

**Hut 8 Mining Corp.**

**Second Quarter 2023 Financial Results Analyst and Investor Call**

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## **CORPORATE PARTICIPANTS**

**Jaime Leverton**

*Hut 8 Mining Corp. — Chief Executive Officer*

**Shenif Visram**

*Hut 8 Mining Corp. — Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Mike Colonnese**

*H.C. Wainwright — Analyst*

**Bill Papanastasiou**

*Stifel — Analyst*

**Joseph Vafi**

*Canaccord — Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to Hut 8's second quarter 2023 financial results analyst and investor call.

In addition to the media release issued earlier today, you can find Hut 8's financial statements and MD&A on the Company's website at [www.hut8.io](http://www.hut8.io), under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com), and under the Company's EDGAR profile at [www.sec.gov](http://www.sec.gov).

Unless noted otherwise, all amounts referred to during this call are denominated in Canadian dollars.

Any comments made during this call may include forward-looking statements within the meaning of applicable securities legislation regarding the future performance of Hut 8 Mining Corp. and its subsidiaries.

The statements made reflect current expectations and, as such, are subject to a variety of risks and uncertainties that could cause actual results to differ materially from current expectations.

These risks and uncertainties include, but are not limited to, the factors discussed in Hut 8's Annual Information Form for the year ended December 31, 2022, and the Company's other continuous disclosure documents.

Except as required by applicable law, Hut 8 undertakes no obligation to publicly update or review any forward-looking statements.

During the call, management may also make reference to certain non-IFRS measures that are not separately defined under IFRS, such as adjusted EBITDA and mining profit.

Management believes that non-IFRS financial information, taken in conjunction with IFRS financial measures, provide useful information for both management and investors.

Reconciliations between IFRS and non-IFRS results are presented in the tables accompanying our press release, which can be viewed on our website.

I would now like to turn the call over to Hut 8 CEO, Jaime Leverton. Please go ahead.

**Jaime Leverton** — Chief Executive Officer, Hut 8 Mining Corp.

Thank you, Michelle. Good morning, everyone.

Welcome to today's call, where we will discuss Hut 8's results for the second quarter of 2023.

The second quarter was a challenging one on the mining side. While our Medicine Hat site operations continued relatively smoothly throughout the period, we continued to work to remediate the issues at Drumheller.

As mentioned in last week's production update, we continued to see issues at the site, primarily stemming from high energy input levels that have been causing miners to fail. As a result, operations are currently at approximately 20 percent of our installed hash rate in Drumheller.

The team has implemented new custom firmware across all miner models designed to lower the power supply's maximum output voltage, ensuring our equipment operates within safe limits, increased repair staff, added an additional repair centre shift, and procured new hardware to expedite repairs and accelerate the speed at which we bring miners back online.

The electrical issues have been compounded by high energy rates, which further increased curtailment at the site.

In addition to the significant remediation efforts that are underway in Drumheller, in late July, the team utilized mutually beneficial terms in the electric service agreement covering our Medicine Hat

site, which provides the opportunity for both parties to benefit from high prices in the Alberta power market.

In our HPC business, we created some momentum in Q2, as we signed an agreement with Interior Health, one of British Columbia's health authorities, to provide them with co-location services at our flagship data centre in Kelowna over the next five years.

We will begin to see that revenue reflected on our financial statements in Q4.

We continue to see demand increasing for high-performance computing solutions that will support AI, machine learning, visual effects, and rendering workloads.

We are prepared to support these high-intensity customer workloads, and currently have compute services with 200 GPUs available at our Mississauga and Kelowna data centres to accommodate customers looking to rent capacity for short- or long-term HPC projects, particularly in the visual computing space.

We are able to accommodate clients quickly and begin processing their workloads in a matter of days, which is a significant advantage over other data centres that are still building out similar infrastructure and a key benefit for clients that want their projects completed as soon as possible.

We also have additional capacity in both central and western Canada that we can quickly allocate with minimal investment to accommodate clients that have up to an equivalent of 85 HGX-class server chassis with GPU cards.

This is noteworthy because of constrained infrastructure supply, especially for high-performance computing capacity required for intensive workloads like AI, and we are able to support clients that may have their own GPUs on hand but need access to built-out infrastructure on a very tight turnaround.

We are very committed to capitalizing on these opportunities in HPC and will continue to cater to these growth areas in the coming quarters.

Moving on to our stack. I'm confident that you are all very well acquainted with Hut 8's commitment to HODLing our Bitcoin mine, and this year while we worked to close the transaction with USBTC, we were fortunate as we've only sold the Bitcoin we produced in 2023. We have not dipped into anything mined or HODLed prior to 2023.

This approach was very intentional. We remain bullish on Bitcoin, are committed to our treasury strategy, and continue to believe that this is a powerful differentiator for us.

Not only did this strategy factor prominently in our ability to successfully enter into a US\$50 million credit facility with Coinbase Credit, Inc., which we announced in late June, but we continue to have a bullish outlook on Bitcoin and believe that our stack will continue to deliver value, flexibility, and optionality.

Last week, Standard Chartered Bank published a research report stating that Bitcoin could rise to USD\$50,000 by the end of 2023 and up to USD\$120,000 by year-end 2024.

Taking a much more conservative view, if the value of Bitcoin increased by just 30 percent, we would see a lift of approximately \$111 million in the value of our stack.

When we consider that increase against the capital, time, and effort it would take to order miners, deploy them, and generate a similar return by mining Bitcoin, especially in light of the halving, the value and flexibility that our stack offers us remains incredibly compelling.

As I am sure many of you saw, last week we announced that we entered into a transaction support agreement with Macquarie Equipment Finance Limited, a subsidiary of Macquarie Group Limited,

in support of an opportunity to potentially acquire certain assets of Validus Power Corp. and substantially all of the assets and operations of Validus subsidiaries.

Macquarie is a secured creditor of the Validus entities under an existing secured lease and participation agreement. Validus was previously a supplier of energy to the Company's mining facility in North Bay, Ontario.

Subject to the satisfaction of certain conditions under the terms of the support agreement, a stalking horse bid is to be submitted to the receiver in support of a proposed sale and investment solicitation process to be carried out in respect of the Validus entities.

Of note, if ultimately successful, the stalking horse bid is expected to result in the full and final resolution of all litigation claims and counterclaims currently pending between Hut 8 and certain Validus entities.

In addition to managing our operations, we remain extremely focused on completing our transaction with USBTC and continued to make progress since our last call.

In June, we filed an amended S-4 registration statement with the SEC confirming that New Hut's expected installed self-mining capacity will be 7.5 exahash, which is up a nice bump from 5.6 exahash, which we had previously disclosed thanks to energizing additional miners at USBTC's site.

In mid-July, we filed a further amended S-4 registration statement and continue to collaborate with the SEC to secure their clearance for New Hut's registration statement.

And earlier today, we announced that we have filed our Management Information Circular and will be holding our shareholder meeting to seek approval for the proposed transaction on September 12th, which we believe will be an important step in closing the transaction.

Before I turn it over to our CFO, Shenif Visram, I would like to thank our investors for their continued commitment to Hut 8, our team for their grit and dedication across the business, and our board for their support and guidance.

Thank you, and over to you, Shenif.

**Shenif Visram** — Chief Financial Officer, Hut 8 Mining Corp.

Thanks, Jaime, and good morning, everyone.

Q2 was a challenging quarter from an operational perspective, as we continued to work through the electrical issues at Drumheller and continued our suspension of mining activity at North Bay. Both of these had an impact on our Q2 results.

We achieved revenue of \$19.2 million for Q2 2023, a \$24.6 million decrease relative to the same quarter prior year of \$43.8 million. This year-over-year decrease was driven by a combination of lower Bitcoin mined and a reduction in the price of Bitcoin.

Revenue from digital asset mining activities was \$15 million as we mined 399 new Bitcoin. This compares with \$39.1 million of digital asset mining revenue in Q2 2022 when we mined 946 Bitcoin.

This year-over-year reduction in new Bitcoin mined was driven by a combination of an increase in network difficulty, impacts of electrical issues at Drumheller site resulting in less mining activities, the completion of GPU Ethereum mining, which we were doing in Q2 2022, and the impact of the suspension of mining activity at North Bay.

Revenue was also negatively impacted by the price of Bitcoin, with the daily average closing Bitcoin price of approximately \$37,600 in the current quarter compared to approximately \$41,400 in the prior-year quarter.



Our high-performance computing business contributed an additional \$4.2 million of revenue in Q2 2023 compared to \$4.7 million in Q2 2022. The Q2 2022 results included revenue from low-margin products and services that have been discontinued since the end of Q2 2022.

Q2 2023 was also impacted by client churn, which was anticipated to occur in the second quarter.

As Jaime mentioned, we will see the revenue from the Interior Health contract starting in Q4.

Cost of revenue for Q2 2023 was \$23.8 million, lower than the prior year by \$23.9 million, and consists of depreciation and site operating costs.

Depreciation expense decreased to \$9.5 million during the second quarter of 2023, compared to \$29.8 million in the same quarter in 2022. The decrease was due to the lower netbook value of digital asset mining assets after the recognition of the non-cash impairment charge in Q4 2022.

Site operating costs of \$14.3 million was lower than the same quarter prior year by \$12.5 million. Within the digital asset mining operation, site operating costs reduced by \$12.7 million, mainly due to lower power costs.

The average cost per Bitcoin for the second quarter of 2023 was approximately C\$29,600 compared to approximately \$25,600 per Bitcoin in the prior year for the same quarter.

The increase was due to higher power consumption per Bitcoin mined and the ongoing electrical issues at the Drumheller facility, which was partly offset by the Company's decision to curtail lower average energy prices and increase efficiencies in the miners deployed compared to prior year's same quarter.

We incurred \$2.5 million in operating costs related to the high-performance computing operations, compared to \$2.3 million in Q2 2022 due to increased repairs and maintenance to improve the Company's facilities.

The \$200,000 increase is attributed to improving our preventative maintenance regime to align with industry standards and drive higher capacity and customer service.

In terms of margins, our digital asset mining operation generated mining profit of \$3.2 million in Q2 2023 versus \$14.9 million in the prior-year same quarter. The decrease in mining profit is due to the decrease in the price of Bitcoin, lower quantity of Bitcoin mined due to increased network difficulty, suspension of mining activity in North Bay, and the ongoing electrical issues at Drumheller, offset partially by lower average price of power.

General and administrative costs were \$12.5 million for the quarter compared to \$12.3 million for the same quarter prior year.

The key drivers in the increase was the inclusion of one-time transaction costs in the second quarter of 2023 related to the merger with USBTC. Excluding these one-time transaction costs, our general and administrative costs were down \$2.6 million compared to Q2 2022, due to lower sales tax expenses, lower professional fees, and other expenses.

We recorded a net loss of \$16.7 million for Q2 2023 compared to a net loss of \$88.1 million in Q2 2022.

In Q2 2022, we booked a non-cash loss on the reevaluation of our digital assets of \$104.9 million to income or loss due to a reduction in Bitcoin prices during the quarter. Also, Q2 2022 included a non-cash gain on the reevaluation of warrant liability for \$43.3 million.

Reflecting the operating results discussed previously, Hut 8 achieved adjusted EBITDA of negative \$2.7 million in Q2 2023 compared to a negative adjusted EBITDA of \$98.1 million in Q2 2022, primarily driven by a lower loss on the reevaluation of digital assets, partially offset by a lower digital asset mining profit, and the aforementioned electrical issues at the Company's Drumheller facility.

Our balance sheet remains healthy with manageable levels of debt and a cash balance of \$26.7 million as of June 30, 2023.

As previously announced, the Company entered into a US\$50 million credit facility with Coinbase Credit, Inc. on June 26, 2023, which has drawdowns available in three tranches.

At the end of Q2 2023, the Company has C\$19.1 million of loans outstanding net of deferred financing costs related to this facility.

Our Bitcoin holdings are marked at fair value and totalled \$368.7 million as of June 30, 2023, based on 9,136 Bitcoin held in reserve. Of this total, 8,289 Bitcoin valued at \$334.5 million remain unencumbered.

As previously announced, the Company has continued to sell Bitcoin production to help fund operations while we work on closing the merger with USBTC. In the current quarter, we mined 399 Bitcoin and sold 396, resulting in our Bitcoin held in reserve increasing by 3.

Thank you. With that, I will turn the call back to our Operator for analyst Q&A.

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## Q&A

### Operator

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you would like to ask a question, please press \*, followed by the 1 one on your telephone keypad. If your

question has been answered and you would like to withdraw from the queue, please press \*, followed by the number 2. And if you are using a speakerphone, please lift your handset before pressing any keys.

One moment, please, for your first question.

Your first question will come from Mike Colonnese at H.C. Wainwright. Please go ahead.

**Mike Colonnese** — H.C. Wainwright

Hi. Good morning, guys, and thank you for taking my questions today.

First one for me. I know you guys are actively working to bring miners back online at Drumheller with your efforts there. If you could just give us a timeline as to when you think the electrical issues will be fully resolved and all miners back online and hashing at the facility.

**Jaime Leverton**

It's really difficult to give a timeline. We do expect full resolution within the calendar year, but it's difficult to get more specific than that, Mike.

**Mike Colonnese**

Got it. Got it. Fair enough. And second one for me, if you could just provide a little more colour on the transaction support agreement you recently entered into here. What needs to happen for that transaction to actually go through to potentially acquire the assets from Validus?

And what specific assets would you be acquiring and approximate cost of those assets there?

**Jaime Leverton**

Right. It's too soon to disclose more than we already have in the press release, but rest assured, Mike, as soon as updated information is publicly available, we'll press release accordingly.

**Mike Colonnese**

Got it. Well, thank you for taking the questions, and best of luck with completing the merger here.

**Jaime Leverton**

Thanks so much, Mike.

**Operator**

Your next question will come from Bill Papanastasiou at Stifel. Please go ahead.

**Jaime Leverton**

Morning, Bill.

**Bill Papanastasiou — Stifel**

Hi. Good morning, Jaime. Good morning, Jaime and Shenif. Look, there's a lot in the hopper. I just wanted to gain your outlook, Jaime, on how the mining industry is going to evolve beyond the halving.

Hut 8 was one of the first public miners to obviously diversify into more stable, recurring business segments, and I'm curious to hear whether you believe we could see more of this type of activity follow suit. How do you look at the way that miners will kind of be positioned in the future? Will we gradually move away from a complete self pure-play mining model?

**Jaime Leverton**

Look, I think it's really difficult to predict at an industry level. Certainly, I think we'll see more diversification among the miners, which has started to play out more significantly in the last quarter in particular. But I think certainly as we go into the halving and this next cycle, I think we'll continue to see some miners remain as pure-play self-miners.

As you mentioned, we diversified early into the HPC space, and one of the things we really, really like about the USBTC business are their fiat-based revenue lines with their hosting business, as well as their managed infrastructure operation.

So for us, we're very much bullish on a diversified strategy. But I think across our space, you're going to just continue to see miners evolve their businesses in different ways. And I think it's really important that when people look at this space, they look at really the differences that are starting to emerge and becoming increasingly significant within the names of our space.

**Bill Papanastasiou**

Thanks for that detail. And for my last question, was just hoping to get a little bit more colour on the newly signed five-year agreement with Interior Health. How should we look at modelling contribution from this contract? And how much co-location capacity remains pro forma of this contract at the TeraGo facilities?

**Jaime Leverton**

Yeah. So that revenue, as we mentioned, we'll start to see in Q4. And it is a five-year contract, so you'll get more detail in our Q4 financials with respect to that contract specifically, and we did press release that deal when it was signed a number of weeks ago.

As far as the broader capacity within the HPC business, we do obviously believe there's a lot of opportunity in this market. We have just over a megawatt of readily available capacity and infrastructure within our HPC fleet. And if you're kind of thinking about the market, we see across the North American industry more than 2 gigawatts of data centre leases have been signed in the past 90 days.

And we believe that providers who have large wholesale capacity online in less than 24 months will be able to charge a premium, given how much demand we're seeing in the space. And we believe that

operators with access to economical and zero-emission and renewable energy, such as our Kelowna and British Columbia sites, is a distinct advantage for us.

**Bill Papanastasiou**

Thanks, Jaime. Look forward to hearing more—

**Jaime Leverton**

Of course.

**Bill Papanastasiou**

—details of the transaction support agreement and hopefully seeing Hut 8 being one of the truly vertically integrated miners. Thank you.

**Jaime Leverton**

My pleasure. Anytime. Thank you.

**Operator**

Your next question will come from Joseph Vafi at Canaccord. Please go ahead.

**Jaime Leverton**

Good morning, Joe.

**Joseph Vafi — Canaccord**

Hey, Jaime. Good morning. Hey, everybody. Just on the USBTC merger, I know you mentioned, Jaime, that you're going to distribute the management circular, I guess, maybe coming up here soon.

Just wondering if you have confidence on getting that S-1 effective, and that's why you're moving forward with getting the circular ready to distribute?

**Jaime Leverton**

As I mentioned, we continue to make good progress and feel confident that we could send out the circular, schedule the vote for September 12th, and we continue to target having it closed by the end of September.

**Joseph Vafi**

Okay. Great. Good luck with that, Jaime. And then secondly, I know you said you bumped up the expected exahash output in that document up to, I think, about 7.4. I was just curious—

**Jaime Leverton**

Yes.

**Joseph Vafi**

—where that extra exahash may have come from here and perhaps where the capital came from to maybe be acquiring more miners there relative to what's in that document?

**Jaime Leverton**

Yeah. So that came from the USBTC side. They had already ordered miners that were just being delivered and coming online, and so that's where that incremental exahash came from at their existing self-mining facilities.

And yes, we did reference that in one of our updated S-4 registration statements.

**Joseph Vafi**

Great. Thanks very much, and good luck with getting some of these various transactions done.

**Jaime Leverton**

Thanks, Joe. Appreciate it.

**Operator**

Ladies and gentlemen, once again if you would like to ask a question, please press \*, 1 now.



There are no further questions. At this time, I will turn the conference back to your hosts for any closing remarks.

**Jaime Leverton**

Thank you so much, everyone, again, for joining today. And we look forward to continuing to update you as things progress over the coming weeks and months.

Back to you, Michelle.

**Operator**

Thank you. Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank you, all, for participating and ask you to please disconnect your lines.