

August 25, 2022



Applied Blockchain Reports Fiscal Fourth Quarter and Full Year 2022 Financial Results and Provides an Operational Update

DALLAS, Aug. 25, 2022 (GLOBE NEWSWIRE) -- [Applied Blockchain, Inc.](#) (Nasdaq: **APLD**) ("**Applied Blockchain**" or the "**Company**") today reported financial results for the fiscal fourth quarter and full year ended May 31, 2022, and provided an operational update.

Recent Operational and Financial Highlights

- Fiscal fourth quarter revenue of \$7.5 million, above guidance of \$7.0 million to \$7.4 million, which was increased in mid-July from original guidance of \$5.7 million to \$6.2 million.
- Power provider to our facility in Jamestown, North Dakota, completed substation repairs ahead of schedule; facility is now operating at full capacity.
- Secured a five-year hosting contract with Marathon Digital Holdings, Inc. for 200MW of capacity.
- Secured a \$15.0 million credit facility with a North Dakota-based bank with 1.5% interest for the first 13 months to repay existing debt and fund datacenter buildout.
- Continued buildout of the second facility, a 200-MW datacenter in Garden City, Texas, which is ahead of schedule for energization in the fourth calendar quarter of 2022.
- Progressing design and pre-construction of third facility to be in North Dakota with groundbreaking expected in the third calendar quarter of 2022.

Management Commentary

"We continue to execute our growth strategy despite a volatile cryptocurrency environment," said Applied Blockchain Chairman and CEO Wes Cummins. "Our first facility has been operating as expected and substation repairs were completed ahead of schedule, enabling full power to again be provided to the datacenter. Additionally, our second facility is progressing ahead of schedule despite global supply chain challenges that are negatively impacting timelines for many in the industry.

"We expect to have three datacenters operating by the first half of calendar 2023, representing nearly 500 megawatts of total hosting capacity, which is already fully committed through contract or option. These facilities are already nearly entirely contracted out on long-term agreements with blue-chip customers. We also continue to see robust demand for our services, which, coupled with our strong balance sheet, ramping cash flow capabilities, and expanding nondilutive financing options, collectively provide us with an attractive go-forward outlook for our shareholders."

Jamestown, North Dakota Facility Update (100MW)

Applied Blockchain's first facility is in Jamestown, North Dakota with capacity of 100MW. The entire 100MW of capacity has been fully contracted on multi-year contracts, providing revenue visibility for the Company. Additionally, the facility is powered through a five-year energy services agreement with a local utility, providing visibility into the cost structure as a stable pricing mechanism for energy costs has been negotiated.

The facility began energizing in late January 2022 and had over 90MW online as of June 2022. As previously reported on July 18, 2022, there was an unexpected equipment failure at the substation powering the facility, resulting in a partial outage of approximately 50%. The power provider completed the required repairs in mid-August, fully restoring power capacity to Jamestown ahead of the schedule for early September. The Jamestown facility was not damaged and remains fully operational and capable of hosting the entire 100MW of capacity.

Garden City, Texas Facility Update (200MW)

Applied Blockchain's second facility is in Garden City, Texas, planned for capacity of 200MW and will be co-located with a wind farm. Construction began in late April 2022 and the first buildings have been constructed with the majority of the electrical equipment required already on site. The Company is ahead of schedule for the planned energization of the Garden City facility in the fourth calendar quarter of 2022. The Garden City facility has been fully contracted by existing customers at its Jamestown facility and by Marathon.

Third Facility Update

Applied Blockchain's third co-hosting facility will be in North Dakota, at a different location than its current Jamestown facility. As previously announced, the Company has executed a letter of intent with a utility and is in the late stages of design and pre-construction. On August 15, 2022, Applied Blockchain entered into an agreement for the purchase of raw land in North Dakota for construction of the facility. Groundbreaking is planned for the third calendar quarter of 2022. A meaningful portion of the power capacity at this site has already been contracted by Marathon as part of their 200MW contract with an option for the remaining capacity at the site.

Financial Results for Fiscal Fourth Quarter 2022 Ended May 31, 2022

Note: Applied Blockchain did not have operations in the prior year comparable period and thus no comparative analysis is included. Any reference to share count or per share metrics reflects the one-for-six reverse stock split that was effected April 12, 2022.

Revenues in the fiscal fourth quarter of 2022 were \$7.5 million, above guidance of \$7.0 million to \$7.4 million, which was previously increased from \$5.7 million to \$6.2 million. The increase in hosting revenues was driven by the Company's completion of its first hosting facility in Jamestown, North Dakota, which was brought online in phases between the third and fourth fiscal quarters of fiscal year 2022.

Cost of revenues in the fiscal fourth quarter of 2022 were \$7.4 million. Cost of revenues consist primarily of electricity costs associated with Jamestown. Other costs include personnel cost for employees directly working at the hosting facility and depreciation expense for equipment in service at the hosting facility.

Operating expenses for the fiscal fourth quarter of 2022 were \$4.3 million, almost all of which were attributable to selling, general and administrative costs.

Net loss from continuing operations for the fiscal fourth quarter of 2022 was \$4.7 million, or (\$0.06) per basic and diluted share, based on a weighted average basic and fully diluted share count during the quarter of 76.6 million.

Adjusted net loss from continuing operations for the fiscal fourth quarter of 2022 was \$4.3 million, or (\$0.06) per basic and diluted share, based on a weighted average basic and fully diluted share count during the quarter of 76.6 million.

Net gain from discounted operations for the fiscal fourth quarter of 2022 totaled \$1.8 million, attributable to mining revenues and a gain on the purchase and subsequent resale of miners.

Net loss for the fiscal fourth quarter of 2022 was \$2.8 million, or (\$0.04) per basic and diluted share, based on a weighted average basic and fully diluted share count during the quarter of 76.6 million.

Adjusted EBITDA, a non-GAAP measure, for the fiscal fourth quarter of 2022 was (\$3.1) million, compared to the Company's guidance range of (\$4.0) million to (\$4.6) million.

Liquidity and Capitalization

Applied Blockchain ended the fiscal fourth quarter of 2022 with cash and cash equivalents of \$46.3 million and \$7.2 million in debt outstanding.

The Company's share count at August 24, 2022 was approximately 92.8 million, which reflects its one-for-six reverse stock split that was effected on April 12, 2022 and the previously announced cancellation of approximately 5.0 million shares in June from Xsquared Holding Limited ("Sparkpool").

On August 12, 2022, Applied Blockchain secured a new \$15.0 million credit facility with a North Dakota-based bank. The initial interest rate is expected to be 1.5% for the first 13 months after taking into account state-based economic incentives and the remainder of the term rate will be 6.5%. Proceeds will be used to repay its existing debt and to fund continued buildout of its datacenters.

Conference Call

Applied Blockchain will host a conference call today, August 25, 2022 at 5:00 p.m. Eastern Time (2:00 p.m. Pacific Time) to discuss these results. A question-and-answer session will follow management's presentation.

To participate, please dial the appropriate number at least ten minutes prior to the start time and ask for the Applied Blockchain conference call.

U.S. dial-in number: 1-877-407-0792
International number: 1-201-689-8263
Conference ID: 13732193

The conference call will broadcast live and be available for replay [here](#).

A replay of the call will be available after 8:00 p.m. Eastern time today through September 8, 2022.

Toll-free replay number: 1-844-512-2921
International replay number: 1-412-317-6671
Conference ID: 13732193

About Applied Blockchain

Applied Blockchain, Inc. (Nasdaq: APLD) designs, develops and operates next-generation datacenters across North America to provide low-cost digital infrastructure solutions to the rapidly growing high performance computing (HPC) industry. The Company has partnered with the most recognized names in the industry to develop, deploy, and scale its business. Find more information at www.appliedblockchaininc.com. Follow us on Twitter at @APLDBlockchain.

Forward-Looking Statements

This release contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, future operating and financial performance, product development, market position, business strategy and objectives. These statements use words, and variations of words, such as "continue," "build," "future," "increase," "drive," "believe," "look," "ahead," "confident," "deliver," "outlook," "expect," and "predict." Other examples of forward-looking statements may include, but are not limited to, (i) statements of Company plans and objectives, including our evolving business model, or estimates or predictions of actions by suppliers, (ii) statements of future economic performance, and (iii) statements of assumptions underlying other statements and statements about the Company or its business. You are cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. These risks, uncertainties, and other factors include: decline in demand for our products and services; the volatility of the crypto asset industry; the inability to comply with developments and changes in regulation; cash flow and access to capital; and maintenance of third party relationships. Information in this release is as of the dates and time periods indicated herein, and the Company does not undertake to update any of the information contained in these materials, except as required by law.

Applied Blockchain Consolidated Balance Sheets

(in thousands of dollars, except per share and per share amounts)

	<u>May 31, 2022</u>	<u>May 31, 2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 46,299	\$ 11,750
Accounts receivable	227	—
Utility deposits	1,450	—
Prepaid expenses and other current assets	1,335	5
Current assets of discontinued operations	—	—
Total current assets	<u>49,311</u>	<u>11,755</u>

Right of use asset, net	6,408	—
Deposit on equipment	0	3,277
Property and equipment, net	64,260	20
TOTAL ASSETS	\$ 119,980	\$ 15,052

LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS—EQUITY

Current Liabilities:

Accounts payable and accrued liabilities	\$ 13,244	\$ 249
Accrued dividends	—	116
Current portion of lease liability	1,004	—
Current portion of notes payable	1,333	—
Related party notes payable	—	2,135
Customer deposits	9,524	—
Deferred revenue	3,877	—
Other current liabilities	17	—
Total current liabilities	28,998	2,500

Deferred tax liability	\$ 540	\$ —
Long-term portion of lease liability	5,310	—
Long-term notes payable	5,897	—
Total liabilities	40,745	2,500

Commitments and contingencies (Note 12)

Mezzanine equity:

Series—C, convertible and redeemable preferred stock, \$.001 par value, 0, and 660,000 shares authorized, issued and outstanding, respectively	—	15,135
Series D, convertible and redeemable preferred stock, \$.001 par value, 0 and 0 shares authorized, issued, and outstanding, respectively	0	—

Stockholders— deficit:

Series—A, convertible preferred stock, \$.001 par value, authorized 70,000 shares, 0 and 27,195 issued and outstanding	\$ —	\$ 3,370
Series—B convertible preferred stock, \$.001 par value, authorized 50,000 shares, 17,087 issued and outstanding	\$ —	\$ 1,849
Common stock, \$.001 par value, 500,000,000 shares authorized, 39,569,335 and 9,066,363 shares issued and outstanding, respectively	98	2
Additional paid in capital	128,293	13,881

Treasury stock, 36,300 shares, at cost	(62)	(62)
Accumulated deficit	(56,070)	(21,623)
Total stockholders— equity (deficit) attributable to Applied Blockchain, Inc.	72,259	(2,583)
Total Mezzanine equity and stockholders— deficit attributable to Applied Blockchain, Inc.	72,260	12,552
Noncontrolling interest	6,976	—
Total Mezzanine equity and stockholders' deficit	79,235	12,552
TOTAL LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS—EQUITY	\$ 119,980	\$ 15,052

Applied Blockchain Consolidated Statement of Operations
(in thousands of dollars, except per share and per share amounts)

	Fiscal Year Ended	
	May 31, 2022	May 31, 2021
Revenues:		
Hosting revenue	\$ 8,549	\$ —
Cost of revenues	\$ 9,506	\$ —
Gross loss	\$ (957)	\$ —
Costs and expenses:		
Selling, general and administrative	\$ 7,555	\$ 332
Stock-based compensation	12,337	—
Depreciation and amortization	49	—
Total costs and expenses	\$ 19,941	\$ 332
Operating loss	\$ (20,898)	\$ (332)
Other (expense) income:		
Interest expense	\$ (112)	\$ (236)
Gain on extinguishment of accounts payable	406	—
Loss on extinguishment of debt	(1,342)	—
Total other expense	\$ (1,048)	\$ (236)
Net loss from continuing operations before income tax expenses	(21,946)	(568)
Income tax expenses	(540)	—
Net loss from continuing operations	\$ (22,486)	\$ (568)
Net loss from discontinued operations, net of income taxes	(1,044)	—
Net Loss including noncontrolling interests	(23,530)	(568)

Net Loss attributable to noncontrolling interest	10	—
Net Loss attributable to Applied Blockchain	(23,520)	(568)
Basic and diluted net loss per share:		
Continuing operations	(0.39)	(0.38)
Discontinued operations	(0.02)	—
Basic and diluted net loss per share	(0.41)	(0.38)
Basic and diluted weighted average number of shares outstanding	57,121,083	1,511,061

Applied Blockchain Consolidated Statements of Cash Flows
(in thousands of dollars)

	Fiscal Years Ended	
	May 31, 2022	May 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss attributable to Applied Blockchain, Inc.	\$ (23,520)	\$ (568)
Net Loss from discontinued operations	(1,044)	—
Net Loss attributable to noncontrolling interest	(10)	—
Net Loss from continuing operations	(22,486)	(568)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,008	1
Accrued paid in kind interest	—	236
Loss on extinguishment of debt	1,342	—
Gain on extinguishment of accounts payable	(406)	—
Stock-Based compensation for service agreement	12,337	—
Amortization of right of use asset	111	—
Deferred tax	540	—
Changes in operating assets and liabilities		
Accounts receivable	(227)	—
Utility deposits	(1,450)	—
Prepaid expenses and other current assets	(1,330)	—
Customer deposits	9,524	—
Deferred revenue	3,877	—
Accounts payable and accrued liabilities	6,746	248
Payments of operating leases	(310)	—
Net cash provided by operating activities of continuing operations	9,275	(83)
Net cash used in operating activities of discontinued operations	(10,147)	—

NET CASH PROVIDED BY OPERATING ACTIVITIES	(871)	(83)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(58,251)	(20)
Deposit on equipment	3,277	(3,282)
Payments for patents and trademarks	—	
Net cash used in investing activities of continuing operations	(54,974)	(3,302)
Net cash provided by investing activities of discontinued operations	9,103	—
NET CASH USED IN INVESTING ACTIVITIES	(45,871)	(3,302)
CASH FLOWS FROM FINANCING ACTIVITIES		
Initial public offering of common stock	40,000	—
Issuance of preferred stock	34,500	16,500
Issuance costs for preferred stock	(2,927)	(1,365)
	(4,276)	—
Issuance costs for common stock		
Repayment of finance leases	(222)	—
Proceeds from issuance of term loan	7,324	—
Issuance costs for term loan	(94)	—
Contributions by noncontrolling interest	6,986	—
Net cash provided by financing activities of continuing operations	81,291	15,135
Net cash provided by financing activities of discontinued operations	—	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	81,291	15,135
NET INCREASE IN CASH AND CASH EQUIVALENTS	34,549	11,750
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,750	—
CASH AND CASH EQUIVALENTS, END OF YEAR	46,299	11,750
Less: Cash and cash equivalents of discontinued operations	—	—
Cash and cash equivalents of continuing operations	\$ 46,299	\$ 11,750
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 112	\$ 236
Taxes Paid	\$ —	\$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Non-cash dividends paid in-kind	\$ 11,042	\$ —
Right-of-use asset obtained by lease obligation	\$ 8,879	\$ —
Fixed assets in accounts payable	\$ 6,998	\$ —

Use and Reconciliation of Non-GAAP Financial Measures

This press release and our related earnings call contain certain non-GAAP financial measures, including Adjusted net loss from continuing operations and Adjusted EBITDA, as a measure of our operating performance. Adjusted net loss from continuing operations and Adjusted EBITDA are non-GAAP financial measures. We define Adjusted net loss from continuing operations as net loss from continuing operations adjusted by the removal of certain one-time non-recurring items. We define Adjusted EBITDA as net income (loss) before interest, taxes, depreciation and amortization, further adjusted by the removal of certain one-time non-recurring items. See reconciliation to the most directly comparable GAAP measure(s) below.

Adjusted net loss and Adjusted EBITDA are not measurements of financial performance under GAAP and may not be comparable to other similarly titled measures of other companies. We use these measures as financial metrics to measure the financial performance of the business because management believes it provides additional information with respect to the performance of its fundamental business activities. For this reason, we believe these measures will also be useful to others, including its stockholders, as a valuable financial metric.

Non-GAAP Measures

	Fiscal Year Ended		Quarter Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
(\$ in thousands)				
Adjusted Operating Loss				
Operating Loss from Continuing Operation (GAAP)	\$ (20,898)	\$ (332)	\$ (4,266)	\$ (332)
Add: Stock-based compensation for service agreement	12,337	—	—	—
Add: Gain on Extinguishment of Accounts Payable	(406)	—	—	—
Add: Loss on Extinguishment of Debt	1,342	—	—	—
Add: Non-recurring professional service costs	1,310	—	240	—
Add: Other non-recurring expenses	93	—	93	—
Adjusted Operating Loss from Continuing Operations (Non-GAAP)	\$ (6,223)	\$ (332)	\$ (3,933)	\$ (332)
Adjusted operating margin from Continuing Operations	(72.8)%	—	(52.3)%	—
Adjusted Net Loss				
Net loss from continuing operations (GAAP)	\$ (22,486)	\$ (568)	\$ (4,643)	\$ (345)
Add: Stock-based compensation for service agreement	12,337	—	—	—
Add: Gain on Extinguishment of Accounts Payable	(406)	—	—	—

Add: Loss on Extinguishment of Debt	1,342	—	—	—
Add: Non-recurring professional service costs	1,310	—	240	—
Add: Other non-recurring expenses	93	—	93	—
Adjusted Net Loss from continuing operations (Non-GAAP)	\$ (7,810)	\$ (568)	\$ (4,310)	\$ (345)

EBITDA and Adjusted EBITDA

Net loss from continuing operations (GAAP)	\$ (22,486)	\$ (568)	\$ (4,643)	\$ (345)
Add: Interest expense	112	236	112	13
Add: Income tax expense	540	—	266	—
Add: Depreciation and Amortization	1,122	—	877	—
EBITDA (non-GAAP)	\$ (20,712)	\$ (332)	\$ (3,388)	\$ (332)
Add: Stock-based compensation for service agreement	12,337	—	—	—
Add: Gain on Extinguishment of Accounts Payable	(406)	—	—	—
Add: Loss on Extinguishment of Debt	1,342	—	—	—
Add: Non-recurring professional service costs	1,310	—	240	—
Add: Other non-recurring expenses	93	—	93	—
Adjusted EBITDA (Non-GAAP)	\$ (6,036)	\$ (332)	\$ (3,055)	\$ (332)

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