Despite having now been fully depreciated, much of this equipment is still operating profitably today.

The Company’s GAAP net loss for Q2 2023 was (\$519,454), compared to (\$941,815) for Q1 2023.



Operations Update

During the quarter, the Company purchased 134 Antminer S19XP's at a cost of \$516,678, which were deployed in May 2023. Since the quarter ended, an additional 230 Antminer S19XP's were acquired at a cost of \$762,105; they will be deployed in mid-August 2023.

Factoring in the deployment of new equipment, along with equipment taken offline due to reduced profitability, CMSC increased its hashrate capacity during the quarter by about 14%, to 155PH. This is expected to increase another 20% to 187PH when the equipment currently in transit comes online. As we have been upgrading to more efficient, newer generation equipment, the blended electricity consumption required per terahash of output has been decreasing.

As to hosting providers, we have completed negotiations with an existing provider in Texas to extend the current 1MW contract for another year and added another 0.7MW capacity to support the recent purchase of 230 Antminer S19XP's.

This new contract has a different cost structure to the previous fixed rate. The structure is a pass through of the actual electricity costs, plus a mark-up by the hosting provider to cover their costs and operating margins.

In Texas, the wholesale spot price of power can fluctuate drastically. This new arrangement allows us to take advantage of both lower power costs when they are low and to put our equipment in standby mode when power costs are high, with the goal of reducing our overall hosting expense. This also gives us more flexibility to navigate the uncertainty in mining profitability that may come with the upcoming bitcoin halving next spring.

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

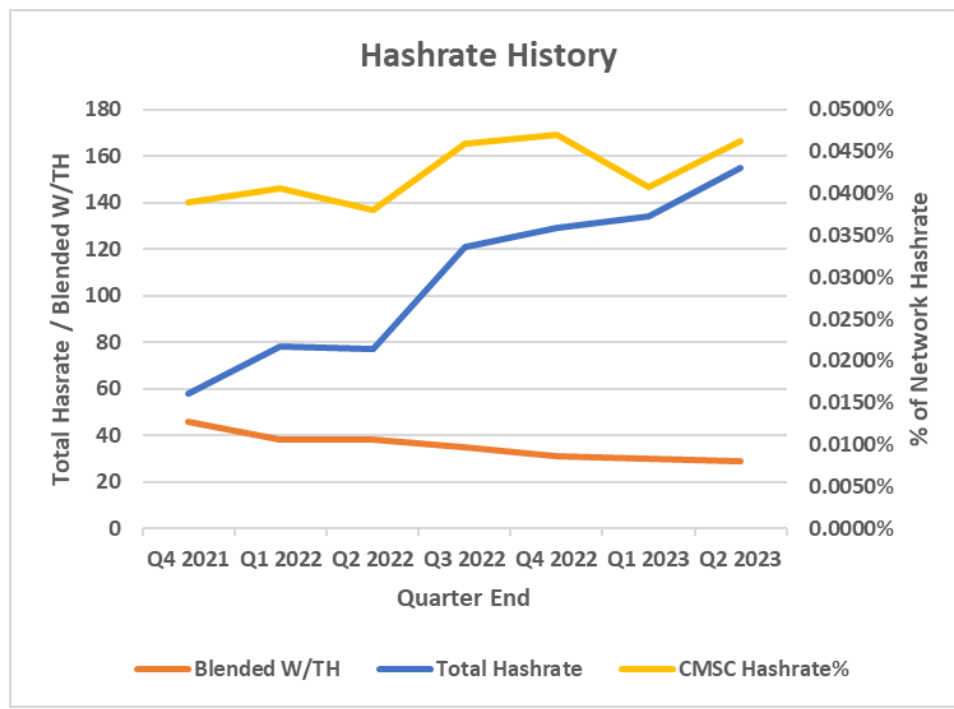
Further, the Company continues to actively look at opportunities to purchase mining assets or partner with other mining hosting facilities that will allow us to have more control of the fundamental costs of mining.

Historical Hashrate and Crypto Balance Review

Expanding our hashrate in line with the growth of the network, while at the same time improving our blended efficiency, is currently one of CMSC’s primary goals.

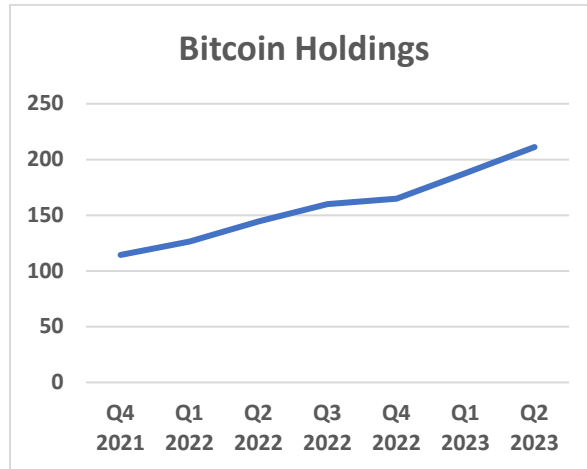
The chart below shows how these three elements have changed since inception of the Company:

- CMSC’s total Bitcoin mining hashrate has increased from 58 PH to 155 PH.
- Power efficiency, measured by the blended W/TH across our server “fleet”, has fallen from 46 W/TH to 29 W/TH.
- CMSC’s percentage of the network hashrate has risen slightly from 0.040% to 0.046%.





At the same time as prudently growing our hashrate, we have added crypto to our balance sheet in a consistent and steady manner, with Bitcoin holdings growing from 114 BTC at the inception of CMSC to 211 at the end of the period.



Update on Upcoming Listing

Our engagement with our new auditor, WithumSmith + Brown, PC, has been progressing well. We anticipate the 2022 audit to be completed in early August, at which time we will be able to take the next step towards listing, hopefully leading to a direct listing in late 2023/early 2024.



Management Commentary

Cryptocurrency Prices and Mining Profitability

During Q2 2023, the cryptocurrency mining industry somewhat stabilized with cryptocurrency prices being rangebound. Bitcoin averaged around \$28,000 across the quarter, ending the quarter at approximately \$30,500.

We experienced a brief period of increased profitability due to the introduction of new protocols/tokens on the Bitcoin network including Ordinals and BRC-20 tokens. The introduction of these new features increased the demand for block space and as a result significantly increased transaction fees. The initial frenzy seems to have died down for now and transaction fees are back to the minimal levels they were before these technologies were introduced.

On June 15th, Blackrock, one of the world's largest ETF providers, filed an application with the SEC for a spot bitcoin ETF. The market appears cautiously optimistic that, despite failed attempts from other ETF applicants, the Blackrock application could be the first spot ETF to be approved for the U.S. market - after the announcement, the price of Bitcoin jumped from around \$25,000 to approximately \$30,000. The SEC formally accepted Blackrock's application for review on July 14th.

While the price appreciation and subsequent stability has had a positive impact on profitability, continued increases in network difficulty, resulting from the growth in the network hashrate, has tempered the impact of the price appreciation. The network hashrate grew approximately 7% over the quarter from a previous all-time high of 337 exahash to 360 exahash at the end of the quarter, which resulted in a 10% increase in the network difficulty.

With the welcome profit margin improvement, CMSC's continued focus on maintaining a low operating cost structure has allowed it to continue mining with positive cash flow, enabling CMSC to continue to add to its cryptocurrency balances at a faster rate than it was able to in Q4 2022, when profit margins were much tighter.

Equipment Developments

The cost of procuring new mining equipment stayed mostly flat for the quarter as profitability improved. The 25-38 W/TH Luxor ASIC Price index saw a slight drop in the prices of equipment in this efficiency range (incorporating equipment like the S19J Pro) to around \$15/TH.



The most efficient under-25 W/TH ASIC Price Index, which includes equipment such as the S19XP, saw a more material fall from around \$25/TH to around \$20/TH. The premium for these more efficient machines has started to contract as we get closer to the halving, and as difficulty increases.

MicroBT, the manufacturer of the Whatsminer ASIC machines, has recently launched its more efficient versions of its M50 series of mining rigs. MicroBT is looking to appeal to all the three major forms of crypto mining operations – air-cooled, hydro-cooled, and immersion-cooled, with its M50S++, M53S++ and M56S++ models, respectively. We are closely watching how these new models perform.

Efficiency differences continue to be important considerations for equipment procurement, given the proximity to the next Bitcoin halving in April 2024. Assuming the current mining economics remain the same, much of the equipment that is considered current generation, like the S19JPro's, could become unprofitable in less than a year.

Given these factors and as prices continue to fall, and with the advantage of a liquid balance sheet, we continue to look for opportunities to acquire assets that are available in an investment size consistent with our measured pace of capital deployment, and as prices continue to fall.

General

Across the industry, after several bankruptcy announcements in Q4, the field of playing continues to calm down, with not many notable corporate concerns. Those companies that have been able to weather the storm have solidified their financial positions, and those that entered bankruptcy have been working through those proceedings.

As previously mentioned, we believe that those failings were not the result of a failure in confidence of the authenticity or future of cryptocurrencies themselves, but rather the lack of proper risk management and an overextension of debt leverage, among other factors, in a quest for rapid growth.



CMSC was recently highlighted by Steven Bregman, the President and one of the original founders of Horizon Kinetics LLC (“Horizon”), in the Investment Manager’s 2nd Quarter 2023 Market Commentary report. The report can be found on Horizon’s website at the following URL, with the CMSC section towards the end of the report.

https://horizonkinetics.com/app/uploads/Q2-23-Commentary_FINAL.pdf

The crypto-mining industry is very dynamic, and the Company continues to remain firm in its prudent approach to capital deployment and its focus on maintaining a low-cost structure, which we believe will serve shareholders well for many years to come.

A handwritten signature in black ink, appearing to read "Alun Williams", is positioned above the printed name.

Alun Williams
President and Treasurer
Consensus Mining & Seigniorage Corporation



Consensus Mining & Seigniorage Corporation
Statement of Financial Condition
As of June 30, 2023

Assets	
Current assets	
Cash and cash equivalents	\$ 65,207,705
Cryptocurrencies	3,821,388
Loans	321,052
Prepaid expenses and other current assets	97,245
Other receivables	1,847
Total current assets	<u>\$ 69,449,237</u>
Non-current assets	
Property and equipment, net	4,724,698
Total non-current assets	<u>\$ 4,724,698</u>
Total assets	<u>\$ 74,173,935</u>
Liabilities	
Current liabilities	
Accrued expenses	\$ 41,283
Total current liabilities	<u>\$ 41,283</u>
Total liabilities	<u>\$ 41,283</u>
Stockholders' Equity	
Common Stock (\$0.01 par value, 5,000,000 shares authorized, 2,250,009 shares issued and outstanding)	22,500
Additional paid-in capital	86,286,813
Accumulated deficit	(12,176,661)
Total stockholders' equity	<u>74,132,652</u>
Total liabilities and stockholders' equity	<u>\$ 74,173,935</u>



Consensus Mining & Seigniorage Corporation

Statement of Income

For the Three Months Ended June 30, 2023

Revenues	
Cryptocurrency mining	\$ 970,408
Interest revenue	763,134
Total revenues	\$ 1,733,542
Cost of revenues	
Hosting fees	688,824
Total cost of revenues	688,824
Operating expenses	
Depreciation expense	1,426,949
Impairment of cryptocurrencies	75,087
Audit & Tax expenses	26,460
Transfer agent fees	3,909
Management fees	3,000
Tax expense	433
Other operating expenses	19,292
Total operating expenses	1,555,130
Non-operating expenses	
Charitable contributions	5,000
Loss on disposal of fixed assets	4,042
Total non-operating expenses	9,042
Total costs and expenses	\$ 2,252,996
Net loss before provision for income taxes	(519,454)
Provision for income taxes	-
Net loss	\$ (519,454)



Important Disclosures:

Consensus Mining & 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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