THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Brainhole Technology Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
腦洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

MAJOR TRANSACTION IN RELATION TO FURTHER ACQUISITION OF LISTED SECURITIES

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 3 to 11 of this circular.

This circular is being despatched to the Shareholders for information only. The transactions being the subject matter of this circular have been approved by the written approval pursuant to Rule 14.44 of the Listing Rules.

16 December 2025

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In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Board"	the board of Directors
"Company"	Brainhole Technology Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2203)
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal of TeraWulf Shares"	disposal of 126,000 TeraWulf Shares by the Company as disclosed in the announcement of the Company dated 3 November 2025
"Further Acquisition of TeraWulf Shares"	further acquisition of 118,000 TeraWulf Shares by the Company as disclosed in the announcement of the Company dated 30 October 2025
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons and is not acting in concert (as defined in the Codes on Takeovers and Mergers and Share Buy-backs) with any of the connected persons of the Company or any of their respective associates (as defined under the Listing Rules)
"Latest Practicable Date"	10 December 2025, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Nasdaq"	National Association of Securities Dealers Automated Quotations Stock Market

"Previous Acquisitions of TeraWulf Shares"	the acquisitions of an aggregate of 220,300 TeraWulf Shares by the Company on 11 September 2025 and 11 October 2025 as set out in the relevant Previous Announcements
"Previous Announcements"	the announcements of the Company dated 11 September 2025 and 12 October 2025, in relation to, *inter alia*, the Previous Acquisitions of TeraWulf Shares
"SEC"	The U.S. Securities and Exchange Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Shareholders"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TeraWulf"	TeraWulf Inc., a Delaware corporation whose common stocks are listed on Nasdaq (trading symbol: WULF)
"TeraWulf Group"	TeraWulf and its subsidiaries
"TeraWulf Share(s)"	Common stock(s) of TeraWulf
"United States"	the United States of America
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

Executive Director:
Mr. Zhang Liang Johnson *(Chairman)*

Independent Non-executive Directors:
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Zhang Yibo

Registered office:
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Principal place of business in Hong Kong:
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One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

16 December 2025

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO FURTHER ACQUISITION OF LISTED SECURITIES

INTRODUCTION

Reference is made to the announcement of the Company dated 30 October 2025, in relation to the Further Acquisition of TeraWulf Shares.

The purpose of this circular is to provide you with (i) the details of the Further Acquisition of TeraWulf Shares; and (ii) further information required to be disclosed under the Listing Rules.

FURTHER ACQUISITION OF TERAWULF SHARES

On 29 October 2025, further to the Previous Acquisitions of TeraWulf Shares at an aggregate consideration of approximately US$2.8 million (equivalent to approximately HK$22.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements, comprising:

(a) the acquisition of 119,500 TeraWulf Shares through the open market at an aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$10.0 million) (excluding transaction costs) on 11 September 2025; and

(b) the further acquisition of 100,800 TeraWulf Shares through the open market at an aggregate consideration of approximately US$1.5 million (equivalent to approximately HK$12.0 million) (excluding transaction costs) on 11 October 2025,

the Company has further acquired of an aggregate of 118,000 TeraWulf Shares through the open market at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of TeraWulf Share was approximately US$16.32 (equivalent to approximately HK$126.95).

As the Further Acquisition of TeraWulf Shares was conducted in the open market, the identities of the counterparties of the acquired TeraWulf Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired TeraWulf Shares are Independent Third Parties.

As at the Latest Practicable Date, following the completion of the Previous Acquisitions of TeraWulf Shares, the Further Acquisition of TeraWulf Shares and the Disposal of TeraWulf Shares, the Company is interested in 212,300 TeraWulf Shares and the percentage of TeraWulf Shares held by the Company would be approximately 0.052%. The 212,300 TeraWulf Shares are held for strategic investment purposes, with reference to, among others, prevailing market conditions. As at the Latest Practicable Date, the Company has not identified any specific investment opportunities relating to these TeraWulf Shares. The Company may continue to further acquire or dispose of the TeraWulf Shares. The Company will comply with the applicable requirements of the Listing Rules in respect of any further acquisition or disposal if and when required.

INFORMATION ON THE COMPANY

The Company is an investment holding company and the Group is principally engaged in the manufacture and trading of electronic and electrical parts and components. The Group operates its business through three segments: (i) The Manufacturing segment is engaged in the sale of electronics and electrical parts and components produced by the Company. The products manufactured by the Company are mainly applied in smart consumer electronic devices; (ii) The Broadband Infrastructure and Smart Domain segment is engaged in the provision of broadband infrastructure construction services, broadband promotion services, and smart domain solutions; and (iii) The Trading segment is engaged in the trading of electronic and electrical parts and components sourced from third party suppliers.

INFORMATION ON TERAWULF

TeraWulf is a Delaware corporation and digital asset technology company engaged in digital asset mining and high-performance computing (HPC), delivering next-generation data center solutions. It designs, builds, and operates state-of-the-art infrastructure that fuses advanced computing technologies with sustainable energy.

The following is a summary of the financial information is extracted from the annual reports for the years ended 31 December 2022, 31 December 2023, 31 December 2024 and the quarterly report for the six months ended 30 June 2025 of the TeraWulf Group:

	For the year ended 31 December 2022 (audited)		**For the year ended 31 December 2023 (audited)**		**For the year ended 31 December 2024 (audited)**	
	US$'000	*HK$'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*
Revenue	15,033	116,957	69,229	538,602	140,051	1,089,597
(Loss) before income taxes and equity in net income (loss) of investee	(70,478)	(548,319)	(64,002)	(497,936)	(98,383)	(765,420)
Net loss	(90,791)	(706,354)	(73,421)	(571,215)	(72,418)	(563,412)

Based on TeraWulf's published documents, the TeraWulf Group has an audited consolidated net assets value of approximately US$117.8 million (equivalent to approximately HK$916.5 million) as at 31 December 2022, approximately US$222.5 million (equivalent to approximately HK$1,731.1 million) as at 31 December 2023 and approximately US$244.4 million (equivalent to approximately HK$1,901.4 million) as at 31 December 2024.

Based on TeraWulf's published documents, the TeraWulf Group has an unaudited consolidated net asset value of approximately US$174.3 million (equivalent to approximately HK$1,356.1 million) as at 30 June 2025.

FINANCIAL EFFECT OF THE FURTHER ACQUISITION OF TERAWULF SHARES

The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of TeraWulf Shares and (ii) the Further Acquisition of TeraWulf Shares is approximately US$4.7 million (equivalent to approximately HK$36.9 million).

The Further Acquisition of TeraWulf Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The Further Acquisition of TeraWulf Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the Further Acquisition of TeraWulf Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the Further Acquisition of TeraWulf Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the Further Acquisition of TeraWulf Shares.

It should be noted that the above financial effect of the Further Acquisition of TeraWulf Shares to be recognised by the Group will be subject to final audit by the Company's auditors.

REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION OF TERAWULF SHARES

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities).

The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group always hopes to leverage our own advantages in the field of smart technology to actively diversify the investments in the field of innovative technologies, in order to facilitate the technological development and create greater value for the Shareholders.

At the relevant time, the Group had evaluated TeraWulf's business profile, financial position, and market prospects. TeraWulf is a leader in digital asset technology company engaged in digital asset mining and high performance computing (HPC), delivering next-generation data center solutions. The Board holds positive views towards the financial performance and future prospects of TeraWulf. The Group generally adopts a disciplined and tactical investment management approach, under which acquisition and subsequent disposal decisions may be made having regard to, including but not limited to, market developments, capital allocation, risk management objectives and portfolio optimisation. Accordingly, the Group considered that the Further Acquisition of TeraWulf Shares could increase our holdings in

attractive investments and to further expand its investment portfolio with quality assets, thereby enhancing investment return for the Group, while managing risk exposure, enhancing portfolio diversification, and optimising overall investment returns.

As the Further Acquisition of TeraWulf Shares was made in the open market at prevailing market prices, the Directors are of the view that the terms of the Further Acquisition of TeraWulf Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Further Acquisition of TeraWulf Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of TeraWulf Shares and the Further Acquisition of TeraWulf Shares involve acquisitions of TeraWulf Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$4.7 million (equivalent to approximately HK$36.9 million).

The Further Acquisition of TeraWulf Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Further Acquisition of TeraWulf Shares, when aggregated with the Previous Acquisitions of TeraWulf Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 100%, the Further Acquisition of TeraWulf Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

Waiver from strict compliance with Rule 14.67(6)(a)(i) and Rule 14.67(7) of the Listing Rules

Pursuant to Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules, the Company is required to include in this circular an accountant's report on TeraWulf which is prepared in accordance with Chapter 4 of the Listing Rules and a discussion and analysis on results of TeraWulf covering all those matters set out in paragraph 32 of Appendix D2 to the Listing Rules for the period reported in such accountant's report.

As the Company considers that the strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome, the Company has applied for waiver from strict compliance of the aforesaid Listing Rules on the following grounds:

(a) The Further Acquisition of TeraWulf Shares is part of the Group's strategic investments business, and the Group may make appropriate investment opportunities as and when appropriate, including but not limited to acquisition(s) and disposal(s) of listed equity securities. Subsequent to the Further Acquisition of TeraWulf Shares, the percentage of TeraWulf Shares held by the Company would be approximately 0.083%. The Company also does not have any board seats in TeraWulf. The Company's minority interest in TeraWulf is minimal and insignificant to exert any form of control over TeraWulf.

(b) TeraWulf, being listed company incorporated in the United States, has its financial results prepared in accordance with accounting principles generally accepted in the United States as contained in the Financial Accounting Standards Board Accounting Standards Codification (the "**U.S. GAAP**"). TeraWulf had been publishing financial information to the market on a regular basis to enable investors to assess its activities and financial position. TeraWulf is listed on Nasdaq and its financial disclosures is subject to supervision by the relevant regulatory authorities.

(c) Following the Further Acquisition of TeraWulf Shares, neither TeraWulf will become a subsidiary or an associate of the Company and the financial results of TeraWulf will not be consolidated in the financial statements of the Group nor be equity accounted for in the Group's consolidated financial statements as an associate. Requiring the Company to arrange for an accountants' report on TeraWulf will be out of proportion to the size of the Further Acquisition of TeraWulf Shares in terms of time and costs involved.

(d) As the Further Acquisition of TeraWulf Shares was a transaction made in the open market, neither TeraWulf was obliged to assist the Company to prepare the accountants' report or a discussion and analysis of results on it for the Further Acquisition of TeraWulf Shares. In addition, the Company does not have access to TeraWulf's books and records to prepare the accountants' report on it in accordance with the Listing Rules.

(e) The preparation of the accountants' report under Rule 14.67(a)(i) of the Listing Rules for inclusion in the circular would require converting the financial information of TeraWulf based on the Hong Kong Financial Reporting Standards. Even assuming TeraWulf is prepared to provide extensive access to their accounting records and provide explanations in relation to the same, the Company considers that it would be unduly onerous to require the Company to set out an accountants' reports of TeraWulf in its circular as the auditors of the Company would have to carry out audit procedures on TeraWulf, which would not provide meaningful information to the Shareholders given the above.

(f) TeraWulf, being listed company listed in the United States, is required to publish its audited financial statements, on a regular basis, for each financial year, on its websites. The said financial statements of TeraWulf was audited by Deloitte & Touche LLP, and was prepared based on the U.S. GAAP. Such SEC filings (as the case may be) have been published by TeraWulf as required and can be easily obtained by the Shareholders and will enable them and potential investors to make a properly informed assessment of TeraWulf. Further, TeraWulf would publish their unaudited quarterly results on their websites. The unaudited quarterly results were prepared based on the U.S. GAAP, and such information is publicly available.

(g) The Company's reporting accountant to this circular considers that the accounting standards under U.S. GAAP and the accounting policies of the Company, i.e. Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, are materially consistent.

(h) As stated in the reasons set out in points (d) and (f) above, the Company could not access the books and records of TeraWulf, and TeraWulf was not prepared to disclose any additional financial information. Thus, the Company was not able to prepare the discussion and analysis of results of TeraWulf for the incorporation into this circular. In addition, the Company could not express any view as to the truth, accuracy or completeness on the discussion and analysis of the results of TeraWulf as stated in its published information.

In light of the above, the Company considers that strict compliance with requirements under Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome and impractical, and a relaxation of such requirements would unlikely result in undue risks to the Shareholders and potential investors of the Company.

Alternative disclosures

The Company has included the following information in this circular as alternative disclosures to an accountants' report required under Rule 14.67(6)(a)(i) of the Listing Rules and a management discussion and analysis required under Rule 14.67(7) of the Listing Rules:

(a) the annual audited consolidated financial statements of TeraWulf for the year ended 31 December 2022 as extracted from the published documents of TeraWulf, which is set out on page II-1 to II-52 in Appendix II to this circular;

(b) the annual audited consolidated financial statements of TeraWulf for the year ended 31 December 2023 as extracted from the published documents of TeraWulf, which is set out on page II-53 to II-98 in Appendix II to this circular;

(c) the annual audited consolidated financial statements of TeraWulf for the year ended 31 December 2024 as extracted from the published documents of TeraWulf, which is set out on page II-99 to II-147 in Appendix II to this circular;

(d) the unaudited consolidated financial statements of TeraWulf for the six months ended 30 June 2025 as extracted from the published documents of TeraWulf, which is set out on page II-148 to II-178 in Appendix II to this circular; and

(e) the management discussion and analysis of the results of operations of TeraWulf for the three financial years ended 31 December 2022, 31 December 2023, 31 December 2024 and the six months ended 30 June 2025 as extracted from the published documents of TeraWulf, which are set out on pages III-1 to III-62 in Appendix III to this circular.

Based on the information provided by the Company and the alternative disclosures above, the Stock Exchange granted the waiver from strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) under the Listing Rules.

WRITTEN SHAREHOLDER'S APPROVAL

Pursuant to Rule 14.44 of the Listing Rules, shareholders' approval may be obtained by written shareholders' approval in lieu of convening a general meeting if (a) no shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Further Acquisition of TeraWulf Shares; and (b) written approval has been obtained from a shareholder or a closely allied group of shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at general meetings to approve the Further Acquisition of TeraWulf Shares.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Further Acquisition of TeraWulf Shares. Thus, if the Company was to convene a general meeting to approve the Further Acquisition of TeraWulf Shares, no Shareholder is required to abstain from voting on the resolutions in relation to the Further Acquisition of TeraWulf Shares. As such, the Further Acquisition of TeraWulf Shares may be approved by written Shareholder's approval in accordance with Rule 14.44 of the Listing Rules.

In relation to written approval in lieu of holding a general meeting in respect of the Further Acquisition of TeraWulf Shares, the Company obtained shareholder's approval from Yoho Bravo Limited which holds 599,658,000 shares (representing approximately 74.96% of the total issued share capital of the Company as at the date of the written approval by Yoho Bravo Limited and the Latest Practicable Date respectively) pursuant to Rule 14.44 of the Listing Rules. As a result, no extraordinary general meeting will be convened to consider the Further Acquisition of TeraWulf Shares.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Further Acquisition of TeraWulf Shares is on normal commercial terms, which is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors would

recommend the Shareholders to vote in favour of the Further Acquisition of TeraWulf Shares if a physical meeting were to be held.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Brainhole Technology Limited
Zhang Liang Johnson
Chairman and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Company for the three years ended 31 December 2022, 2023 and 2024 have been published and are available on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.brainholetechnology.com) respectively:

- the annual report of the Company for the year ended 31 December 2022 (pages 81 to 169) published on 26 April 2023, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600894.pdf

- the annual report of the Company for the year ended 31 December 2023 (pages 83 to 173) published on 29 April 2024, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042902560.pdf

- the annual report of the Company for the year ended 31 December 2024 (pages 84 to 169) published on 17 April 2025, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0417/2025041701445.pdf

- the interim report of the Company for the six months ended 30 June 2025 (pages 1 to 25) published on 17 September 2025, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0917/2025091700356.pdf

2. STATEMENT OF INDEBTEDNESS OF THE GROUP

At the close of business on 31 October 2025, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the Group had outstanding indebtedness as follows:

	31 October 2025
	HK$'000
Lease liabilities	328
Loan from immediate holding company	–
Loans from related companies	46,755
Loan from ultimate controlling party	24,204

As at 31 October 2025, all the loan from immediate holding company, loans from related companies and loan from ultimate controlling party of the Group disclosed above are unsecured and unguaranteed.

Save as disclosed above, the Group did not, as of the close of business on 31 October 2025, have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or contingent liabilities.

3. WORKING CAPITAL STATEMENT OF THE GROUP

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds and the available facilities, and the impact of the Further Acquisition of TeraWulf Shares, the Group will have sufficient working capital for its business for at least 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66 (12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date and to the best knowledge of the Directors, there was no material adverse change in the financial or trading position of the Group since 31 December 2024 (being the date to which the latest published audited financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities). The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group aims to leverage our own advantages in the field of smart technology to capture investment opportunities and actively diversify the investments in the field of innovative technologies, in order to create greater value for the Shareholders.

Since 2022, the Group commenced the strategic investments business which engages in trading of cryptocurrencies and listed equity securities. In particular to the listed equity securities, the investment portfolio mainly comprises leading technology companies and high quality large companies listed in the United States and Hong Kong. As stated in the paragraphs headed "REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION OF TERAWULF

SHARES", the Group considers that the Further Acquisition of TeraWulf Shares represents opportunities to allow the Group to reallocate the resources and investment portfolio. The Group will closely monitor and assess the performance of these listed equity securities and make timely and appropriate adjustments on the investment portfolio to enhance the returns for the Group and realise the investments as and when appropriate.

FINANCIAL INFORMATION OF TERAWULF FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2022, 31 DECEMBER 2023, 31 DECEMBER 2024 AND THE SIX MONTHS ENDED 30 JUNE 2025

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to TeraWulf, and references to "we", "us" and "our" shall be construed accordingly.

The following is an extract of the audited consolidated financial statements of TeraWulf for the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 and the unaudited consolidated financial statements of TeraWulf for the six months ended 30 June 2025, which were prepared in accordance with the U.S. GAAP, as extracted from the respective annual reports/quarterly report of TeraWulf for the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 and the six months ended 30 June 2025. These financial statements were issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The annual reports/quarterly report and consolidated financial statements of TeraWulf for the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 and the six months ended 30 June 2025 are available at the website of the SEC (https://www.sec.gov/).

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Company has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of TeraWulf Inc. and Subsidiaries

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of TeraWulf Inc. and its subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity, and cash flows for the year ended December 31, 2022 and for the period from February 8, 2021 (date of inception) to December 31, 2021, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and for the period from February 8, 2021 (date of inception) to December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter
The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition from mining pool
As discussed in Note 2 to the consolidated financial statements, providing computing power to a mining pool for cryptocurrency transaction verification services is a performance obligation. The transaction price is measured at the fair value of the noncash consideration using the quoted price of the awarded cryptocurrency in the Company's principal market at contract inception. We identified the determination of contract inception as a critical audit matter due to the nature and extent of audit effort required to evaluate management's determination of each contractual period. The nature and extent of audit effort required to address the matter included significant involvement of more experienced engagement team members and discussions and consultations with professionals with specialized skills and knowledge related to the matter.

Our audit procedures related to the determination of contract inception included the following, among others:
- We assessed the mining pool's payout methodology and the provisions of the service agreement between the Company and the mining pool operator.
- We evaluated the Company's performance obligation and 24-hour contractual period with respect to its agreement with the mining pool operator.

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- We compared all noncash consideration recognized as revenue to independently obtained pricing data as of the time of inception of each contract.
- We utilized professionals with specialized skills and knowledge in digital assets and revenue recognition in assisting with the determination of the contract inception period.

/s/ RSM US LLP

We have served as the Company's auditor since 2021.

Minneapolis, Minnesota
March 31, 2023

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2022 AND 2021
(In thousands, except number of shares, per share amounts and par value)

	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,279	$ 43,448
Restricted cash	7,044	3,007
Digital currency, net	183	—
Prepaid expenses	5,095	1,494
Amounts due from related parties	—	647
Other current assets	543	108
Current assets held for sale	—	19,348
Total current assets	14,144	68,052
Equity in net assets of investee	98,741	104,280
Property, plant and equipment, net	191,521	91,446
Right-of-use asset	11,944	1,024
Other assets	1,337	109
TOTAL ASSETS	$ 317,687	$ 264,911
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 21,862	$ 11,791
Accrued construction liabilities	2,903	3,892
Other accrued liabilities	14,963	3,771
Share based liabilities due to related party	14,583	12,500
Other amounts due to related parties	3,295	60
Contingent value rights	10,900	12,000
Current portion of operating lease liability	42	88
Insurance premium financing payable	2,117	—
Convertible promissory notes	3,416	—
Current portion of long-term debt	51,938	—
Current liabilities held for sale	—	1,755
Total current liabilities	126,019	45,857
Operating lease liability, net of current portion	947	992
Deferred tax liabilities, net	—	256
Long-term debt	72,967	94,627
TOTAL LIABILITIES	199,933	141,732
Commitments and Contingencies (See Note 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 25,000,000 authorized at December 31, 2022 and 2021; 9,566 and 0 shares issued and outstanding at December 31, 2022 and 2021, respectively; aggregate liquidation preference of $10,349 and $0 at December 31, 2022 and 2021	9,273	—
Common stock, $0.001 par value, 200,000,000 authorized at December 31, 2022 and 2021; 145,492,971 and 99,976,253 issued and outstanding at December 31, 2022 and 2021, respectively	145	100
Additional paid-in capital	294,810	218,762
Accumulated deficit	(186,474)	(95,683)
Total stockholders' equity	117,754	123,179
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 317,687	$ 264,911

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE PERIOD FEBRUARY 8, 2021 (DATE OF INCEPTION) TO DECEMBER 31, 2021
(In thousands, except number of shares and loss per common share)

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Revenue	$ 15,033	$ —
Cost of revenue (exclusive of depreciation shown below)	11,083	—
Gross profit	3,950	—
Cost of operations:		
Operating expenses	2,038	104
Operating expenses - related party	1,248	960
Selling, general and administrative expenses	22,770	23,759
Selling, general and administrative expenses - related party	13,280	18,576
Depreciation	6,667	—
Realized gain on sale of digital currency	(569)	—
Impairment of digital currency	1,457	—
Loss on nonmonetary miner exchange	804	—
Total cost of operations	47,695	43,399
Operating loss	(43,745)	(43,399)
Interest expense	(24,679)	(2,255)
Loss on extinguishment of debt	(2,054)	—
Loss before income tax and equity in net loss of investee	(70,478)	(45,654)
Income tax benefit	256	615
Equity in net loss of investee, net of tax	(15,712)	(1,538)
Loss from continuing operations	(85,934)	(46,577)
Loss from discontinued operations, net of tax	(4,857)	(49,106)
Net loss	(90,791)	(95,683)
Preferred stock dividends	(783)	—
Net loss attributable to common stockholders	$ (91,574)	$ (95,683)
Loss per common share:		
Continuing operations	$ (0.78)	$ (0.55)
Discontinued operations	(0.04)	(0.58)
Basic and diluted	$ (0.82)	$ (1.13)
Weighted average common shares outstanding:		
Basic and diluted	110,638,792	85,200,032

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE PERIOD FEBRUARY 8, 2021 (DATE OF INCEPTION) TO DECEMBER 31, 2021
(In thousands, except number of shares)

	Redeemable Convertible Preferred Stock (1)		Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Number	Amount	Number	Amount	Number	Amount			
Balances as of February 8, 2021	—	$ —	—	$ —	—	$ —	$ —	$ —	$ —
Issuance of Series A Preferred Stock, net of issuance costs	2,000,000	—	—	—	—	—	—	—	—
Common stock issuance in conjunction with debt offering, net of issuance costs	—	—	—	—	839,398	1	24,638	—	24,639
Issuance of common stock, net of issuance costs	—	—	—	—	52,261,932	52	104,266	—	104,318
Series A Preferred Stock converted to common stock	(2,000,000)	—	—	—	1,739,311	2	49,313	—	49,315
Reverse merger exchange ratio share adjustment	—	—	—	—	43,136,087	43	(43)	—	—
Common stock issued for acquisition of IKONICS Corporation	—	—	—	—	1,999,525	2	40,588	—	40,590
Net loss	—	—	—	—	—	—	—	(95,683)	(95,683)
Balances as of December 31, 2021	—	—	—	—	99,976,253	100	218,762	(95,683)	123,179
Issuance of Series A Convertible Preferred Stock, net of issuance costs	—	—	9,566	9,273	—	—	—	—	9,273
Warrant issuances in conjunction with debt offerings	—	—	—	—	—	—	8,315	—	8,315
Warrant issuances in conjunction with equity offerings	—	—	—	—	—	—	5,700	—	5,700
Stock-based compensation expense	—	—	—	—	—	—	1,568	—	1,568
Warrant exercise	—	—	—	—	5,714,823	6	52	—	58
Modifications to embedded conversion feature of convertible promissory notes	—	— —	—	—	—	—	1,592	—	1,592
Issuance of common stock, net of issuance costs	—	—	—	—	39,801,895	39	58,821	—	58,860
Net loss	—	—	—	—	—	—	—	(90,791)	(90,791)
Balances as of December 31, 2022	—	$ —	9,566	$ 9,273	145,492,971	$ 145	$ 294,810	$ (186,474)	$ 117,754

(2) (1) The redeemable convertible preferred stock was presented in the mezzanine section of the consolidated balance sheets while outstanding.

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE PERIOD FEBRUARY 8, 2021 (DATE OF INCEPTION) TO DECEMBER 31, 2021
(In thousands)

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (90,791)	$ (95,683)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt issuance costs, commitment fees and accretion of debt discount	11,676	921
Related party expense to be settled with respect to common stock	2,083	12,500
Common stock issued for interest expense	82	—
Stock-based compensation expense	1,568	—
Depreciation	6,667	—
Amortization of right-of-use asset	303	52
Increase in digital currency from mining	(10,810)	—
Impairment of digital currency	1,457	—
Realized gain on sale of digital currency	(569)	—
Proceeds from sale of digital currency	9,739	—
Loss on nonmonetary miner exchange	804	—
Loss on extinguishment of debt	2,054	—
Deferred income tax benefit	(256)	(615)
Equity in net loss of investee, net of tax	15,712	1,538
Loss from discontinued operations, net of tax	4,857	49,106
Changes in operating assets and liabilities:		
Increase in prepaid expenses	(3,601)	(1,489)
Decrease (increase) in amounts due from related parties	815	(647)
Increase in other current assets	(46)	(113)
Increase in other assets	(994)	(109)
Increase in accounts payable	10,197	9,729
Increase in other accrued liabilities	5,916	3,605
Increase in other amounts due to related parties	700	60
Increase in operating lease liability	175	4
Net cash used in operating activities from continuing operations	(32,262)	(21,141)
Net cash used in operating activities from discontinued operations	(1,804)	(2,958)
Net cash used in operating activities	(34,066)	(24,099)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of a business, net of cash acquired	—	(10,280)
Investments in joint venture, including direct payments made on behalf of joint venture	(46,172)	(93,911)
Reimbursable payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	(11,741)	(56,057)
Reimbursement of payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	11,716	56,057
Reimbursement from joint venture partner for deposits on plant and equipment contributed to the joint venture	—	11,850
Purchase of and deposits on plant and equipment	(61,116)	(109,072)
Proceeds from sale of net assets held for sale	13,266	—
Net cash used in investing activities	(94,047)	(201,413)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt, net of issuance costs paid of $38 and $0	22,462	118,276
Proceeds from insurance premium financing	7,041	—
Principal payments on insurance premium financing	(4,924)	—
Proceeds from issuance of promissory notes to stockholders	3,416	25,000
Repayment of promissory notes to stockholders	—	(25,000)
Proceeds from issuance of common stock, net of issuance costs paid of $142 and $0	47,326	104,376
Proceeds from warrant issuances in conjunction with equity offerings	5,700	—
Proceeds from issuance of preferred stock	9,566	49,315
Proceeds from issuance of convertible promissory note	14,700	—
Principal payments on convertible promissory note	(15,306)	—
Net cash provided by financing activities	89,981	271,967
Net change in cash and cash equivalents and restricted cash	(38,132)	46,455
Cash and cash equivalents and restricted cash at beginning of period	46,455	—
Cash and cash equivalents and restricted cash at end of period	$ 8,323	$ 46,455
Cash paid during the period for:		
Interest	$ 13,989	$ 252
Income taxes	$ —	$ —

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

Organization

On December 13, 2021 (the "Closing Date"), TeraWulf Inc. (formerly known as Telluride Holdco, Inc.), a Delaware corporation, completed the previously announced strategic business combination (the "Merger") pursuant to the agreement and plan of merger, dated as of June 24, 2021 (as amended, supplemented or otherwise modified prior to the Closing Date, the "Merger Agreement"), by and among TeraWulf Inc., IKONICS Corporation, a Minnesota corporation ("IKONICS"), TeraCub Inc. (formerly known as TeraWulf Inc.), a Delaware corporation that was formed on February 8, 2021 ("TeraCub") and certain holding companies and subsidiaries created to effect the merger. In connection with the consummation of the mergers, Telluride Holdco, Inc. was renamed TeraWulf Inc., and TeraWulf Inc. was renamed TeraCub Inc. TeraWulf Inc. and its subsidiaries are referred to in these consolidated financial statements as "TeraWulf" or the "Company."

TeraWulf's planned principal operations consist of operating, developing and constructing bitcoin mining facilities in the United States that are fueled by clean, low cost and reliable power sources. The Company operates a portfolio of bitcoin mining facilities, either wholly-owned or through joint ventures, that each deploy a series of powerful computers that solve complex cryptographic algorithms, which computing power is provided to a mining pool operator to mine bitcoin and validate transactions on the bitcoin network. TeraWulf's revenue is substantially derived from pay-per-share base amounts and transaction fee rewards earned in bitcoin from the mining pool as compensation for providing the computing power. The Company also leverages its available digital infrastructure to provide miner hosting services to third parties whereby the Company holds an option to purchase the hosted miners in the future. While the Company may choose to mine other cryptocurrencies in the future, it has no plans to do so currently.

TeraWulf's two bitcoin mining facilities are in New York (the "Lake Mariner Facility") and Pennsylvania (the "Nautilus Cryptomine Facility"). Mining operations commenced at the Lake Mariner Facility in March 2022 and the Company has energized building one and substantially completed the construction of building two as of December 31, 2022. The Nautilus Cryptomine Facility is being developed and constructed through a joint venture (see Note 11) and remained under construction as of December 31, 2022, with mining operations commencing in February 2023. The Lake Mariner Facility is wholly-owned. In May 2021, TeraWulf created three wholly-owned subsidiaries to facilitate ownership of bitcoin mining facilities or joint venture interests related thereto. Lake Mariner Data LLC and Kyalami Data LLC are subsidiaries involved in operating, constructing or developing wholly-owned bitcoin mining facilities in New York. As of the date these consolidated financial statements were available to be issued, Kayalami Data LLC was inactive. TeraWulf (Thales) LLC ("Thales") is a subsidiary holding interests in a joint venture involved in constructing bitcoin mining facilities in Pennsylvania (see Note 11).

IKONICS' traditional business was the development and manufacturing of high-quality photochemical imaging systems for sale primarily to a wide range of printers and decorators of surfaces. Customers' applications were primarily screen printing and abrasive etching. TeraWulf initially classified the IKONICS business as held for sale and discontinued operations in these consolidated financial statements. During the year ended December 31, 2022, the Company completed sales of substantially all of IKONICS' historical net assets (see Note 4). Subsequent to the asset sales, IKONICS' name was changed to RM 101 Inc. ("RM 101").

Risks and Uncertainties

Liquidity and Financial Condition

The Company incurred a net loss attributable to common stockholders of $91.6 million, including a net impairment charge (net of a contingent consideration remeasurement gain) of $4.9 million included in loss from discontinued operations, net of tax related to the acquired RM 101 business (see Notes 3 and 4), and negative cash flows from continuing operations of $32.3 million for the year ended December 31, 2022. As of December 31, 2022, the Company had balances of cash and cash equivalents and restricted cash of $8.3 million, a working capital deficiency of $111.9 million, total stockholders' equity of $117.8 million and an accumulated deficit of $186.5 million. The Company has commenced mining activities at the Lake Mariner Facility, however not yet to the scale required to support its principal operations. The Company has relied primarily on proceeds from its issuances of debt and equity and sale of bitcoin mined to fund its principal operations.

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with development of its bitcoin mining facilities, during the year ended December 31, 2022, the Company invested approximately $61.1 million for purchases of and deposits on plant and equipment, including deposits on miners under miner purchase agreements (see Note 12). Also, during the year ended December 31, 2022, the Company invested $46.2 million, net in its joint venture (see Note 11). As of December 31, 2022, the Company required additional capital in order to fund construction completion of the Lake Mariner Facility. Until TeraWulf is able to generate positive cash flows from operations, TeraWulf expects to fund its business operations and infrastructure buildout through the issuance of debt or equity securities, sales of mined bitcoin or through the provision of miner hosting services.

During the year ended December 31, 2022, the Company entered into an At Market Issuance Sales Agreement for sale of shares of Common Stock having an aggregate offering price of up to $200.0 million (the "ATM Offering"). The issuance of Common Stock under this agreement will be made pursuant to the Company's effective registration statement on Form S-3 (Registration statement No. 333-262226). During the year ended December 31, 2022, the Company issued Common Stock, including under the ATM Offering, for net cash proceeds of $47.3 million, Common Stock warrants for net cash proceeds of $5.7 million, preferred stock for net cash proceeds of $9.6 million, convertible promissory notes, net of cash payments, for net cash proceeds of $2.8 million and long-term debt for net cash proceeds of $22.5 million.

Subsequent to December 31, 2022, the Company accomplished several notable steps toward achieving near term positive cash flows from operations, namely: (1) the Company amended its long-term debt agreement (see Notes 9 and 18) to, among other changes, remove the fixed principal amortization through April 7, 2024 and, potentially, beyond, (2) through the issuance of Common Stock, Common Stock warrants and convertible promissory notes (see Note 19), the Company received net proceeds of $34.3 million, which along with cash flow from operations, is expected to be sufficient to satisfy the Company's final capital expenditure requirements, other obligations and operating expenses in the months prior to achieving a free cash flow positive enterprise (3) mining activities have commenced at the Nautilus Facility and the Company deems that it has funded all known and expected capital commitments, (4) the Company received materially all contracted miners from the miner suppliers and has no remaining outstanding financial commitments under the miner purchase agreements (see Notes 11 and 12), (5) the received miners are sufficient to fully utilize mining capacity both in service and under construction at the Lake Mariner Facility and the Nautilus Facility and (6) the remaining construction activities at the Lake Mariner Facility and the Nautilus Facility are currently ongoing and expected to be complete in the second quarter of 2023. The Company has determined that it is probable that these actions will allow the Company to generate positive cash flows from operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business and, therefore, there is no longer substantial doubt about the Company's ability to continue as a going concern through at least the next twelve months. The consolidated financial statements do not include any adjustments that might result from TeraWulf's possible inability to continue as a going concern.

COVID-19

The Company's results of operations could be adversely affected by general conditions in the economy and in the global financial markets, including conditions that are outside of the Company's control, such as the outbreak and global spread of the novel coronavirus disease ("COVID-19"). The COVID-19 pandemic that was declared on March 11, 2020 has caused significant economic dislocation in the United States and globally as governments across the world, including the United States, introduced measures aimed at preventing the spread of COVID-19. The spread of COVID-19 and the imposition of related public health measures have resulted in, and are expected to continue to result in, increased volatility and uncertainty in the cryptocurrency space. Any severe or prolonged economic downturn, as result of the COVID-19 pandemic or otherwise, could result in a variety of risks to the business and management cannot anticipate all the ways in which the current economic climate and financial market conditions could adversely impact its business.

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company may experience disruptions to its business operations resulting from supply interruptions (including miner delivery interruptions), quarantines, self-isolations, or other movement and restrictions on the ability of its employees or its counterparties to perform their jobs and provide services. The Company may also experience delays in construction and obtaining necessary equipment in a timely fashion. If the Company is unable to effectively set up and service its miners, its ability to mine bitcoin will be adversely affected. The future impact of the COVID-19 pandemic is still highly uncertain and there is no assurance that the COVID-19 pandemic or any other pandemic, or other unfavorable global economic, business or political conditions, will not materially and adversely affect the Company's business, prospects, financial condition, and operating results.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform with current period presentation.

Upon completion of the Merger, the Company assumed the fiscal year end of December 31. Prior to the Merger, the TeraCub fiscal year ended on March 31. The historical financial statements for the period from February 8, 2021 (date of inception) to March 31, 2021 and for the nine month period ended December 31, 2021 have been recast to conform with the Company's adopted fiscal year.

The Merger was accounted for as a reverse merger whereby the accounting acquirer was TeraCub due to TeraCub's historic shareholders having the majority voting control in the Company, the board of directors members being associated with TeraCub and the senior management of TeraCub becoming the senior management of the Company. Therefore, the historical information included in these consolidated financial statements is that of TeraCub. The operations of RM 101 are included in these consolidated financial statements commencing with the consummation of the Merger. Upon acquisition, the RM 101 business met the assets held for sale and discontinued operations criteria and is reflected as discontinued operations held for sale in the consolidated financial statements. See Notes 3 and 4 for additional information.

Prior Interim Period Restatement

During the preparation of the consolidated financial statements for the year ended December 31, 2022, an error was identified in the Company's preparation of the historical unaudited interim consolidated statements of cash flows for each of the first three quarters of 2022. In accordance with Staff Accounting Bulletin No. 99, "Materiality," the Company determined that these unaudited interim consolidated financial statements were materially misstated and should be restated. The misstatements relate solely to incorrectly calculating the impact of noncash activity on purchase and deposits on plant and equipment, resulting in an understatement of net cash used in investing activities and a corresponding overstatement of net cash used in operating activities as originally included in the respective interim unaudited consolidated statements of cash flows. The unaudited interim consolidated balance sheets, unaudited interim consolidated statements of operations and unaudited interim consolidated statements of stockholders' equity during each of the first three quarters of 2022 were not impacted and do not require restatement. The restated unaudited interim consolidated statements of cash flows information is included in Note 18.

Variable Interest Entities

Variable interest entities ("VIE") are legal entities in which equity investors do not have (i) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, or (ii) as a group, the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (iii) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. The Company would consolidate any VIE in which it has a controlling financial interest through being deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both characteristics are met, the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company considers itself to be the primary beneficiary and therefore will consolidate that VIE into its consolidated financial statements.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with a VIE and reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether an entity is a VIE and whether the Company is the primary beneficiary of a VIE is based upon facts and circumstances for the VIE and requires significant judgments such as whether the entity is a VIE, whether the Company's interest in a VIE is a variable interest, the determination of the activities that most significantly impact the economic performance of the entity, whether the Company controls those activities, and whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

In 2021, the Company entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), with an unrelated co-venturer to develop, construct and operate a bitcoin mining facility in Pennsylvania. Due to the initial nature of the joint venture and the continued commitment for additional financing, the Company determined Nautilus is a VIE. While the Company has the ability to exercise significant influence over Nautilus, the Company has determined that it does not have the power to direct the activities that most significantly impact the economic performance of Nautilus. Initially, the power to direct the activities of Nautilus that most significantly impact Nautilus' economic performance were shared equally by both parties within the joint venture due to the requirement for both equity holders to approve many of the key operating decisions and when not equally shared, were predominantly under the control of the co-venturer, including through the co-venturer's majority representation on the board of managers. As such, the Company has determined that it is not the primary beneficiary of Nautilus and, therefore, has accounted for this entity under the equity method of accounting. Risks associated with the Company's involvement with Nautilus include a commitment to potentially fund additional equity investments. See Note 11 for additional information, including a decrease in the Company's ownership interest in Nautilus during the year ended December 31, 2022.

Equity Method of Accounting

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee company. Under the equity method of accounting, an investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of operations; however, the Company's share of the earnings or losses of the investee company is reflected in the caption "Equity in net loss of investee, net of tax" in the consolidated statements of operations. The Company's carrying value in an equity method investee company is reflected in the caption "Equity in net assets of investee " in the Company's consolidated balance sheets.

Interest related to construction of assets at equity method investee companies is capitalized when the financial statement effect of capitalization is material, construction of the asset at the equity method investee has begun, the equity method investee has not commenced its principal operations and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use, the equity method investee commences principal operations or when interest costs are no longer being incurred.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company has guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

The Company's investment in companies that are accounted for under the equity method of accounting consists of a 25.2% interest in Nautilus. See Note 11 for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Combinations

The Company includes the results of operations of the businesses that it acquires as of the acquisition date. The Company allocates the purchase price of the acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair values of identifiable assets and liabilities is recorded as goodwill. Contingent consideration is included within the purchase price and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is remeasured to fair value as of each reporting date until the contingency is resolved, and subsequent changes in fair value are recognized in earnings. Contingent consideration is recorded in current liabilities in the Company's consolidated balance sheets.

While the Company uses its best estimates and assumptions to accurately apply preliminary values to assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of operations. Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies, and contingent consideration, where applicable. Although the Company believes the assumptions and estimates it has made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets acquired include; future expected cash flows, estimated market royalty rates, customer attrition rates, cost of developed technology and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results.

Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for (but are not limited to) such items as the fair values of assets acquired and liabilities assumed in business combinations, the fair value of contingent consideration issued in a business combination, the establishment of useful lives for property, plant and equipment and intangible assets, the impairment of goodwill and held for sale assets, the fair value of equity securities or warrants to purchase common stock issued as a component of a debt or equity offering, the fair value of changes to the conversion terms of embedded conversion features, the fair value of stock-based compensation, the fair value of assets received in nonmonetary transactions, the establishment of right-of-use assets and lease liabilities that arise from leasing arrangements, the timing of commencement of capitalization for plant and equipment, impairment of indefinite-lived intangible assets, impairment of long-lived assets, recoverability of deferred tax assets and the recording of various accruals. These estimates are made after considering past and current events and assumptions about future events. Actual results could differ from those estimates.

Supplemental Cash Flow Information

The following table shows supplemental cash flow information (in thousands):

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	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Supplemental disclosure of non-cash activities:		
Right-of-use asset obtained in exchange for lease obligation	$ 11,223	$ 1,076
Contribution of plant and equipment or deposits on plant and equipment to joint venture	$ 11,267	$ 11,850
Common stock issued for business acquisition	$ —	$ 40,590
Contingent value rights issued for business acquisition	$ —	$ 12,000
Common stock issued in conjunction with debt offering representing debt issuance costs	$ —	$ 25,727
Deferred financing costs in accounts payable or other accrued liabilities	$ 249	$ —
Common stock issuance costs in accounts payable	$ 131	$ —
Preferred stock issuance costs in other accrued liabilities or accounts payable	$ 293	$ —
Purchases of and deposits on plant and equipment in accounts payable, accrued construction liabilities, other accrued liabilities and long-term debt	$ 8,451	$ 6,074
Investment in joint venture in other accrued liabilities, other amounts due to related parties and long-term debt	$ 5,203	$ 57
Series A Preferred Stock converted to common stock	$ —	$ 49,315
Reverse merger exchange ration share adjustment	$ —	$ 43
Convertible promissory note deferred issuance costs in accounts payable	$ 104	$ —
Common stock issued pursuant to operating lease amendment	$ 11,489	$ —
Common stock issued for payment on convertible promissory note	$ 168	$ —
Common stock warrants issued for long-term debt commitment fee	$ 1,967	$ —
Common stock warrants issued for discount on long-term debt	$ 6,348	$ —
Decrease to investment in joint venture and increase in plant and equipment for distribution or transfer of nonmonetary assets	$ 51,978	$ —
Change in fair value of embedded conversion feature of convertible promissory note in additional paid-in capital	$ 1,591	$ —

Cash and Cash Equivalents

Highly liquid instruments with an original maturity of three months or less are classified as cash equivalents. The Company maintains cash and cash equivalent balances primarily at three financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's accounts at these institutions are insured, up to $250,000, by the FDIC. As of December 31, 2022, the Company's bank balances exceeded the FDIC insurance limit in an amount of approximately $600,000. To reduce its risk associated with the failure of such financial institutions, the Company evaluates at least annually the rating of the financial institutions in which it holds deposits. As of December 31, 2022 and December 31, 2021, the Company had cash and cash equivalents of $1.3 million and $43.4 million, respectively. See Note 19 for additional information regarding the Company's banking counterparties.

Restricted Cash

The Company considers cash and marketable securities to be restricted when withdrawal or general use is legally restricted. The Company reports restricted cash in the consolidated balance sheets and determines current or non-current classification based on the expected duration of the restriction. The restricted cash included in the consolidated balance sheet as of December 31, 2022 is restricted as to use primarily due to being held in escrow in accordance with an asset purchase agreement governing the sale of certain RM 101 assets (see Note 4). The restricted cash included in the consolidated balance sheet as of December 31, 2021 is restricted as to use due to being held as a construction escrow by a third party escrow agent. As of December 31, 2022, the Company's bank balances of restricted cash exceeded the FDIC insurance limit in an amount of approximately $6.8 million.

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The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that total to the amounts shown in the consolidated statements of cash flows (in thousands):

	December 31, 2022	December 31, 2021
Cash and cash equivalents	$ 1,279	$ 43,448
Restricted cash	7,044	3,007
Cash and cash equivalents and restricted cash	$ 8,323	$ 46,455

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision–making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision–making group ("CODM") is composed of the chief executive officer, chief operating officer and chief strategy officer. Currently, the Company solely operates in the Digital Currency Mining segment. The Company's mining operations are located in the United States, and the Company has employees only in the United States and views its mining operations as one operating segment as the CODM reviews financial information on a consolidated basis in making decisions regarding resource allocations and assessing performance. Prior to the sale of substantially all of RM 101's assets, through its ownership of RM 101, the Company operated in the Imaging Technology segment. TeraWulf classified the RM 101 segment as held for sale and discontinued operations in these consolidated financial statements (see Note 4).

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally 5 years for computer equipment and 4 years for mining equipment). Leasehold improvements and electrical equipment are depreciated over the shorter of their estimated useful lives or the lease term. Property, plant and equipment includes deposits, amounting to approximately $57.6 million and $70.6 million as of December 31, 2022 and 2021, respectively, on purchases of such assets, including miners, which would be included in property, plant and equipment upon receipt.

Interest related to construction of assets is capitalized when the financial statement effect of capitalization is material, construction of the asset has begun, and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use or when interest costs are no longer being incurred.

Impairment of Long-lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, for impairment when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Any impairment loss recorded is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. During the year ended December 31, 2022 and for the period February 8, 2021 (date of inception) to December 31, 2021, the Company has determined that no impairment of long-lived assets exists.

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Goodwill and Indefinite-lived Intangible Assets

The Company evaluates goodwill and indefinite-lived intangible assets for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. The Company may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is less than its carrying value and if so, it performs a quantitative test. The Company estimates the fair value of the reporting units using discounted cash flows. The Company's analyses require significant assumptions and judgments, including assumptions about future economic conditions, revenue growth, and operating margins, among other factors. Events or changes in circumstances considered in the qualitative analysis, many of which are subjective in nature, include: a significant negative trend in the Company's industry or overall economic trends, a significant change in how the Company uses the acquired assets, a significant change in business strategy, a significant decrease in the market value of the asset, and a significant change in regulations or in the industry that could affect the value of the asset. The Company compares the carrying value of each reporting unit and indefinite-lived intangible asset to its estimated fair value and if the fair value is determined to be less than the carrying value, the Company would recognize an impairment loss for the difference. The Company recorded goodwill of $48.3 million related to the RM 101 business acquisition. In conjunction with classifying RM 101 as held for sale upon acquisition, the Company determined that the goodwill associated with the RM 101 business was impaired and recorded an impairment of goodwill charge in the amount of $48.3 million in loss from discontinued operations, net of tax in the consolidated statement of operations for the period February 8, 2021 (date of inception) to December 31, 2021.

Leases

The Company determines if an arrangement is a lease at inception and, if so, classifies the lease as an operating or finance lease. Operating leases are included in right-of-use ("ROU") asset, current portion of operating lease liability, and operating lease liability, net of current portion in the consolidated balance sheets. Finance leases would be included in property, plant and equipment, current portion of finance lease liabilities, and finance lease liabilities, net of current portion in the consolidated balance sheets. The Company does not recognize a ROU asset or lease liability for short-term leases having initial terms of 12 months or less and instead recognizes rent expense on a straight-line basis over the lease term. In an arrangement that is determined to be a lease, the Company includes both the lease and nonlease components as a single component and accounts for it as a lease when the Company would otherwise recognize the cost associated with both the lease and nonlease components in a similar fashion.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date, and subsequently remeasured upon changes to the underlying lease arrangement, based on the present value of lease payments over the lease term. If the lease does not provide an implicit rate or if the implicit rate is not determinable, the Company generally uses an estimate of its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. The ROU asset also includes any lease prepayments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Costs associated with operating lease ROU assets are recognized on a straight-line basis within operating expenses or selling, general and administrative, as appropriate, over the term of the lease. Variable lease costs are recognized as incurred and primarily consist of common area maintenance charges not included in the measurement of right-of-use assets and operating lease liabilities. Finance ROU lease assets are amortized within operating expenses or selling, general and administrative expenses, as appropriate, on a straight-line basis over the shorter of the estimated useful lives of the assets or, in the instance where title does not transfer at the end of the lease term, the lease term. The interest component of a finance lease is included in interest expense and recognized using the effective interest method over the lease term.

As of December 31, 2022 and 2021, the Company is not a counterparty to any finance leases.

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Stock Issuance Costs

Stock issuance costs are recorded as a reduction to issuance proceeds. Stock issuance costs incurred prior to the closing of the related issuances, including under shelf registration statements, are recorded in other assets in the consolidated balance sheets if the closing of the related issuance is deemed probable.

Debt Issuance Costs and Debt Discount

Debt issuance costs and debt discount are recorded as a direct reduction of the carrying amount of the debt and are amortized to interest expense using the effective interest method over the contractual term of the debt. Debt issuance costs include incremental third-party costs directly related to debt issuance such as attorney and financial advisor fees. Debt discount includes upfront fees and proceeds allocated to other components included in the debt issuance. The allocation of proceeds between the debt instrument and any other components included in the debt issuance, including common stock or warrants to purchase common stock, is generally based on the relative fair value allocation method. All warrants granted by the Company as a component of debt transactions are classified as equity in the consolidated balance sheets as of December 31, 2022 and 2021.

Debt Modification

The Company evaluates amendments to its debt instruments in accordance with applicable U.S. GAAP. This evaluation includes comparing (1) if applicable, the change in fair value of an embedded conversion option to that of the carrying amount of the debt immediately prior to amendment and (2) the net present value of future cash flows of the amended debt to that of the original debt to determine, in each case, if a change greater than 10 percent occurred. In instances where the net present value of future cash flows or the fair value of an embedded conversion option, if any, changed more than 10 percent, the Company applies extinguishment accounting. In instances where the net present value of future cash flows and the fair value of an embedded conversion option, if any, changed less than 10 percent, the Company accounts for the amendment to the debt as a debt modification. For debt that has been amended more than once in a twelve-month period, the debt terms that existed just prior to the earliest amendment occurring in the prior twelve months are applied to the 10% test, provided modification accounting was previously applied. Gains and losses on debt amendments that are considered extinguishments are recognized in current earnings. Debt amendments that are considered debt modifications are accounted for prospectively through yield adjustments, based on the revised terms. Legal fees and other costs incurred with third parties that are directly related to debt modifications are expensed as incurred and generally are included in interest expense in the consolidated statements of operations. Amounts paid by the Company to the lenders, including upfront fees and the fair value of warrants issued, are included in future cash flows for accounting treatment determination and, if debt modification is applicable, are also included in the determination of yield adjustment.

Convertible Instruments

The Company accounts for its issuance of convertible debt and convertible equity instruments in accordance with applicable U.S. GAAP. In connection with that accounting, the Company assesses the various terms and features of the agreement in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 480 "Distinguishing Liabilities from Equity" ("ASC 480") and ASC 815 "Derivatives and Hedging Activities" ("ASC 815"). ASC 480 requires liability accounting for certain financial instruments, including shares that embody an unconditional obligation to transfer a variable number of shares, provided that the monetary value of the obligation is based solely or predominantly on one of the following three characteristics: (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the issuer's equity shares or (3) variations in the fair value of the issuer's equity shares, but the monetary value to the counterparty moves in the opposite direction as the value of the issuer's shares. In accordance with ASC 815, the Company assesses the various terms and features of the agreement to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Warrants

The Company applies ASC 480 and ASC 815 to assist in the determination of whether warrants issued for the purchase of Common Stock should be classified as liabilities or equity. Warrants that are determined to require liability classification are measured at fair

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value upon issuance and are subsequently remeasured to their then fair value at each subsequent reporting period with changes in fair value recorded in current earnings. Warrants that are determined to require equity classification are measured at fair value upon issuance and are not subsequently remeasured unless they are required to be reclassified. All warrants granted by the Company to date are classified as equity

Nonmonetary Transactions

The Company accounts for goods and services exchanged in nonmonetary transactions at fair value unless the underlying exchange transaction lacks commercial substance or the fair value of the assets received or relinquished is not reasonably determinable, in which case the nonmonetary exchange would be measured based on the recorded amount of the nonmonetary asset relinquished.

Held for Sale and Discontinued Operations Classification

The Company classifies a business as held for sale in the period in which management commits to a plan to sell the business, the business is available for immediate sale in its present condition, an active program to complete the plan to sell the business is initiated, the sale of the business within one year is probable and the business is being marketed at a reasonable price in relation to its fair value.

Newly acquired businesses that meet the held-for-sale classification criteria upon acquisition are reported as discontinued operations. Upon a business' classification as held for sale, net assets are measured for impairment. Goodwill impairment is measured in accordance with the method described in the accounting policy entitled "Goodwill and Indefinite-lived Intangible Assets." An impairment loss is recorded for long-lived assets held for sale when the carrying amount of the asset exceeds its fair value less cost to sell. Other assets and liabilities are generally measured for impairment by comparing their carrying values to their respective fair values. A long-lived asset is not depreciated or amortized while it is classified as held for sale.

Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740-10, "*Accounting for Income Taxes*" which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of the ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

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 accrue either interest or penalties for the year ended December 31, 2022 or the period from February 8, 2021 (date of inception) to December 31, 2021.

Revenue Recognition

The Company recognizes revenue under the FASB ASC 606 "*Revenue from Contracts with Customers*" ("ASC 606"). The core principle of the revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to

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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
- 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

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

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Mining Pool

The Company has entered into an arrangement with a cryptocurrency mining pool (the Foundry USA Pool) to provide computing power to the mining pool in exchange for consideration. The arrangement is terminable at any time without substantial penalty by either party and the contract term is deemed to be 24 hours. The Company's enforceable right to compensation only begins when and continues while the Company provides computing power to its customer, the mining pool operator. The mining pool applies the Full Pay Per Share ("FPPS") model. Under the FPPS model, in exchange for providing computing power to the pool, the Company is entitled to pay-per-share base amount and transaction fee reward compensation, calculated on a daily basis, at an amount that approximates the total bitcoin that could have been mined and transaction fees that could have been awarded using the Company's computing power, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

Providing computing power to a mining pool for cryptocurrency transaction verification services is an output of the Company's ordinary activities. The provision of such computing power is the sole performance obligation. The transaction consideration the Company receives, if any, is non-cash consideration and is all variable. Because cryptocurrency is considered non-cash consideration, fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency in the Company's principal market at the time of contract inception, which is deemed daily. Revenue is recognized when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. After every 24-hour contract term, the mining pool transfers the cryptocurrency consideration to our designated cryptocurrency wallet.

There is no significant financing component in these transactions. There may be, however, consideration payable to the customer in the form of a pool operator fee; this fee, if any, is deducted from the proceeds the Company receives and is recorded as contra-revenue, as it does not represent a payment for a distinct good or service.

Data Center Hosting

The Company's current hosting contracts are service contracts with a single performance obligation. The service the Company provides primarily includes hosting the customers' miners in a physically secure data center with electrical power, internet connectivity, ambient air cooling and available maintenance resources. Hosting revenue is recognized over time as the customer simultaneously receives and consumes the benefits of the Company's performance. The Company recognizes hosting revenue to the extent that a significant reversal of such revenue will not occur. Data center hosting customers are invoiced and payments are due on a monthly basis. While the majority of consideration is paid in cash, certain consideration is payable in cryptocurrency. Because cryptocurrency is considered non-cash consideration, fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency in the Company's principal market at the time of contract inception. The Company has one data center hosting contract with a customer, which expires in December 2023, for which the quoted price of bitcoin in the Company's principal market at the time of contract inception was approximately $38,000. The Company recorded miner hosting revenue of $4.6 million and $0 during the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

Cryptocurrencies

Cryptocurrencies, including bitcoin, are included in current assets in the consolidated balance sheets due to the Company's ability to
sell it in a highly liquid marketplace and its intent to liquidate its cryptocurrencies to support operations when needed. Cryptocurrencies earned by the Company through the provision of computing power to a mining pool and hosting activities are accounted for in connection with the Company's revenue recognition policy disclosed above.

Cryptocurrencies are accounted for as intangible assets with indefinite useful lives. An intangible asset with an indefinite useful life is not amortized but assessed for impairment on a continuous basis through the entirety of its holding period. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the cryptocurrency at the time its fair value is being measured, which is based on the intraday low quoted price of the cryptocurrency reported in the Company's principal market. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted.

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Sales of cryptocurrencies by the Company and cryptocurrencies awarded to the Company, including as compensation for data center hosting services, are included within cash flows from operating activities on the consolidated statements of cash flows. The Company will account for its gains or losses in accordance with the first in first out ("FIFO") method of accounting. The following table presents digital currency activity (in thousands)

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Beginning balance	$ —	$ —
Bitcoin received from mining pool and hosting services	10,810	—
Impairment	(1,457)	—
Disposition	(9,170)	—
Ending balance	$ 183	$ —

Cost of Revenue

Cost of revenue for mining pool revenue is comprised primarily of direct costs of electricity, but excludes depreciation which is separately stated. Cost of revenue for data center hosting is comprised primarily of direct costs of electricity, labor and internet provision.

Stock-based Compensation

The Company periodically issues restricted stock units to employees and non-employees in non-capital raising transactions for services. In accordance with the authoritative guidance for share-based payments FASB ASC 718 "*Compensation – Stock Compensation*," the Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award. For restricted stock units, the fair value is determined by the Company's stock price on the date of grant. The Company has not issued stock options. Expense for restricted stock units and stock options is recognized on a straight-line basis over the employee's or non-employee's requisite service period. The Company accounts for forfeitures as they occur. The Company recognizes excess tax benefits or deficiencies on vesting or settlement of awards as discrete items within income tax benefit or provision within net income (loss) and the related cash flows are classified within operating activities.

Power Curtailment Credits

Payments received for participation in demand response programs are recorded as a reduction in cost of revenue in the consolidated statements of operations. The Company recorded power curtailment credits of approximately $0.1 million and $0 during the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

Loss per Share

The Company computes earnings (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic loss per share of common stock is computed by dividing the Company's net loss attributed to common stockholders (adjusted for preferred stock dividends declared or accumulated) by the weighted average number of shares of common stock outstanding during the period. Convertible preferred stock, which are participating securities because they share in a pro rata basis any dividends declared on common stock but because they do not have the obligation to share in the loss of the Company, are excluded from the calculation of basic net loss per share. Diluted loss per share reflects the effect on weighted average shares outstanding of the number of additional shares outstanding if potentially dilutive instruments, if any, were converted into common stock using the treasury stock method or as-converted method as appropriate. The computation of diluted loss per share does not include dilutive instruments in the

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weighted average shares outstanding, as they would be anti-dilutive. The Company's dilutive instruments or participating securities as of December 31, 2022 include convertible preferred stock, convertible promissory notes, common stock warrants and restricted stock units issued for services. The Company had no dilutive instruments or participating securities as of December 31, 2021. If the entire liquidation preference of the Convertible Preferred Stock (as defined in Note 14) was converted at its conversion price as of December 31, 2022, the Company would issue approximately 1.0 million shares of Common Stock. If the Convertible Notes (as defined in Note 10) were converted at the then effective conversion price as of December 31, 2022, the Company would issue approximately 8.6 million shares of Common Stock. As of December 31, 2022, Common Stock warrants outstanding were 18,972,334 with a weighted average strike price of $0.95 and total restricted stock units outstanding were 2,013,832.

Concentrations

The Company or its joint venture have contracted with two suppliers for the provision of bitcoin miners and one mining pool operator. The Company does not believe that these counterparties represent a significant performance risk. Revenue from one data center hosting customer represents 20.8% of consolidated revenue. The Company expects to operate bitcoin mining facilities. While the Company may choose to mine other cryptocurrencies in the future, it has no plans to do so currently. If the market value of bitcoin declines significantly, the consolidated financial condition and results of operations of the Company may be adversely affected.

Recent Accounting Standards

In May 2021, the FASB issued Accounting Standards Update ("ASU") 2021-04, *Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity* (Subtopic 815-40), ("ASU 2021-04"). This ASU reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. This ASU provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. It specifically addresses: (1) how an entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; (2) how an entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange; and (3) how an entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange. This ASU was effective for all entities for fiscal years beginning after December 15, 2021. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The adoption of ASU 2021-04 on January 1, 2022 did not have a material impact on the Company's consolidated financial statements or disclosures.

In June 2022, the FASB issued ASU 2022-03, "*Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*" ("ASU 2022-03"). ASU 2022-03 was issued to (1) to clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this update are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact of the accounting and disclosure requirements of ASU 2022-03 on the Company's consolidated financial statements and disclosures.

NOTE 3 – BUSINESS COMBINATION

On June 25, 2021, TeraCub entered into the Merger Agreement with RM 101 (formerly known as IKONICS Corporation), a public company registered on the National Association of Securities Dealers Automated Quotations ("Nasdaq"), pursuant to which, among other things, TeraCub would effectively acquire RM 101 and become a publicly traded company on the Nasdaq, which was the primary purpose of the business combination. The closing date of the acquisition was December 13, 2021.

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Under the terms of the Merger Agreement, each share of RM 101 common stock issued and outstanding immediately prior to the transaction close, as defined (the "Closing"), was automatically converted into and exchanged for (i) one validly issued, fully paid and nonassessable share of Common Stock of the surviving public company, TeraWulf, (ii) one contractual contingent value right ("CVR") to a Contingent Value Rights Agreement ("CVR Agreement" as discussed below) and (iii) the right to receive $5.00 in cash, without interest.

Pursuant to the CVR Agreement, each shareholder of RM 101 as of immediately prior to the Closing, received one non-transferable CVR for each outstanding share of common stock of RM 101 then held. The holders of the CVRs are entitled to receive 95% of the Net Proceeds (as defined in the CVR Agreement), if any, from the sale, transfer, disposition, spin-off, or license of all or any part of the pre-merger business of RM 101. Payments under the CVR Agreement are calculated quarterly and are subject to a reserve of up to 10% of the Gross Proceeds (as defined in the CVR Agreement) from such transaction or more under certain conditions. The CVRs do not confer to the holders thereof any voting or equity or ownership interest in TeraWulf. The CVRs are not transferable, except in limited circumstances, and will not be listed on any quotation system or traded on any securities exchange. The CVR Agreement will terminate after all payment obligations to the holders thereof have been satisfied. Holders of CVRs will not be eligible to receive payment for dispositions, if any, of any part of the pre-merger business of RM 101 after the eighteen-month anniversary of the Closing.

On April 15, 2022, a Definitive Agreement was signed whereby RM 101 agreed to sell a certain property, including a warehouse, to a third party for $7.0 million. The Definitive Agreement includes certain indemnifications which are subject to an $850,000 limitation and which expire in August 2023. No indemnification claims have been made as of the date these financial statements were available to be issued. In July 2022, the transaction price was adjusted to $6.7 million and the transaction close occurred in August 2022 with net sale proceeds of $6.2 million.

In April 2022, the Company became aware of certain potential environmental remediation that may be required on a property of RM 101. The site was enrolled in the Voluntary Investigation and Cleanup program with the Minnesota Pollution Control Agency ("MPCA"). In June 2022, the MPCA issued a No Action Determination for Soil letter regarding soil findings related to arsenic, lead, mercury and polynuclear aromatic hydrocarbons identified in the soil samples. In December 2022, the MPCA issued a Technical Assistance Letter: Completion of Soil Vapor Assessment advising of successful completion of the soil vapor investigation. The Company was not required to undertake any related remediation activities.

On August 5, 2022, an Asset Purchase Agreement (the "APA") was signed whereby RM 101 agreed to sell (i) certain property, including a warehouse and a building which houses manufacturing, operations and administration, (ii) substantially all of its working capital and (iii) its historical business to a third party for $6.5 million plus or minus the amount of actual net working capital as compared to a target net working capital. The APA was structured as an asset sale and includes a net working capital true up provision. The APA included certain indemnifications which were subject to a $650,000 limitation and a related escrow of that amount upon consummation of the transaction. Substantially all of the remaining purchase price was placed into escrow upon consummation of the transaction pending the completion of remaining aforementioned environmental testing and remediation resulting therefrom, if any. The environmental escrow would be released upon completion of any remediation work required and a receipt of a No Action Determination from the MPCA. The transaction close occurred in August 2022 with net sale proceeds of approximately $7.0 million, net of the final working capital adjustment, which is included in restricted cash in the consolidated balance sheet as of December 31, 2022. In February 2023, all escrowed funds were released to the Company.

Consideration Transferred

The following table summarizes the fair value of the aggregate consideration paid for RM 101 (in thousands):

Cash consideration	$ 13,712
Equity instruments: 1,999,525 shares of TeraWulf Inc.	40,590
Contingent consideration: Contingent Value Rights	12,000
	$ 66,302

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As of December 31, 2022, the amount recognized for the CVR contingent consideration was remeasured to a fair value of $10.9 million. The $1.1 million gain on remeasurement is included in loss from discontinued operations, net of tax in the consolidated statement of operations for the year ended December 31, 2022.

The Company's consolidated financial statements include the operating results of RM 101 beginning on December 13, 2021, the date of the acquisition. An operating loss of $6.0 million and $49.1 million related to the RM 101's business has been reflected in loss from discontinued operations, net of tax in the Company's consolidated statements of operations for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

NOTE 4 – ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Upon acquisition, the RM 101 business met the assets held-for-sale and discontinued operations criteria and is reflected as discontinued operations held for sale in these consolidated financial statements. The Company determined that the RM 101 business qualified as assets held for sale as management committed to a plan to sell the business, the business was in readily sellable form and it was deemed probable that the business would be sold in a twelve-month period. The structure of the business combination, through the CVR Agreement, contemplated the sale of the RM 101 legacy business whereby the Company would become solely a bitcoin mining focused entity. The Merger Agreement required RM 101, after the Closing, to use its reasonable best efforts to consummate a sale of its legacy business as soon as reasonably practicable. The CVR Agreement provides that 95% of the net proceeds of the disposition, as defined, of the RM 101 business accrue to the historical stockholders of RM 101 if the disposition is consummated within eighteen months from the Closing. As of December 31, 2022, all assets previously held for sale had been sold. In accordance with the CVR Agreement, on March 1, 2023, the Company made an initial distribution of $3.8 million of proceeds to the CVR holders.

The assets and liabilities of RM 101, if any, are presented separately in current assets held for sale and current liabilities held for sale, respectively, in the consolidated balance sheets at December 31, 2022 and 2021, and consist of the following (in thousands):

	December 31, 2022	December 31, 2021
Trade receivables	$ —	$ 1,327
Inventories	—	3,737
Prepaid expenses and other current assets	—	944
Property, plant and equipment	—	10,036
Intangible assets	—	3,304
Current assets held for sale	$ —	$ 19,348
Accounts payable	$ —	$ 1,207
Accrued compensation	—	439
Other accrued liabilities	—	109
Current liabilities held for sale	$ —	$ 1,755

During the year ended December 31, 2022, the Company determined that change in circumstance indicated that the then carrying amount of the RM 101's long-lived assets may not have been recoverable and recognized an impairment loss in loss on discontinued operations, net of tax of $4.5 million to write down the related carrying amounts to their fair values less estimated cost to sell. The loss

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from discontinued operations, net of tax presented in the consolidated statement of operations for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021 consists of the following (in thousands):

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Net sales	$ 10,843	$ 676
Cost of goods sold	8,129	487
Gross profit	2,714	189
Selling, general and administrative expenses	3,451	388
Research and development expenses	437	20
Impairment on remeasurement or classification as held for sale	4,541	48,887
Loss on sale of net assets held for sale	239	—
Loss from discontinued operations before other income	(5,954)	(49,106)
Interest expense	(12)	—
Other income	23	—
Loss from discontinued operations before income tax	(5,943)	(49,106)
Income tax expense	(14)	—
Loss from discontinued operations, net of tax	$ (5,957)	$ (49,106)

Loss from discontinued operations, net of tax in the consolidated statement of operations for the year ended December 31, 2022 also includes the $1.1 million gain on CVR remeasurement. Total cash flows used in operating activities from discontinued operations was $1.8 million and $3.0 million in the consolidated statements of cash flows for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

NOTE 5 – FAIR VALUE MEASUREMENTS

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-level fair value hierarchy prioritizing the inputs to valuation techniques is used to measure fair value. The levels are as follows: (Level 1) observable inputs such as quoted prices in active markets for identical assets or liabilities; (Level 2) observable inputs for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable either directly or indirectly from market data; and (Level 3) unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The following table illustrates the financial instruments measured at fair value on a non-recurring basis segregated by hierarchy fair value levels as of December 31, 2022 (in thousands):

	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Remeasurement Gain	Impairment
Contingent consideration liability - Contingent Value Rights (1)	$ 10,900	$ —	$ 10,900	$ —	$ 1,100	$ —
	$ 10,900	$ —	$ 10,900	$ —	$ 1,100	$ —

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(1) During the year ended December 31, 2022, the Company changed the valuation approach from the use of other unobservable inputs to other observable inputs based on information obtained through the active marketing and sale of the underlying assets.

The following table illustrates the financial instruments measured at fair value on a non-recurring basis segregated by hierarchy fair value levels as of December 31, 2021 (in thousands):

	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Impairment
Contingent consideration liability - Contingent Value Rights (1)	$ 12,000	$ —	$ —	$ 12,000	$ —
	$ 12,000	$ —	$ —	$ 12,000	$ —
Goodwill	$ —	$ —	$ —	$ —	$ 48,338
Long-lived assets held for sale - intangible assets (2)	3,304	—	—	3,304	136
	$ 3,304	$ —	$ —	$ 3,304	$ 48,474

(1) At December 31, 2021, the significant unobservable inputs used to estimate fair value include (1) a business enterprise value of $15.9 million, (2) an implied probability of sale of 90% and (3) estimated transaction and other deductible costs of $1.6 million. The significant unobservable inputs used in applying the income approach include a discount rate of 11.5% and a long-term growth rate of 2.5%.

(2) At December 31, 2021, the significant unobservable inputs used to estimate fair value include an attrition rate of 4% to 10% (with a weighted average of 8%) and a discount rate of 27% for customer relationships, twelve months' time to recreate for developed technology and a royalty rate of 0.5% and a discount rate of 27% for trade names.

The Company has determined the long-term debt fair value as of December 31, 2022 is approximately $124.1 million (see Note 9). The Company has determined the Convertible Notes (as defined in note 10) fair value as of December 31, 2022 approximates its book value due to the short duration between the issuance of the convertible promissory notes and December 31, 2022. The carrying values of cash and cash equivalents, restricted cash, prepaid expenses, amounts due from related parties, other current assets, accounts payable, accrued construction liabilities, other accrued liabilities and other amounts due to related parties are considered to be representative of their respective fair values principally due to their short-term maturities. There were no additional material non-recurring fair value measurements as of December 31, 2022 and 2021, except for the calculation of fair value of Common Stock warrants issued in connection with an amendment to the Company's long-term debt agreement (see Note 9) or in connection with the issuance of Common Stock (see Note 15), the change in fair value of embedded derivatives in certain of the Company's convertible promissory notes (see Note 14), the calculation of fair value of nonmonetary assets distributed from the Company's joint venture (see Note 11), the calculation of the allocation of the RM 101 purchase price to the fair values of the assets acquired and liabilities assumed and the impairment loss upon RM 101's classification as held for sale.

The Company utilized a Black-Scholes option pricing model and the application of a discount for lack of marketability ("DLOM") to value its Common Stock warrants issued in connection with the New Term Facility (as defined in Note 9). The estimated fair value of the warrants is determined using Level 3 inputs. Inherent in the model and fair value estimate are assumptions related to expected share-price volatility, expected life, risk-free interest rate, dividend yield and DLOM. The Company estimates volatility based on public company peer group volatility over the contractual term of the warrants. The risk-free interest rate is based on the U.S. Treasury rate on the grant date for a maturity similar to the expected life of the warrants, which is assumed to be equivalent to their contractual term. The dividend rate is based on the historical rate, which the Company anticipates remaining at zero. The Company applied a DLOM of 20%.

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NOTE 6 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consists of the following (in thousands):

	December 31, 2022	December 31, 2021
Miners	$ 71,114	$ —
Construction in process	32,360	20,867
Leasehold improvements	29,880	—
Equipment	7,208	19
Deposits on miners	57,626	70,560
	198,188	91,446
Less: accumulated depreciation	(6,667)	—
	$ 191,521	$ 91,446

The Company capitalizes a portion of the interest on funds borrowed to finance its capital expenditures. Capitalized interest is recorded as part of an asset's cost and is depreciated over the asset's useful life. Capitalized interest costs were $5.3 million and $94,000 for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

Depreciation expense was $6.7 million and $0 for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

NOTE 7 — LEASES

Effective in May 2021, the Company entered into a ground lease (the "Ground Lease") related to its planned bitcoin mining facility in New York with a counterparty which is a related party due to control by a member of Company management. The Ground Lease includes fixed payments and contingent payments, including an annual escalation based on the change in the Consumer Price Index as well as the Company's proportionate share of the landlord's cost to own, operate and maintain the premises. The Ground Lease originally had an initial term of five years commencing in May 2021 and a renewal term of five years at the option of the Company, subject to the Company not then being in default, as defined. In July 2022, the Ground Lease was amended to increase the initial term of the lease to eight years and to amend certain other non-financial sections to adjust environmental obligations, site access rights and leasehold mortgage rights. In September 2022, the compensation due to the landlord for entering into the lease amendment was finalized with a compensatory amount of $12.0 million, issuable in shares of Common Stock determined using a trailing volume weighted average price. In September 2022, the Company issued 8,510,638 shares in satisfaction of this obligation. The Common Stock issued had a fair value of $11.5 million at the date of issuance. The Ground Lease, which is classified as an operating lease, has been remeasured as of the date of the amendment, resulting in an increase of $11.2 million to both right-of-use asset and operating lease liability in the consolidated balance sheets. The Ground Lease remains classified as an operating lease based on the remeasurement analysis that utilized a discount rate of 12.6%, which is an estimate of the Company's incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the remeasurement date. Upon expiration of the lease, the buildings and improvements on the premises will revert to the landlord in good order. Payments under the lease commenced in 2021. For the year ended December 31, 2022, the Company recorded operating lease expense of $932,000, including contingent expense of $298,000, in operating expenses – related party in the consolidated statement of operations and made cash lease payments of $222,000 in addition to the issuance of the aforementioned Common Stock. For the period February 8, 2021 (date of inception) to December 31, 2021, the Company recorded operating lease expense of $107,000 in operating expenses – related party in the consolidated statement of operations and made no cash lease payments. The remaining lease term based on the terms of the amended Ground Lease as of December 31, 2022 is 11.4 years.

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The following is a maturity analysis of the annual undiscounted cash flows of the estimated operating lease liabilities as of December 31, 2022 (in thousands):

Year ending December 31:	
2023	$ 163
2024	163
2025	163
2026	163
2027	163
Thereafter	1,044
	$ 1,859

A reconciliation of the undiscounted cash flows to the operating lease liabilities recognized in the consolidated balance sheet as of December 31, 2022 follows (in thousands):

Undiscounted cash flows of the operating lease	$ 1,859
Unamortized discount	870
Total operating lease liability	989
Current portion of operating lease liability	42
Operating lease liability, net of current portion	$ 947

During the year ended December 31, 2022, the Company entered into a short term lease arrangement for digital currency mining equipment. The term of the operating lease was two months and concluded in May 2022. There were no variable charges under this arrangement. For the year ended December 31, 2022, lease expense related to this arrangement of $1.3 million was recorded in operating expenses in the consolidated statement of operations. The Company periodically enters into short term lease arrangements for operating equipment and recorded $398,000 under these short term lease arrangements in operating expenses in the consolidated statement of operations for the year ended December 31, 2022.

NOTE 8 – INCOME TAXES

The components of net loss before income tax for continuing operations (comprised of the total of loss before income tax and equity in net loss of investee and equity in net loss of investee, net of tax) for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021 are as follows (in thousands):

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Domestic	$ (86,190)	$ (47,192)
Foreign	—	—
Total	$ (86,190)	$ (47,192)

The Company's income tax benefit for continuing operations for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021 are as follows (in thousands):

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	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Current:		
Federal	$ —	$ —
State	—	—
Foreign	—	—
Total current income tax (benefit) expense	—	—
Deferred:		
Federal	(256)	(615)
State	—	—
Foreign	0	0
Total deferred income tax benefit	(256)	(615)
Income tax benefit	$ (256)	$ (615)

A reconciliation between income tax benefit and the expected tax benefit at the statutory rate for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021 are as follows:

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Federal statutory rate	21.0 %	21.0 %
State rate, net of federal benefit	3.0 %	— %
Non-deductible equity financing costs	— %	(2.7)%
Change in valuation allowance	(24.6)%	(17.0)%
Other items	0.9 %	— %
Effective tax rate	0.3 %	1.3 %

The significant components of the Company's deferred tax liabilities, net consist of the following at December 31, 2022 and 2021 (in thousands):

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Net operating loss	$ 21,599	$ 6,678
Share based liabilities	3,811	2,630
Accruals and reserves	1,632	470
Tax credit carryforwards	—	278
Property, plant and equipment	458	—
Operating lease liability	259	227
Investment in joint venture	1,520	—
Stock compensation	410	—
Gross deferred tax assets	29,689	10,283
Valuation allowance	(29,464)	(8,295)
Deferred tax assets, net	225	1,988
Deferred tax liabilities:		
Property, plant and equipment	—	(899)
Intangible assets	—	(723)

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Inventory	—	(407)
Right-of-use asset	(225)	(215)
Gross deferred tax liabilities	(225)	(2,244)
Deferred tax liabilities, net	$ —	$ (256)

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of available evidence, it is more likely than not that some or a portion or all the deferred tax assets will not be realized. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a valuation allowance for the total, net deferred tax assets. The increase in the December 31, 2022 valuation allowance of $21.2 million is primarily attributable to the current year net loss.

As of December 31, 2022 and, 2021, for federal income tax purposes the Company had total net operating loss carryforwards of approximately $96.3 million and $31.5 million, respectively. As of December 31, 2022, the net operating losses will have an indefinite carryforward as a result of the Tax Cuts and Jobs Act, but may be limited in utilization to 80% of taxable income. For state income tax purposes, as of December 31, 2022 and 2021 the Company had state net operating loss carryforwards of approximately $22.1 million and $0.7 million, respectively, which begin to expire in 2039.

As of December 31, 2022 and 2021, the Company has available federal research development tax credit carryforwards of approximately $0 and approximately $100,000, respectively. As of December 31, 2022 and 2021, the Company has available state research development tax credit carryforwards of approximately $0 and approximately $100,000, respectively.

Under the provisions of the Internal Revenue Code, the net operating loss and tax credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. The Company has not completed a formal study to conclude whether an annual limitation may exist. Net operating loss and tax credit carryforwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code, respectively, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on the value of the Company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years.

The Company follows the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which specifies how tax benefits for uncertain tax positions are to be recognized, measured, and recorded in consolidated financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the consolidated balance sheet; and provides transition and interim period guidance, among other provisions. At December 31, 2022 and 2021, the Company has not recorded any long-term liabilities for uncertain tax positions. The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any, in its consolidated statements of operations. For the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, no estimated interest or penalties were recognized on uncertain tax positions.

The Company files income tax returns in the U.S. federal tax jurisdiction and various state jurisdictions. Since the Company is in a loss carryforward position, the Company is generally subject to examination by the U.S. federal, state and local income tax authorities for all years in which a loss carryforward is available. The statute of limitations for assessment by federal and state tax jurisdictions in which the Company has business operations is open for the tax year ended December 31, 2022. The tax years subject to examination vary by jurisdiction.

NOTE 9 – DEBT

Promissory Notes

Between October 4, 2021 and November 19, 2021, the Company obtained loans (each, a "Loan") from its three largest stockholders in an aggregate principal amount of $25.0 million, each evidenced by a promissory note, certain of which were amended and restated

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subsequent to issuance. Interest on the unpaid principal balance of each Loan accrued at a rate of 8% per annum and was paid in kind and added to the principal balance of such Loan on a monthly basis. The outstanding principal amount of each Loan, together with all accrued and unpaid interest thereon, was due and payable in full on the earliest to occur of: (i) the issuance of equity securities by the Company or any of its subsidiaries under any offering in an amount greater than $50.0 million; and (ii) the first anniversary of the issuance date of such Loan. The Company could have prepaid the outstanding principal balance of the Loans, in whole or in part, without penalty or premium at any time prior to the applicable maturity date. In December 2021, the Loans were repaid in full.

Long-Term Debt

Long-term debt consists of the following as of December 31, 2022 and 2021 (in thousands):

	December 31, 2022	December 31, 2021
Term loan	$ 146,000	$ 123,500
Debt issuance costs and debt discount	(21,095)	(28,873)
	124,905	94,627
Less long-term debt due within one year	51,938	—
Total long-term debt, net of portion due within one year	$ 72,967	$ 94,627

On December 1, 2021, TeraCub entered into a Loan, Guaranty and Security Agreement with Wilmington Trust, National Association as administrative agent (the "LGSA"). The LGSA consists of a $123.5 million term loan facility (the "Term Loan"). On December 14, 2021, TeraWulf executed a joinder agreement whereby it effectively became the successor borrower to TeraCub and assumed all obligations under the LGSA. Prior to an amendment to the LGSA in March 2023 (see Note 19), the Company was required to pay the outstanding principal balance of the Term Loan in quarterly installments, commencing in April 2023, equal to 12.5% of the original principal amount of the Term Loan. The maturity date of the Term Loan is December 1, 2024. The Term Loan bears an interest rate of 11.5% and an upfront fee of 1%, an amount of approximately $1.2 million. Upon the occurrence and during the continuance of an event of default, as defined, the applicable interest rate will be 13.5%. Interest payments are due quarterly in arrears. The Company has the option to prepay all or any portion of the Term Loan in increments of at least $5.0 million subject to certain prepayment fees, including: (1) if paid prior to the first anniversary of the LGSA, a make whole amount based on the present value of the unpaid interest that would have been paid on the prepaid principal amount over the first year of the Term Loan, (2) if paid subsequent to the first anniversary of the LGSA but prior to the second anniversary of the LGSA, an amount of 3% of the prepaid principal and (3) if paid subsequent to the second anniversary of the LGSA but prior to the maturity date of the LGSA, an amount of 2% of the prepaid principal. Certain events, as described in the LGSA, require mandatory prepayment. The Term Loan is guaranteed by TeraWulf Inc. and TeraCub and its subsidiaries, as defined, and is collateralized by substantially all of the properties, rights and assets of TeraWulf Inc. and TeraCub and its subsidiaries (except RM 101), as defined. One Term Loan investor, NovaWulf Digital Master Fund, L.P., with a principal balance of $15.0 million, is a related party due to cumulative voting control by members of Company management and a member of the Company's board of directors. In July 2022, NovaWulf Digital Master Fund, L.P. transferred a principal balance of $13.0 million of the Term Loan to NovaWulf Digital Private Fund LLC.

In connection with the LGSA, the Company issued to the holders of the Term Loans 839,398 shares of Common Stock (the "Term Loan Equity"), which is a quantity of Common Stock which represented 1.5% of the outstanding shares of the publicly registered shares of TeraWulf subsequent to the Closing. In connection with the issuance of the Term Loans, the Company incurred aggregate issuance costs of approximately $4.0 million, in addition to the $1.2 million upfront fee. The aggregate issuance costs and the upfront fee were allocated to the Term Loan Equity and the Term Loan based on the relative fair value method in the amounts of $1.1 million and $4.1 million, respectively. For the Term Loan, this $4.1 million was included in debt discount along with the fair value of the Term Loan Equity, an amount of $25.7 million. The total of these items, an amount of $29.8 million, represents debt issuance costs and debt discount and was deducted from the Term Loan proceeds and was being accreted into the long-term debt balance over the three-year term of the debt at an effective interest rate of 12.9%, which was in addition to the stated interest rate.

In July 2022, the Company entered into an amendment to the LGSA. This amendment provides for an additional $50.0 million term loan facility (the "New Term Facility"). The New Term Facility has a maturity date of December 1, 2024, consistent with the existing term loans under the LGSA. The interest rate with respect to the New Term Facility is consistent with the existing term loans under the LGSA, but the interest rate under the amended LGSA may be increased, if applicable, to the cash interest rate on any junior capital

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raised plus 8.5%, if higher. No interest rate adjustment has been made under this provision. Pursuant to the New Term Facility, funds can be drawn in three tranches. The $15.0 million first tranche (the "First Amendment Term Loan") was drawn at closing in July 2022, and the subsequent tranches of up to $35 million (the "Delayed Draw Term Loan Commitment") may be drawn at Company's option prior to December 31, 2022, subject to certain conditions, including the raising of matching junior capital, as defined. One First Amendment Term Loan investor, NovaWulf Digital Master Fund, L.P., with a principal balance of $1.8 million, is a related party due to cumulative voting control by members of Company management and a member of the Company's board of directors. In July 2022, NovaWulf Digital Master Fund, L.P. transferred its principal balance of $1.8 million of the First Amendment Term Loan to NovaWulf Digital Private Fund LLC. The amortization with respect to the first tranche of the New Term Facility is consistent with existing term loans under the LGSA. The loans under the subsequent tranches of the New Term Facility are repayable in quarterly installments on (i) April 5, 2024 and July 8, 2024, equal to 12.50% of the original principal amount advanced under such tranches under the LGSA and (ii) October 7, 2024, equal to 37.5% of the original principal amount advanced under such tranches of the LGSA. The New Term Facility required the Company to extend the initial term of the Ground Lease from five years to eight years. The prepayment provisions remain unchanged for the Term Loan. If the New Term Facility is repaid within 121 days of July 1, 2022, then a 3% prepayment penalty is due. A prepayment thereafter results in no prepayment penalty.

In connection with the New Term Facility, the Company paid an upfront fee of $125,000 and issued warrants to the lenders under the New Term Facility to purchase 5,787,732 shares of Common Stock at $0.01 per share, an aggregate number of shares of the Company's Common Stock equal to 5.0% (comprised of 2% related to the Delayed Draw Term Loan Commitment and 3% related to the First Amendment Term Loan) of the then fully diluted equity of the Company. In connection with the issuance of the New Term Facility, the Company also incurred aggregate issuance costs of approximately $1.5 million, in addition to the aforementioned upfront fee. If the Company draws subsequent tranches, it is required to issue warrants to the lenders to purchase shares of the Company's Common Stock equal to dilution of 3.75% upon the issuance of a second tranche in the amount of $15.0 million and 4.25% upon issuance of a third tranche in the amount of $20.0 million, in each case as a percentage of the then fully diluted equity of the Company, respectively. A certain portion of the warrants issued under the warrant agreement were originally subject to cancellation, upon the occurrence of certain conditions. As of December 31, 2022, these warrants were no longer subject to cancellation and no cancellations occurred. The warrants were subject to certain vesting restrictions, which expired on September 30, 2022 or October 30, 2022.

The Company determined that debt modification accounting applies in connection with the New Term Facility. Third party and upfront fees have been allocated pro rata between the First Amendment Term Loan and the Delayed Draw Term Loan Commitment. Third-party fees of $445,000 related to the First Amendment Term loan have been expensed to interest expense in the consolidated statement of operations for the year ended December 31, 2022. Fees paid to lenders and the allocated value of the Common Stock warrants, an aggregate $3.5 million, related to the First Amendment Term Loan have been included with the unamortized discount on the Term Loan and are being amortized as an adjustment of interest expense over the remaining term of the modified LGSA at an effective rate of 13.1%.

Fees paid and the fair value of the common stock warrants related to the Delayed Draw Term Loan Commitment, an aggregate $3.4 million, were capitalized to other assets (the "Commitment Fee Asset") and were being amortized on a straight-line basis over the commitment period, which expired December 31, 2022. If a tranche of the Delayed Draw Term Loan Commitment was drawn, the then related carrying value of the Commitment Fee Asset was derecognized and a discount on debt was recorded and amortized over the term of the commitment drawn. For the year ended December 31, 2022, the Company amortized $3.1 million of the capitalized debt issuance costs and debt discount to interest expense in the consolidated statement of operations.

In October 2022, the Company entered into a third amendment (the "Third Amendment") to the LGSA. The Third Amendment divides the initial funding of up to $15.0 million of the Delayed Draw Term Loan Commitment under the LGSA into two tranches of up to $7.5 million each. The first tranche of $7.5 million was borrowed upon the effectiveness of the Third Amendment on October 7, 2022. In connection with the Third Amendment, the Company entered into an amendment and restatement of the warrant agreement related to the New Term Facility. The amended and restated warrant agreement provides that holders thereto are entitled to additional warrants to purchase an aggregate number of shares of Common Stock equal to an incremental 3.75%, to be divided into two separate increments of 1.875% each, of the fully diluted equity of the Company, determined on the date of the funding of the two separate sub-tranches of $7.5 million each pursuant to the Third Amendment. One investor, NovaWulf Digital Private Fund LLC, with a principal balance of $0.9 million of the $7.5 million borrowing, is a related party due to cumulative voting control by members of Company management and a member of the Company's board of directors. In connection with the $7.5 million tranche borrowed upon

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effectiveness of the Third Amendment, the Company issued warrants to purchase 2,667,678 shares of Common Stock at $0.01 per share. The fair value of the Common Stock warrants and the related proportional carrying value of the Commitment Fee Asset, an aggregate $2.9 million, related to Third Amendment have been included with the unamortized discount on the $7.5 million draw and are being amortized as an adjustment of interest expense over the remaining term of the LGSA at an effective rate of 25.1%.

The LGSA, as amended, requires the Company to maintain or meet certain affirmative, negative and reporting covenants. The affirmative covenants include, among other things, a requirement for the Company to maintain insurance coverage, maintain mining equipment and comply in all material respects with the Company's Nautilus joint venture agreement (see Note 11), each as defined. The negative covenants restrict or limit the Company's ability to, among other things, incur debt, create liens, divest or acquire assets, make restricted payments and permit the Company's interest in the Nautilus joint venture to be reduced below 25%, each as defined. The LGSA also contains usual and customary events of default. If an event of default occurs and is continuing, the then outstanding obligations under the LGSA may become immediately due and payable.

For the aggregate LGSA long-term debt for the year ended December 31, 2022, the Company amortized $14.2 million of the capitalized debt issuance costs and debt discount to (1) interest expense of $9.3 million in the consolidated statement of operations, (2) capitalized interest in property, plant and equipment, net of $2.6 million in the consolidated balance sheet and (3) capitalized interest in equity in net assets of investee of $2.3 million in the consolidated balance sheet. Capitalized debt issuance costs and debt discount of $21.1 million and $28.9 million are recorded as a reduction of long-term debt as of December 31, 2022 and 2021, respectively, in the consolidated balance sheets.

Principal maturities of outstanding long-term debt as of December 31, 2022 are as follows (in thousands):

Year ending December 31:	
2023	$ 51,938
2024	94,062
Total principal maturities	$ 146,000

NOTE 10 – STANDBY EQUITY PURCHASE AGREEMENT AND CONVERTIBLE PROMISSORY NOTES

Standby Equity Purchase Agreement

On June 2, 2022, the Company entered into a Standby Equity Purchase Agreement ("SEPA") with YA II PN, Ltd. ("Yorkville"). Pursuant to the SEPA, the Company had the right, but not the obligation, to sell to Yorkville up to $50,000,000 of its shares of Common Stock, at the Company's request any time during the commitment period commencing on June 2, 2022 and terminating on the earliest of (i) the first day of the month following the 36-month anniversary of the SEPA and (ii) the date on which Yorkville shall have made payment of any advances requested pursuant to the SEPA for shares of the Common Stock equal to the commitment amount of $50,000,000. Each sale the Company requested under the SEPA (an "Advance") may have been for a number of shares of Common Stock with an aggregate value of the greater of (1) an amount equal to 30% of the daily value traded, as defined, of Common Stock on the trading day prior to the delivery of the Advance notice or (2) $5,000,000. The Common Stock would have been purchased at 97.0% of the Market Price, (as defined below) and would have been subject to certain limitations, including that Yorkville could not purchase any Common Stock that would result in it owning more than 4.99% of the Company's outstanding Common Stock at the time of an Advance (the "Ownership Limitation") or an aggregate of 19.99% of the Company's outstanding Common Stock as of the date of the SEPA (the "Exchange Cap"). The Exchange Cap would no longer have applied under certain circumstances, including to any sales of common stock under the SEPA that equal or exceeds $3.04 per share of Common Stock. "Market Price" was defined in the SEPA as the average of the daily volume weighted average price, as defined, during each of the three consecutive trading days commencing on the trading day following the Company's submission of an Advance notice to Yorkville. The SEPA contained customary registration rights, representations, warranties, conditions and indemnification obligations by each party. Certain conditions precedent would have been required to have been satisfied in order for the Company to deliver a notice of Advance. These conditions included, but are not limited to, the existence of an effective registrations statement pursuant to which Yorkville is permitted to utilize the prospectus thereunder to resell all of the Common Stock issuable pursuant to the Notice. The issuance and sale of the Common Stock by the Company under the SEPA would have been made pursuant to the prospectus and prospectus supplement forming a part of the Company's shelf registration statement on Form S-3 (Registration Statement No. 333-

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262226), which was declared effective on February 4, 2022 ("the 2022 Registration Statement"), including a final prospectus supplement dated June 10, 2022.

In addition to the Company's right to request Advances, subject to certain conditions precedent, the Company had the option to, but was not obligated to, effect a pre-advance loan with a principal amount of $15.0 million through the issuance and sale to Yorkville of a convertible promissory note (the "Promissory Note"). The Company elected to issue and sell the Promissory Note to Yorkville on June 2, 2022.

Subject to the terms of the SEPA, the Company had the right to terminate the SEPA at any time, at no cost or penalty, upon five trading days' prior written notice so long as there are no outstanding Advances, no outstanding balance on the Promissory Note and no other amounts owed to Yorkville. No termination of the SEPA affects the indemnification provisions contained within the SEPA, which provisions survived a termination. The SEPA was terminated on December 20, 2022. No Advances occurred while the SEPA was outstanding.

Yorkville Convertible Promissory Note

On June 2, 2022, the Company issued the Promissory Note to Yorkville, which was issued with a 2% original issue discount, for proceeds of $14.7 million. The maturity date of the $15.0 Promissory Note was originally November 25, 2022 and the Company was required to pay the outstanding principal balance in five monthly $3.0 million payments commencing July 27, 2022. Upon reasonable advance notice, the Company had the right to defer 50% of a monthly payment amount due on two such monthly payments to later dates to be mutually agreed by the Company and Yorkville. In July 2022, $1.5 million of the $3.0 million July monthly payment amount was deferred until the October 2022 monthly payment due date. In August 2022, $1.5 million of the $3.0 million August monthly payment amount was deferred until the November 2022 monthly payment due date. The Promissory Note bore an interest rate of 4.0%. Upon the occurrence of an event of default, as defined, the applicable interest rate would have been 15% until the Promissory Note was paid in full. Interest payments were due monthly in conjunction with scheduled principal payments. The Promissory Note may have been repaid with the proceeds of an Advance or repaid in cash and, if repaid in cash, together with a cash payment premium originally of 6%, provided that if the Company's Common Stock market price, as defined, was less than $2.25 per share, the cash payment premium would have been 4%. If the Promissory Note was outstanding, the proceeds of an Advance would have been applied to the outstanding amounts due, first to outstanding interest. Under the Promissory Note, Yorkville originally had the right to convert any portion of the Promissory Note (a "Yorkville Conversion"), including accrued and unpaid interest into shares of Common Stock at a conversion price of $3.75 per share of Common Stock (the "Conversion Price"). The Conversion Price would have been adjusted for certain dilutive events or fundamental Company transactions and events, including, but not limited to, mergers, consolidations, a change of control, sale of substantially all the assets of the Company and transactions where holders of the Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock. In certain of these events, upon a Yorkville Conversion, Yorkville would have been entitled to receive such benefits as if it were a Common Share holder at the time of the underlying event. Upon any Yorkville Conversion, the Company was required to deliver in a timely manner, as defined, the Common Shares issuable per the conversion. If the Company did not deliver the Common Shares in a timely manner, as defined, Yorkville may have purchased such Common Shares (in an open market transaction or otherwise) and may have sought a cash-based or cash and stock-based remedy from the Company.

The Company had the right to redeem early a portion or all amounts outstanding under the Promissory Note provided that (1) if the market price, as defined, of the Company's Common Stock was less than or equal to the Conversion Price, the Company would have provided five trading days notice or (2) if the market price, as defined, of the Company's Common Stock was greater than the Conversion Price, (i) the Company would have provided fifteen trading days notice and (ii) the Company may only have exercised its early redemption right if Yorkville was able to exercise its rights under the SEPA. Upon receipt of a redemption notice, Yorkville would first have the right to exercise its conversion rights prior to the effectiveness of a Company redemption. The specified redemption amount would have been reduced by any Yorkville Conversion amount.

The Company shall maintain the effectiveness of a registration statement pursuant to which Yorkville is permitted to utilize the prospectus thereunder to resell all of the Common Stock issuable pursuant to the conversion of the Promissory Note. The issuance and sale of the Common Stock by the Company under the Promissory Note, including shares issued upon a Yorkville Conversion, are made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated June 10, 2022. The aggregate debt discount and debt issuance costs recorded for the Promissory Note

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was $404,000, comprised of the original issue discount of $300,000 and other debt issuance expenses of $104,000, and was originally being accreted into the Promissory Note balance over the six-month term of the Promissory Note at an effective interest rate of 7.5%, which was in addition to the stated interest rate.

In October 2022, the Company entered into an amended and restated convertible promissory note (the "A&R Promissory Note") to Yorkville which, among other things, (a) granted Yorkville, but not the Company, the right to extend the maturity date of the Promissory Note from November 25, 2022 to December 23, 2022 upon advance notice to the Company, (b) changed the then-existing repayment schedule such that all outstanding principal amounts would be due November 25, 2022, (c) changed the cash payment premium to 12% and (d) changed the conversion price from $3.75 to $1.26 per share of Common Stock. The Company determined that extinguishment of debt accounting applied because the change in the fair value of the embedded conversion feature was greater than 10% of the carrying value of the Promissory Note immediately prior to the modification. The Company recorded a loss on debt extinguishment of $2.1 million, which is included in loss on extinguishment of debt in the consolidated statement of operations for the year ended December 31, 2022. This extinguishment loss was primarily related to the change in the fair value of the embedded conversion feature of $1.6 million and the excess of the fair value of the A&R Promissory Note of $9.4 million over the carrying value of the Promissory Note immediately prior to the modification.

In November 2022, the Company entered into a second amended and restated convertible promissory note (the "Second A&R Promissory Note") to Yorkville which, among other things, (a) changed the principal repayment provisions such that $1.3 million was due by November 25, 2022, $1.7 million was due by November 29, 2022 and the balance of $6.0 million was due by December 23, 2022 and (b) changed the conversion price per share of Common Stock from $1.26 to, if lower, a variable rate based on 88% of the lowest volume weighted average price during the three trading days prior to the conversion date. The new variable conversion price would have been effective for conversions commencing December 16, 2022 and also included certain volume restrictions. The Company determined that debt modification accounting applied. The $20,000 change in the fair value of the embedded conversion feature was accounted for as a debt discount and amortized as an adjustment of interest expense over the remaining term of the Second A&R Promissory Note at an effective rate of 3.1%. The Second A&R Promissory Note was paid in full on December 13, 2022.

In aggregate for the Second A&R Promissory Note and its predecessors for the year ended December 31, 2022, the Company amortized $396,000 of the capitalized debt issuance costs and debt discount and expensed $1.1 million of contractual interest to interest expense in the consolidated statement of operations. For the year ended December 31, 2022, the Company paid cash principal payments of $15.3 million and made Common Stock principal reductions of $168,000.

Convertible Promissory Notes

In November 2022, the Company issued convertible promissory notes (the "Convertible Notes") in an aggregate principal amount of approximately $3.4 million to certain accredited investors, including to members of Company management in the amount of $1.7 million. The Convertible Notes were issued in privately negotiated transactions as part of a private placement exempt from registration under the Securities Act of 1933, as amended. The Convertible Notes, which contain usual and customary antidilution provisions, have a maturity date of April 1, 2025 and accrue annual interest at a rate of 4%, which increases to 15% upon the occurrence of an event of default, as defined. The Convertible Notes are automatically convertible into shares of equity securities of the Company upon the closing of a Qualified Financing, as defined in the Convertible Notes as the issuance and sale of equity securities with an aggregate gross sales price of not less than $5.0 million, with certain sales of equity securities excluded, at a conversion price equal to the price per share paid by the investors purchasing such equity securities in such Qualified Financing. The Convertible Notes embodied an unconditional obligation to settle a fixed monetary amount with, upon a Qualified Financing, with a variable number of shares and was initially considered potentially share settled debt. On December 12, 2022, the Company entered into a private placement (see Note 15) which met the definition of a Qualified Financing and contemporaneously amended the Convertible Notes to (a) change the conversion date to March 1, 2023 and (b) allow for the conversion price to be reduced if an additional Qualified Financing were to occur prior to the conversion date at a price lower than the then existing Convertible Note conversion price. The Company determined that debt modification accounting applies in connection with the December 12, 2022 amendment to the Convertible Notes. There was no change to the effective interest rate as the result of this amendment. As of December 31, 2022, the conversion price was $0.40 per share of Common Stock. If the Convertible Notes were converted at the conversion price as of December 31, 2022, the Company would issue approximately 8.5 million shares of Common Stock. The Convertible Notes are included in convertible promissory notes in the consolidated balance sheet as of December 31, 2022. During the year ended December 31, 2022, the Company expensed $13,000 of

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contractual interest to interest expense in the consolidated statement of operations. On January 30, 2023, the Convertible Notes were amended to change the conversion date to the third business day following the Shareholder Approval Date (as defined in Note 19). In March 2022, the Convertible Notes and accrued but unpaid interest were converted into 8,628,024 shares of Common Stock.

NOTE 11 – JOINT VENTURE

On May 13, 2021, the Company and a subsidiary of Talen Energy Corporation ("Talen") (each a "Member" and collectively the "Members") entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), to develop, construct and operate up to 300 MW of zero-carbon bitcoin mining in Pennsylvania (the "Joint Venture"). In connection with the Joint Venture, Nautilus simultaneously entered into (i) a ground lease (the "Nautilus Ground Lease"), which includes an electricity supply component, with a related party of Talen, (ii) a Facility Operations Agreement (the "FOA") with a related party of the Company and (3) a Corporate Services Agreement (the "CSA") with a related party of Talen. Each Member originally held a 50% interest in the Joint Venture. Pursuant to the terms of the Joint Venture agreement, TeraWulf would contribute $156.0 million both in cash and in-kind and Talen would contribute $156.0 million both in cash and in-kind to Nautilus by March 2022, unless otherwise determined in accordance with the Joint Venture agreement. The Company capitalizes a portion of the interest on funds borrowed to finance its investments in Nautilus prior to Nautilus commencing its principal operations. Capitalized interest costs were $4.6 million and $75,000 for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

On August 27, 2022, the Members entered into an amended and restated Joint Venture agreement ("the "A&R Agreement") whereby, among other changes, the unit ownership will be determined by infrastructure contributions while distributions of mined bitcoin will be determined by each Member's respective hashrate contributions. Members are allowed to make contributions of miners up to the effective electrical capacity of their owned infrastructure percentage. Each party retains access to 50% of the electricity supply outlined in the Nautilus Ground Lease. Additionally, the Company's scheduled capital contributions were amended such that the Company would retain a 33% ownership interest in the Joint Venture if such capital contributions were funded. With the change in ownership percentage, governance rights were amended to provide for greater Talen board participation, among other changes. The A&R Agreement amended the capital contribution schedule so that the Company's scheduled infrastructure-related capital contributions were $17.1 million. The Company targeted a 25% ownership interest in Nautilus and therefore made $7.3 million of the scheduled $17.1 million capital contributions. The Company is not obligated to fund the balance of the $17.1 million scheduled infrastructure-related capital contributions. Accordingly, the Company's ownership interest in the Joint Venture is 25.2% as of December 31, 2022.

On March 19, 2021, TeraCub executed an agreement for the purchase of bitcoin miners from MinerVA Semiconductor Corp. ("MinerVa") for a total of 30,000 MV7 miners, with originally scheduled monthly deliveries of miners each between November 2021 and January 2022, for an aggregate price of $118.5 million (the "MinerVA Purchase Agreement"). Pursuant to the MinerVA Purchase Agreement, the Company paid an initial deposit of $23.7 million. Concurrently with the execution of the Joint Venture agreement, TeraWulf assigned the MinerVA Purchase Agreement to Nautilus. During the period February 8, 2021 (date of inception) to December 31, 2021, the Company paid MinerVA $16.8 million and was reimbursed by Talen for 50% of that amount and also reimbursed by Talen an additional amount of $11.9 million related to 50% of the initial deposit paid. The balance of payments under the MinerVA Purchase Agreement were originally scheduled to be paid as follows: (i) 30% of the total price six months before the shipping date of each batch of bitcoin miners; (ii) 30% of the total price three months before the shipping date of each batch of bitcoin miners; and (iii) the remaining 20% of the total price one month before the shipping date of each batch of bitcoin miners. Production delays at MinerVA's factory impacted the initial pricing and delivery schedule. Accordingly, Nautilus and MinerVA have deemed all payments made to date to apply to the initial 9,000 miners shipped or to be shipped. As of the date at which these financial statements were available to be issued, Nautilus had not amended the MinerVA Purchase Agreement.

On June 15, 2021, Nautilus entered into two Non-fixed Price Sales and Purchase Agreements for the purchase of bitcoin miners from Bitmain Technologies Limited ("Bitmain") for a total of 30,000 S19j Pro miners, with originally scheduled monthly deliveries of 5,000 miners each between January 2022 and March 2022 under one agreement (the "Q1 2022 Bitmain Agreement') and 5,000 miners each between April 2022 and June 2022 under a second agreement (the "Q2 2022 Bitmain Agreement" and, together, the "Bitmain Purchase Agreements"). During the year ended December 31, 2022, the Company paid Bitmain $22.8 million and was reimbursed by Talen for 50% of that amount. In 2021, the Company paid Bitmain approximately $124.6 million under the Bitmain Purchase Agreements. On a net basis, the Company funded approximately $76.9 million as Talen reimbursed the Company in 2021

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approximately $47.7 million in accordance with the Joint Venture agreement. As of December 31, 2022, the Q1 2022 Bitmain Agreement has concluded with all parties performing under the contract. In September 2022, the Q2 2022 Bitmain Agreement was cancelled whereby each Member received a $31.2 million credit with Bitmain to use at the respective Member's discretion (the "Bitmain Credit"). See Note 12. The Company recorded a distribution from the Joint Venture whereby equity in net assets of investee was reduced and property, plant and equipment, net was correspondingly increased by the $31.2 million distributed credit in the consolidated balance sheet as of December 31, 2022.

In December 2022, the Company entered into a Payment Netting Agreement with Nautilus, Talen and the related party FOA and CSA agreement counterparties whereby certain amounts were owed by Nautilus to each of the FOA and CSA counterparties, including for the termination of the FOA agreement These amounts were offset to arrive at a net result whereby the Company owed the related party FOA counterparty (see Note 17) approximately $2.2 million. This amount is recorded in equity in net assets of investee in the consolidated balance sheet as of December 31, 2022.

The Company's direct payments to MinerVA and Bitmain, among others, on behalf of Nautilus for the year ended December 31, 2022, are included in investments in joint venture related to direct payments made on behalf of joint venture in the consolidated statement of cash flows. A reconciliation of amounts included within this footnote to captions in the consolidated statement of cash flows for the year ended December 31, 2022 follows (in thousands):

Payment of TeraWulf 50% share of Bitmain deposits	$ (11,402)
Investments in joint venture related to direct payments made on behalf of joint venture	(11,402)
Direct investments in joint venture	(34,796)
Investments in joint venture, including direct payments made on behalf of joint venture	$ (46,198)
Payment of Talen 50% share of Bitmain deposits	$ (11,402)
Other reimbursable payments	(339)
Reimbursable payments for deposits on plant and equipment made on behalf of joint venture or a joint venture partner	$ (11,741)
Talen reimbursement of 50% share of Bitmain deposits	$ 11,402
Other reimbursable payments	314
Reimbursement of payments for deposits on plant and equipment made on behalf of joint venture or a joint venture partner	$ 11,716

Nautilus is a VIE accounted for using the equity method of accounting. The table below summarizes the Company's interest in Nautilus and the Company's maximum exposure to loss as a result of its involvement with the VIE as of December 31, 2022 (in thousands, except for percentages):

Entity	% Ownership	Initial Investment	Additional Investment, Net	Net loss Inception to Date	Company's Variable Interest in Entity	Commitment to Future Additional Contributions (1)	Company's Maximum Exposure to Loss in Entity (2)
Nautilus	25.2 %	$ 18,000	$ 97,991	$ 17,250	$ 98,741	$ —	$ 98,741

(1) The Members may mutually agree on changes to the Pennsylvania bitcoin mining facility, which could increase the amount of contributions the Company is required to provide. The Members may seek alternate financing for the Pennsylvania bitcoin mining facility, which could reduce the amount of investments each Member may be required to provide.

(2) The maximum exposure at December 31, 2022 is determined by adding the Company's variable interest in the entity and any explicit or implicit arrangements that could require the Company to provide additional financial support. The amount represents the contractually required capital contributions of the Company which are required for the initial phase of the Pennsylvania bitcoin mining facility buildout.

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Due to the change in Member ownership percentage and governance rights under the A&R Agreement, Talen determined it controlled the Joint Venture from an accounting perspective and thereby was required to fair value the identifiable assets and liabilities of the Joint Venture for its internal accounting purposes. Under the CSA, Talen is responsible for maintaining the books and records of the Joint Venture and elected to push down the fair value adjustments to Nautilus' books and records. The Company accounts for the Joint Venture as an equity method investment and the change in ownership percentage does not impact the Company's method of accounting or basis. Therefore, there is a basis difference between the books and records of Nautilus and the Company's accounting basis in the Joint Venture. The condensed results of operations for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021 and the condensed financial position as of December 31, 2022 and 2021 of Nautilus are summarized below (in thousands):

	Year Ended December 31, 2022 (1)	Period February 8, 2021 (date of inception) to December 31, 2021
Condensed statement of operations information:		
Revenue	$ 19	$ —
Operating expense	10,823	3,076
Net loss	$ (10,804)	$ (3,076)

	December 31, 2022 (1)	December 31, 2021
Condensed balance sheet information:		
Current assets	$ 28,982	$ 4,960
Noncurrent assets	153,676	214,803
Total assets	$ 182,658	$ 219,763
Current liabilities	$ 11,984	$ 11,317
Equity	170,674	208,446
Total liabilities and equity	$ 182,658	$ 219,763

(1) The condensed statement of operations information for the year ended December 31, 2022 and the condensed balance sheet information as of December 31, 2022 reflect the impact of the Talen-estimated fair value measurements of Nautilus which, resulting from the application of ASC 805 "*Business Combinations,*" have been pushed down to the books and records of Nautilus by Talen, as discussed above. The Company's basis in the assets and liabilities of Nautilus continue to be recorded at historical value on the accompanying consolidated balance sheets.

In March 2022, the Company entered into an exchange agreement with Nautilus and the Nautilus co-venturer whereby the Company purchased 2,469 of Nautilus' Bitmain S19j Pro miners (the "Nautilus Miners") to be received under the Bitmain Purchase Agreements in exchange for an option to either (1) deliver miners that are not less favorable in all material respects to those of the Nautilus Miners (the "Exchange Miners") by July 1, 2022 or (2) incur a pro forma adjustment to Nautilus' distributions such that the Nautilus co-venturer is made whole as though the miners had not been transferred to the Company. If the Exchange Miners were not delivered by September 30, 2022, the Nautilus co-venturer would have been entitled to elect to distribute in-kind a number of miners then in possession of Nautilus comparable to the then-undelivered Exchange Miners. During the three months ended June 30, 2022, the Nautilus Miners were received and recorded at fair value to property, plant and equipment, net in the amount of $16.0 million with a corresponding recognition of an exchange miner liability of the same amount. The A&R Agreement removed the Company's obligation to deliver the Exchange Miners to the Joint Venture. Accordingly, the Company derecognized the miner exchange liability and recorded a $16.8 million reduction in equity in net assets of investee in the consolidated balance sheet as of December 31, 2022 and recorded a loss on nonmonetary miner exchange of $804,000 in the consolidated statement of operations for the year ended December 31, 2022.

In September 2022, the Company, as allowed under the A&R Agreement and because its Lake Mariner Facility was operational, transferred 2,500 Bitmain S19j Pro miners from Nautilus to its Lake Mariner Facility. Accordingly, the Company recorded the miners at an estimated fair value of $4.8 million, determined based on a contemporaneous observed market price for identical assets, in property, plant and equipment, net and the Company reduced the equity in net assets of investee balance by $16.3 million, the book value of the

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miners in Nautilus' books and records, in the consolidated balance sheet as of December 31, 2022 and recorded a loss of $11.5 million. This loss is recorded as a component of equity in net loss of investee, net of tax in the consolidated statement of operations for the year ended December 31, 2022.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company is not a party to any material legal proceedings and is not aware of any pending or threatened claims. From time to time, the Company may be subject to various legal proceedings, regulatory inquiries and claims that arise in the ordinary course of its business activities.

Bitmain Miner Purchase Agreements

On December 7, 2021, the Company entered into a Non-fixed Price Sales and Purchase Agreement with Bitmain for the purchase of 3,000 S19XP miners, with originally scheduled monthly deliveries of 500 miners each between July 2022 and December 2022 (the "Second Bitmain Purchase Agreement") for a total purchase price of $32.6 million. The Second Bitmain Purchase Agreement included liquidated damage provisions that may be applied if payments are not made within sixty days of a payment due date, if not otherwise mutually extended. No liquidated damages were applied during the duration of the agreement. For a batch of miners comprising a monthly shipment, if timely payments were made on installments then due, the Company held an option to partially or wholly cancel that batch of miners and the remaining balance on that batch would have been refunded no later than two years after such cancellation. The Company is responsible for all logistics costs related to transportation for the delivery of miners. Pursuant to the Second Bitmain Purchase Agreement, the Company paid $2.0 million during the year ended December 31, 2022 and paid an initial deposit of approximately $11.4 million in 2021. In September 2022, the Company cancelled the September and October 2022 batches and payments previously made for these monthly batches were applied to other payment obligations under the contract. Additionally, certain amounts from the Bitmain Credit have been applied to the Second Bitmain Purchase Agreement. Subsequently, the Company cancelled the November and December 2022 batches and payments previously made and credits previously applied to this agreement became available as account credits for use in new purchasing arrangements with Bitmain. The Company considers the Second Bitmain Purchase Agreement to be concluded as no further Bitmain miner deliveries or Company payments are due as of December 31, 2022.

On December 15, 2021, the Company entered into a Non-fixed Price Sales and Purchase Agreement with Bitmain for the purchase of 15,000 S19XP miners, with originally scheduled monthly deliveries of 2,500 miners each between July 2022 and December 2022 (the "Third Bitmain Purchase Agreement") for a total purchase price of $169.1 million. The Third Bitmain Purchase Agreement included liquidated damage provisions that may be applied if payments are not made within sixty days of a payment due date, if not otherwise mutually extended. No liquidated damages were applied during the duration of the agreement. For a batch of miners comprising a monthly shipment, if timely payments were made on installments then due, the Company held an option to partially or wholly cancel that batch of miners and the remaining balance on that batch would have been refunded no later than two years after such cancellation. The Company is responsible for all logistics costs related to transportation for the delivery of miners. Pursuant to the Third Bitmain Purchase Agreement, the Company paid $10.2 million during the year ended December 31, 2022 and paid an initial deposit of approximately $59.2 million in 2021. In September 2022, the Company cancelled the September and October 2022 batches and payments previously made for these monthly batches were applied to other payment obligations under the contract. Additionally, certain amounts from the Bitmain Credit have been applied to the Third Bitmain Purchase Agreement. Subsequently, the Company cancelled the November and December 2022 batches and payments previously made and credits previously applied to this agreement became available as account credits for use in new purchasing arrangements with Bitmain. The Company considers the Third Bitmain Purchase Agreement to be concluded as no further Bitmain miner deliveries or Company payments are due as of December 31, 2022..

In September 2022, the Company entered into two Future Sales and Purchase Agreements with Bitmain for the aggregate purchase of 3,400 S19XP miners and 2,700 S19 Pro miners, with originally scheduled monthly deliveries between October 2022 and January 2023 (the "September 2022 Bitmain Purchase Agreements") for a total purchase price of $23.7 million. The purchase price will be satisfied through application of the balance of the Bitmain Credit.

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In November 2022, the Company entered into two Future Sales and Purchase Agreements with Bitmain for the aggregate purchase of 3,600 S19XP miners and 2,750 S19 Pro miners, with originally scheduled monthly deliveries between November 2022 and February 2023 (the "November 2022 Bitmain Purchase Agreements") for a total purchase price of $24.9 million. The purchase price will be satisfied through application of the available account credits.

In December 2022, the Company entered into a Future Sales and Purchase Agreement with Bitmain for the aggregate purchase of 14,000 S19 Pro miners, with originally scheduled monthly deliveries commencing December 2022 (the "December 2022 Bitmain Purchase Agreement") for a total purchase price of $22.4 million. The purchase price will be satisfied through application of the available account credits.

Other Commitments

In February 2022, the Company entered into an agreement with the Power Authority of the State of New York ("NYPA") for the purchase of up to 90 MW of electric power over a term of ten years. This agreement includes certain Company site investment commitments including employment targets and capital investment targets. The allocation of 90 MW may be reduced by NYPA based on the Company's actual electricity usage, as defined and periodically measured, if lower than the allocation or if the site investment commitments are not met.

NOTE 13 – DEFINED CONTRIBUTION PLAN

The TeraWulf Inc. 401(k) Plan is a safe harbor defined contribution plan which qualified under section 401(k) of the Internal Revenue Code. A participant's right to claim a distribution of his or her account balance is dependent on the plan, Employee Retirement and Income Security Act guidelines and Internal Revenue Service regulations. All active participants are fully vested in all contributions to the 401(k) plan. During the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, the Company expensed approximately $103,000 and $55,000, respectively, for Company matching contributions.

NOTE 14 – CONVERTIBLE PREFERRED STOCK

TeraCub Redeemable Convertible Preferred Stock

In April 2021, TeraCub commenced a private placement offering of 2,000,000 shares of Series A Preferred Stock, at an original issuance price per share of $25.00, to certain individuals and accredited investors, for an aggregate amount of $50.0 million (the "Series A Private Placement"). On June 15, 2021, the Series A Private Placement concluded and was fully funded.

On December 2, 2021, TeraCub's Certificate of Incorporation was amended to provide that if the Closing under the Merger Agreement were to occur, the conversion ratio that shall apply to the conversion of shares of preferred stock immediately prior to the effective time of the Closing shall be equal to 0.8696560 shares of TeraCub common stock for each share of preferred stock. On December 13, 2021, the Closing was effected and TeraCub converted the 2,000,000 shares of preferred stock into 1,739,311 shares of common stock. No dividends were declared for the period February 8, 2021 (date of inception) to December 31, 2021.

TeraWulf Convertible Preferred Stock

In March 2022, TeraWulf entered into Series A Convertible Preferred Stock Subscription Agreements (the "Subscription Agreements") with certain accredited and institutional investors (collectively, the "Holders"). Pursuant to the Subscription Agreements, the Company sold 9,566 shares (of 10,000 shares authorized) of Series A Convertible Preferred Stock, par value $0.001 per share (the "Convertible Preferred Stock") to the Purchasers for an aggregate purchase price of $9.6 million. The Subscription Agreements contain customary representations, warranties, covenants and agreements of the Company. The offer and sale of the Convertible Preferred Stock were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement.

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Holders of the Convertible Preferred Stock will accumulate cumulative dividends at an annual rate of 10.0% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share, accumulating on a daily basis and payable quarterly on March 31st, June 30th, September 30th and December 31st, respectively, in each year and commencing June 30, 2022. Commencing June 30, 2022, unpaid dividends will be accreted to the liquidation preference. The initial liquidation preference is $1,000 per share. Holders of the Convertible Preferred Stock will also be entitled to such dividends paid to holders of the Company's Common Stock, if applicable, as if such holders of the Convertible Preferred Stock had converted their Preferred Shares into Common Stock (without regard to any limitations on conversions) and had held such shares of the Company's Common Stock on the record date for such dividends and distributions. If applicable, such payments will be made concurrently with the dividend or distribution to the holders of the Company's Common Stock. Upon liquidation, the Convertible Preferred Stock will rank senior to the Company's Common Stock, and will have the right to be paid, out of the assets of the Company legally available for distribution to its stockholders, an amount equal to the Liquidation Preference (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of the Convertible Preferred Stock. Holders of Convertible Preferred Stock will not generally have the right to vote at any meeting of stockholders, except for certain protective voting rights, as defined. The Convertible Preferred Stock does not have a maturity date.

The Holders of the Convertible Preferred Stock will have a right to effect an optional conversion of all or any whole number of shares of the Convertible Preferred Stock at any time and from time to time. The Company will have a right to effect a mandatory conversion of the Convertible Preferred Stock after the third anniversary of the issuance date if the Last Reported Sale Price (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of Common Stock exceeds 130% of the Conversion Price, as defined, on each of at least five (5) trading days (whether or not consecutive) during the fifteen consecutive trading days ending on, and including, the trading day immediately before the mandatory conversion notice date for such mandatory conversion. The number of shares of Common Stock issuable upon conversion will be equal to the liquidation preference, including accumulated and unpaid dividends, divided by the Conversion Price, as defined. The Conversion Price is determined by dividing $1,000 by the Conversion Rate, as defined, which is initially 100 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. The Conversion Rate will be adjusted for certain customary events, including (but not limited to) stock dividends, stock splits or combinations, tender offers or exchange offers and, additionally, for Fundamental Changes, as defined, to include (but are not limited to) a change in control of the Company, disposition of substantially all assets of the Company, the Company's Common Stock holders approve a plan of liquidation or dissolution or the Company's Common Stock cease to be listed on the Nasdaq Capital Market. A Fundamental Change will adjust the Conversion Rate based on the date of the Fundamental Change and the Stock Price, as defined, on such date. The Conversion rate will not exceed 125 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. If any Convertible Preferred Stock is to be converted pursuant to a Holder's optional conversion, the Company will have the option to settle such conversion in cash, as defined.

No dividends were paid during the year ended December 31, 2022. Cumulative dividends of $783,000 were accumulated and accreted to liquidation preference as of December 31, 2022. As of December 31, 2022, the aggregate liquidation preference of the Convertible Preferred Stock was approximately $10.3 million. If the entire liquidation preference of the Convertible Preferred Stock was converted at the Conversion Price, the Company would issue approximately 1.0 million shares of Common Stock.

NOTE 15 – COMMON STOCK

TeraWulf

TeraWulf Certificate of Incorporation as of December 31, 2022 (see Note 19) provides for authorized shares of 225,000,000, divided into (a) 200,000,000 shares of Common Stock, with par value of $0.001 per share and (b) 25,000,000 shares of Preferred Stock, with par value of $0.001 per share. Each holder of a share of Common Stock shall be entitled to one vote of each common share held. Each holder of a share of Preferred Stock shall not be entitled to any voting powers, except as provided in an applicable Certificate of Designations. The board of directors may authorize one or more series of Preferred Stock and may fix the number of shares in such series and the designation, powers, preferences, rights, qualifications, limitations and restrictions in respect of the shares of such series. One series of preferred stock, the Convertible Preferred Stock, was authorized as of December 31, 2022.

In February 2022, the Company entered into the At Market Issuance Sales Agreement (the "ATM Sales Agreement") with B. Riley Securities, Inc. and D.A. Davidson & Co. (collectively, the "Agents"), pursuant to which the Company may offer and sell, from time

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to time, through or to the Agents, acting as agent or principal, shares of the Company's Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million (the "Shares"). Under the Sales Agreement, the Agents are entitled to 3% of gross proceeds from sales of Common Stock under the ATM Sales Agreement. The Company is not obligated to sell any Shares under the ATM Sales Agreement. Subject to the terms and conditions of the ATM Sales Agreement, the Agents will use commercially reasonable efforts, consistent with their normal trading and sales practices, to sell Shares from time to time based upon the Company's instructions, including any price, time or size limits or other customary parameters or conditions specified by the Company. The issuance and sale of the Shares by the Company under the ATM Sales Agreement are made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated February 11, 2022.

In March 2022, the Company concluded a private placement of 271,447 of unregistered Common Stock for proceeds of $2.1 million to an entity controlled by a member of Company management (the "Subscriber"). The Subscriber shall be entitled to customary registration rights as may be reasonably agreed between the Subscriber and the Company.

In April 2022, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Cantor Fitzgerald & Co., as underwriter (the "Underwriter"), pursuant to which the Company issued and sold to the Underwriter an aggregate of 2,985,966 shares of the Company's Common Stock, par value $0.001 per share (the "April Shares"), for gross proceeds of approximately $20.6 million, before deducting underwriting discounts and commissions and offering expenses payable by the Company. The issuance and sale of the April Shares by the Company under the Underwriting Agreement are made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated April 11, 2022.

In April 2022, the Company concluded a private placement of 634,517 of unregistered Common Stock for proceeds of $5.0 million to an entity controlled by a member of Company management and to certain other significant stockholders.

In April 2022, the Company entered into a replacement sales agreement (the "April ATM Sales Agreement") with Cantor Fitzgerald & Co., B. Riley Securities, Inc. and D.A. Davidson & Co. (together the "April ATM Agents"), pursuant to which the Company may offer and sell, from time to time, through or to the April ATM Agents, shares of the Company's Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million. The April ATM Sales Agreement replaced the ATM Sales Agreement. The Company is not obligated to sell any shares under the April ATM Sales Agreement. The Company will pay the April ATM Agents a commission equal to 3.0% of the gross sales price from each sale of shares. The issuance and sale of the April Shares by the Company under the April ATM Sales Agreement are made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated April 26, 2022. During the year ended December 31, 2022, under the ATM Sales Agreement and the April ATM Sales Agreement, the Company sold 1,809,893 shares of Common Stock for net proceeds of $2.7 million and 2,910,909 shares of Common Stock for net proceeds of $9.7 million, respectively.

In October 2022, the Company entered into unit subscription agreements with certain accredited investors in privately negotiated transactions (collectively, the "October Purchasers") as part of a private placement (the "October Private Placement") exempt from registration under the Securities Act of 1933, as amended. Pursuant to the Unit Subscription Agreements, the Company sold 7,481,747 units, each consisting of one share of the Common Stock and one warrant (the "October Warrants"), exercisable at a price of $1.93 per Common Share, to the October Purchasers for an aggregate purchase price of approximately $9.4 million based on an offering price equal to the trailing 10-day volume weighted price of $1.26 for each Common Share plus one warrant. Approximately $3.5 million of the aggregate purchase price related to investments by entities controlled by members of Company management. In connection with the Unit Subscription Agreements, the Company and the October Purchasers entered into a Registration Rights Agreement, pursuant to which the Company agreed to provide customary shelf and piggyback registration rights to the October Purchasers with respect to the shares of Common Stock underlying the October Warrants. The Company allocated the proceeds between the Common Stock and the October Warrants based on the relative fair values of the financial instruments, with $5.1 million allocated to the Common Stock and $4.3 million allocated to the October Warrants. On January 30, 2023, certain of these investors agreed to amend the terms of their October Warrants such that their warrants would become exercisable only after the Shareholder Approval Date (as defined in Note 19).

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In December 2022, the Company entered into subscription agreements or unit subscription agreements with certain accredited and institutional investors in privately negotiated transactions (the "December Purchasers") as part of a private placement (the "December Private Placement") exempt from registration under the Securities Act of 1933, as amended. Pursuant to these agreements, the Company issued for an aggregate purchase price of $6.74 million (i) 16,850,000 shares of Common Stock at a purchase price of $0.40 per share of Common Stock and (ii) 11,250,000 warrants (the "December Warrants") exercisable for 8,750,000 shares of Common Stock, at an exercise price equal to $0.40 per share of Common Stock. The December Warrants become exercisable on January 16, 2023 and expire on January 31, 2023. In connection with the issuance of the December Warrants, the Company and the December Purchasers entered into a Registration Rights Agreement, pursuant to which the Company agreed to provide customary shelf and piggyback registration rights to the December Purchasers with respect to the shares of Common Stock underlying the December Warrants. The Company allocated the proceeds between the Common Stock and the December Warrants based on the relative fair values of the financial instruments, with $5.4 million allocated to the Common Stock and $1.3 million allocated to the December Warrants. In January 2023, 50% of the December Warrants were exercised for proceeds of $1.8 million while the remaining 50% of the December Warrants expired. On January 30, 2023, the Company entered into additional subscription agreements with certain December Purchasers pursuant to which such December Purchasers purchased from the Company shares of Common Stock, at a purchase price of $0.40 per share of Common Stock, in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $1.75 million (the "January Private Placement"). The January Private Placement effectively replaces 50% of the unexercised December Warrants at the same purchase price of $0.40 per share of Common Stock. The closing of the January Private Placement was subject to certain conditions, including the completion of a $30 million equity capital raise by the Company, which may be unilaterally waived by the December Purchasers, and the receipt of shareholder approval of an increase to issued and unauthorized shares of Common Stock (see Note 19). Pursuant to these Common Stock subscription agreements, the Company agreed to provide customary registration rights to the certain December Purchasers. These Common Stock subscription agreements contain customary representations, warranties, covenants and are subject to customary closing conditions and termination rights.

During the year ended December 31, 2022, 5,714,823 warrants were exercised for issuance of the same number of shares of Common Stock for aggregate proceeds to the Company of $58,000.

No dividends were declared during the year ended December 31, 2022 or the period February 8, 2021 (date of inception) to December 31, 2021.

TeraCub

Per the TeraCub Amended and Restated Certificate of Incorporation dated December 13, 2021, the total number of shares of all classes of stock authorized to be issued is 1,000 shares, all of which will be common stock with the par value of $0.001 per share. Prior to that date, TeraCub's authorized capital stock consisted of 100,000,000 shares of common stock, par value $0.001 per share, and 20,000,000 shares of preferred stock, par value $0.001 per share, with 2,000,000 shares of such authorized Preferred Stock designated as Series A Preferred Stock. Upon establishment of the Company, 44,000,000 shares of common stock were issued to the Company's founders.

In March 2021, TeraCub completed a private offering of 6,000,000 shares of common stock at a price per share of $5.00 to certain individuals, for an aggregate gross amount of $30.0 million (the "Common Stock Private Placement"), representing approximately 12% of the outstanding shares of the TeraCub's common stock subsequent to such issuance of shares. The applicable stockholders agreement provided for certain limitations on share transfer rights, for registration of shares in connection with an initial public offering, for execution of a lock-up agreement upon an initial public offering, for certain tag-along and drag-along rights and for certain preemptive rights upon future issuance of shares by TeraCub. The voting rights of common stockholders and certain board of director features including the number of directors, board composition and replacement of directors under certain conditions were circumscribed by certain stockholders which are controlled by certain members of the Company's board of directors. Proceeds of the Common Stock Private Placement were used primarily to fund the purchase of bitcoin mining equipment.

In December 2021, TeraCub completed a private offering of 2,261,932 shares of common stock at a price per share of $33.82 to certain institutional and individual investors, for gross proceeds of approximately $76.5 million (the "December Private Placement"). Additionally, in connection with the Term Loan offering, TeraCub issued 839,398 shares of common stock.

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On December 13, 2021, the Closing was effected and the then outstanding 54,840,641 shares of TeraCub common stock converted into 97,976,728 of shares of Common Stock of TeraWulf, resulting in a total of 99,976,253 shares of Common Stock of the then publicly registered TeraWulf outstanding as of that date.

No dividends were declared for the period from February 8, 2021 (date of inception) to December 31, 2021.

NOTE 16 – STOCK BASED COMPENSATION

On May 13, 2021, the Company made effective the 2021 Omnibus Incentive Plan (the "Plan") for purpose of attracting and retaining employees, consultants and directors of the Company and its affiliates by providing each the opportunity to acquire an equity interest in the Company or other incentive compensation in order to align the interests of such individuals with those of the Company's stockholders. The Plan provides for a maximum number of shares to be issued, limitations of shares to be delivered for incentive stock options and a maximum compensation amount for any non-employee member of the board of directors, among other provisions. The form of grants under the Plan includes stock options, stock appreciation rights, restricted stock and restricted stock units ("RSUs"). No grants have been made under the Plan for the period February 8, 2021 (date of inception) to December 31, 2021.

For the year ended December 31, 2022, stock-based compensation expense was $1.6 million. The following table summarizes the activities for unvested Company RSUs granted to employees and Board of Directors members during the year ended December 31, 2022:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2021	—	-
Granted	1,931,187	2.87
Vested	—	-
Forfeited/canceled	—	-
Unvested as of December 31, 2022	1,931,187	2.87

The requisite service period for grants is generally between one and three years. As of December 31, 2022, there was $4.0 million of unrecognized compensation cost related to unvested employee and Board of Directors members RSUs. The amount is expected to be recognized over a weighted average period of 1.2 years. During the year ended December 31, 2022, two RSU grants, with an initial fair value of $190,000 were made to consultants. Including cancelations, unrecognized compensation of $98,000 on the consultant grants remains outstanding as of December 31, 2022.

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NOTE 17 – RELATED PARTY TRANSACTIONS

On April 27, 2021, the Company entered into an Administrative and Infrastructure Services Agreement (the "Services Agreement") with Beowulf Electricity & Data Inc. ("Beowulf E&D"), a related party due to control by a member of Company management. Under the Services Agreement, Beowulf E&D will provide, or cause its affiliates to provide, to TeraWulf certain services necessary to build out and operate certain bitcoin mining facilities anticipated to be developed by the Company and support the Company's ongoing business, including, among others, services related to construction, technical and engineering, operations and maintenance, procurement, information technology, finance and accounting, human resources, legal, risk management and external affairs consultation. The Services Agreement has an initial term of five years and provides for certain fixed, passthrough and incentive payments to Beowulf E&D, including issuing to certain designated employees of Beowulf E&D awards with respect to shares of TeraWulf Common Stock upon the consummation of an initial public offering of TeraWulf or the consummation of a merger following which TeraWulf is listed on a nationally recognized securities exchange and, thereafter, upon achievement of certain milestones regarding bitcoin mining capacity deployed at the bitcoin mining facilities. For the base fee, the Company has agreed to pay Beowulf E&D in monthly installments an annual fee for the first year in the amount of $7.0 million and, thereafter, an annual fee equal to the greater of $10.0 million or $0.0037 per kilowatt hour of electric load utilized by the bitcoin mining facilities. The Services Agreement also provides for reimbursement of cost and expenses incurred in connection with providing the services. For the year ended December 31, 2022, the Company paid Beowulf E&D $16.9 million under the Services Agreement. Selling, general and administrative expenses– related party and operating expenses – related party in the consolidated statement of operations includes $12.6 million and $459,000, respectively, for the year ended December 31, 2022 related to the base fee and reimbursement of costs and expenses. As of December 31, 2022, $833,000 is included in prepaid expenses, $3.0 million, including $2.2 million related to the Payment Netting Agreement, is included in amounts due to related parties and $5.9 million is included in property, plant and equipment, net in the consolidated balance sheet. As of December 31, 2021, $583,000 is included in prepaid expenses, $647,000 is included in amounts due from related parties and $1.9 million is included in property, plant and equipment, net in the consolidated balance sheet.

The Services Agreement provides for performance related milestones and related incentive compensation. In connection with the listing of its Common Stock on a nationally recognized stock exchange in December 2021, pursuant to the Services Agreement, the Company agreed to issue awards valued at $12.5 million with respect to shares of its Common Stock to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. However, no awards have been issued as of the date these consolidated financial statements were available for issuance. Once the mining facilities have utilized 100MW of cryptocurrency mining load in the aggregate, and for every incremental 100 MW of cryptocurrency mining load deployed by the mining facilities in the aggregate thereafter, TeraWulf agreed to issue additional awards of shares of TeraWulf Common Stock each in the amount of $2.5 million to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. As of December 31, 2022, the Company considers it probable that the performance milestone of 100MW of mining load deployed by the mining facilities will be met. Accordingly, the Company has recognized $2.1 million in expense during the year ended December 31, 2022. As of December 31, 2022 and 2021, $14.6 million and $12.5 million, respectively, are included in share-based liabilities due to related party in the consolidated balance sheets. Performance milestone expense of $2.1 million and $12.5 million is included in selling, general and administrative expenses – related party in the consolidated statements of operation for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

In April 2021, the Company reimbursed Heorot Power Holdings LLC, a related party due to control by a member of Company management, $1.6 million related to (i) the development of bitcoin mining facilities including services and third-party costs for transmission consulting, engineering consulting, transmission system impact study costs, electricity procurement and site development costs, (ii) joint venture investigation and negotiation and (iii) certain Company organizational and legal costs. During the period February 8, 2021 (date of inception) to December 31, 2021, $697,000 was included in selling, general and administrative expense – related party in the consolidated statements of operations and $853,000 was included in operating expenses – related party in the consolidated statements of operations.

In June 2021, the Company paid a related party due to control by a member of Company management $632,000 for the purchase of certain electrical infrastructure and equipment for its planned bitcoin mining facility in New York. The certain electrical infrastructure and equipment is included in property, plant and equipment, net in the consolidated balance sheet as of December 31, 2021.

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 – UNAUDITED QUARTERLY FINANCIAL DATA

As discussed in Note 2, the Company determined that its unaudited interim consolidated financial statements for the year-to-date period ended March 31, 2022, June 30, 2022 and September 30, 2022 were materially misstated and should be restated . The table below sets forth the restatements of the impacted line items of each respective unaudited interim consolidated statement of cash flows. The error had no impact on the Company's unaudited interim consolidated balance sheets, unaudited interim consolidated statements of operations and unaudited interim consolidated statements of changes in stockholders' equity for these periods.

	Three Months Ended March 31, 2022 (unaudited)		
	As Reported	Restatement Adjustment	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Decrease in amounts due from related parties	$ 647	$ 168	$ 815
Decrease in accounts payable	$ (6,066)	$ 2,088	$ (3,978)
Decrease in accrued construction liabilities	$ (3,870)	$ 3,870	$ -
Increase in other accrued liabilities	$ 4,155	$ 601	$ 4,756
Increase in other amounts due to related parties	$ 1,246	$ (470)	$ 776
Net cash used in operating activities from continuing operations	$ (21,459)	$ 6,257	$ (15,202)
Net cash used in operating activities	$ (21,509)	$ 6,257	$ (15,252)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of and deposits on plant and equipment	$ (21,488)	$ (6,257)	$ (27,745)
Net cash used in investing activities	$ (40,560)	$ (6,257)	$ (46,817)

	Six Months Ended June 30, 2022 (unaudited)		
	As Reported	Restatement Adjustment	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Decrease in amounts due from related parties	$ 647	$ 168	$ 815
Decrease in accounts payable	$ (2,486)	$ 2,088	$ (398)
Decrease in accrued construction liabilities	$ (3,892)	$ 3,892	$ -
Increase in other accrued liabilities	$ 1,162	$ 714	$ 1,876
Increase in other amounts due to related parties	$ 982	$ (631)	$ 351
Net cash used in operating activities from continuing operations	$ (29,721)	$ 6,231	$ (23,490)
Net cash used in operating activities	$ (29,766)	$ 6,231	$ (23,535)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of and deposits on plant and equipment	$ (39,238)	$ (6,231)	$ (45,469)
Net cash used in investing activities	$ (75,687)	$ (6,231)	$ (81,918)

	Nine Months Ended September 30, 2022 (unaudited)		
	As Reported	Restatement Adjustment	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Decrease in amounts due from related parties	$ 647	$ 168	$ 815
Increase in accounts payable	$ 3,575	$ 2,088	$ 5,663
Decrease in accrued construction liabilities	$ (3,892)	$ 3,892	$ -
Increase in other accrued liabilities	$ 4,522	$ (1,985)	$ 2,537
Increase in other amounts due to related parties	$ 2,417	$ (765)	$ 1,652
Net cash used in operating activities from continuing operations	$ (31,704)	$ 3,398	$ (28,306)
Net cash used in operating activities	$ (33,007)	$ 3,398	$ (29,609)

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TERAWULF INC. AND SUBSIDIARIES

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NOTE 19 – SUBSEQUENT EVENTS

On February 23, 2023 (the "Shareholder Approval Date"), the Company held a Special Meeting of Stockholders. Two proposals were approved. The results of the matters submitted to a stockholder vote at the Special Meeting were as follows: (1) the Company's stockholders adopted a charter amendment to increase the number of authorized shares of the Company's common stock, par value $0.001 per share, from 200 million to 400 million and increase the number of the Company's preferred stock, par value $0.001 per share, from 25 million to 100 million and (2) the Company's stockholders adopted a charter amendment to remove the restriction on stockholder action by written consent.

On January 27, 2023, the Company entered into a binding term sheet with the LGSA lenders (the "Term Sheet") pursuant to which the parties agreed, subject to certain conditions, to make certain amendments to LGSA regarding amortization of LGSA principal and amending certain governance rights. On March 1, 2023, the Company entered into the Fifth Amendment. The Fifth Amendment eliminates mandatory amortization of the term loans under the LGSA through April 8, 2024, as long as the Company received aggregate net proceeds of at least $33.5 million from the issuance of equity or equity-linked securities by March 15, 2023 (such condition, the "Amortization Relief Condition"). The Company satisfied the Amortization Relief Condition on March 9, 2023. Additionally, the Fifth Amendment provides for an excess cash flow sweep, as defined, in place of scheduled principal payments, which will automatically extend to the maturity of the Term Loans on December 1, 2024 in the event the Company repays at least $40.0 million of the Term Loan by April 1, 2024. Concurrent with the execution of the Fifth Amendment, the Lenders appointed a non-voting observer to the Company's board of directors (the "Board"). The Lenders also have the right to appoint a member of the Company's Board (the "Lender Designee"), as long as such Lender Designee is reasonably acceptable to the Company. Additionally, pursuant to the Fifth Amendment, the Company established a strategic review committee which will consider and monitor the strategic direction and opportunities available to the Company and make related recommendations to the Company's Board and management. As a condition of the Fifth Amendment becoming effective, the Company entered into a warrant agreement (the "Warrant Agreement") to issue the following warrants to the lenders: (i) 26,666,669 warrants to purchase an aggregate number of shares of the Company's common stock equal to 10.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $0.01 per share Common Stock (the "Penny Warrants") and (ii) 13,333,333 warrants to purchase an aggregate number of shares of the Company's common stock equal to 5.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $1.00 per share of the Company's common stock (the "Dollar Warrants"). The Penny Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2025, and the Dollar Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2026. Both the Penny Warrants and the Dollar Warrants are subject to anti-dilution protection for any additional capital raising transaction by the Company of up to $5.0 million subsequent to the $33.5 million aggregate net proceeds associated with the Amortization Relief Condition. In connection with the issuance of the warrants pursuant to the Warrant Agreement, the Company entered into a registration rights agreement, dated as of March 1, 2023, pursuant to which the Company has agreed to provide customary shelf and piggyback registration rights to the LGSA lenders with respect to the common stock issuable upon exercise of the warrants described above.

On January 30, 2023, the Company entered into (a) subscription agreements (the "Warrant Subscription Agreements") with certain accredited investor entities controlled by members of Company management (the "Warrant Investors") pursuant to which such Warrant Investors purchased from the Company 2,380,952 warrants, each exercisable to purchase one share of the Company's Common Stock at an exercise price of $0.00001 per share of Common Stock (the "January 2023 Warrants"), in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $2.5 million, based on a price per share of Common Stock of $1.05 for a total of 2,380,952 shares of Common Stock and (b) warrant agreements (the "Warrant Agreements") with such Warrant Investors. The Warrant Agreements govern the terms and conditions of the January 2023 Warrants, which are exercisable beginning on the first business day following the date on which shareholder approval of an increase in the Company's authorized Common Stock is obtained (the "Shareholder Approval Date") and expire on December 31, 2023. In connection with the issuance of the January 2023 Warrants, the Company entered into a registration rights agreement, dated as of March 1, 2023, pursuant to which the Company has agreed to provide customary shelf and piggyback registration rights to the warrant holders with respect to the common stock issuable upon exercise of the January 2023 Warrants.

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On January 30, 2023, the Company entered into a new convertible promissory note (the "New Convertible Promissory Note") to an accredited investor in a privately negotiated transaction as part of a private placement exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act in an aggregate principal amount of $1.25 million. The New Convertible Promissory Note has a maturity date of April 1, 2025 and accrues annual interest at a rate of 4%. The New Convertible Promissory Note is automatically convertible into Common Stock on the third business day following the Shareholder Approval Date (the "Conversion Date") at a conversion price equal to the lowest price per share paid by investors purchasing equity securities in any sale of equity securities by the Company between the November 25, 2022 and the Conversion Date with an aggregate gross sales price of not less than $5 million, subject to certain exclusions set forth in the New Convertible Promissory Note. In March 2022, the New Convertible Promissory Notes and accrued but unpaid interest were converted into 3,134,932 shares of Common Stock.

On January 30, 2023, the Company entered into an exchange agreement (the "Exchange Agreement") with an entity controlled by a member of management (the "Exchanging Shareholder"). Pursuant to the Exchange Agreement, the Exchanging Shareholder exchanged a total of 12,000,000 shares of Common stock for 12,000,000 new warrants issued by the Company (the "New Exchange Warrants") in a private exchange exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act. The New Exchange Warrants will be immediately exercisable at a strike price of $0.00001 per share after the Shareholder Approval Date and will expire on December 31, 2023. The Exchanging Shareholder will be entitled to customary registration rights with respect to the shares of common stock issuable upon exercise of the New Exchange Warrants. The Exchange Agreement contains customary representations, warranties, covenants and is subject to customary closing conditions and termination rights.

In February 2023, the Company commenced an underwritten public offering of 36,764,706 shares of Common Stock at $0.68 per share (the "Offering"). JonesTrading Institutional Services LLC, as representative of the several underwriters (the "Underwriters") and pursuant to an underwriting agreement (the "Underwriting Agreement"), acted as book-running manager for the Offering. The Underwriting Agreement includes customary representations, warranties and covenants by the Company and customary conditions to closing, obligations of the parties and termination provisions. Additionally, under the terms of the Underwriting Agreement, the Company agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the Underwriters may be required to make in respect of these liabilities. Pursuant to the Underwriting Agreement, the Company granted the Underwriters a 30-day over-allotment option to purchase up to an additional 5,514,705 shares of its Common Stock, of which the Underwriters elected to purchase 4,000,000 of the over-allotment prior to the close of the Offering. The Offering closed on March 1, 2023 and the Company issued 40,764,706 shares of Common Stock and received net proceeds under the Offering of $26.6 million. The Common Stock will be issued pursuant to the Company's effective Registration Statement on Form S-3 (File No. 333-262226), previously declared effective by the Securities and Exchange Commission ("SEC") on February 4, 2022, and the preliminary prospectus supplement relating to this offering, filed on February 1, 2023.

In February 2023, the Company entered into subscription agreements with certain accredited investors (the "February Common Stock Investors"), pursuant to which the February Common Stock Investors purchased 1,386,467 shares of Common Stock at a purchase price of $0.68 per share for net proceeds to the Company of $886,000. The private placement transaction is exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act.

On March 12, 2023, Signature Bank ("SBNY") was closed by its state chartering authority, the New York State Department of Financial Services. On the same date the Federal Deposit Insurance Corporation ("FDIC") was appointed as receiver and transferred all customer deposits and substantially all of the assets of SBNY to Signature Bridge Bank, N.A., a full-service bank that is being operated by the FDIC. The FDIC, the U.S. Treasury, and the Federal Reserve jointly announced that all depositors of SBNY would be made whole, regardless of deposit insurance limits. The Company automatically became a customer of Signature Bridge Bank, N.A. as part of this action. Normal banking activities resumed on Monday, March 13, 2023. On March 29, 2023, the Company was advised by the FDIC that the Company's bank accounts would be closed on April 5, 2023 and any remaining funds as of that date would be distributed to the Company by check. As of March 30, 2023, the Company held approximately $0.9 million in the former SBNY accounts and intends to transfer all then remaining funds out of Signature Bridge Bank, N.A. by April 5, 2023.

On March 17, 2023, the "Company" received a letter from the Listing Qualifications Department (the "Staff") of The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that, based upon the closing bid price of the Company's Common Stock for the last 30 consecutive business days, the Common Stock did not meet the minimum bid price of $1.00 per share required by Nasdaq Listing Rule 5550(a)(2), initiating an automatic 180 calendar-day grace period for the Company to regain compliance. The notice has no immediate effect on the listing or trading of the Company's Common Stock, and the Common Stock will continue to trade on the

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Nasdaq Capital Market under the symbol "WULF." In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has a period of 180 calendar days from the date of the notification, or until September 13, 2023, to regain compliance with the minimum bid price requirement. The Company will regain compliance with the minimum bid price requirement if at any time before September 13, 2023, the bid price for the Company's Common Stock closes at or above $1.00 per share for a minimum of 10 consecutive business days. If the Company does not regain compliance within the allotted compliance period, including any extensions that may be granted by Nasdaq, Nasdaq will provide notice that the Common Stock will be subject to delisting from the Nasdaq Capital Market. At such time, the Company may appeal the delisting determination to a hearings panel. The Company intends to continue to monitor the bid price levels for the Common Stock and will consider appropriate alternatives to achieve compliance within the initial 180 calendar-day compliance period. There can be no assurance, however, that the Company will be able to do so.

On March 23, 2023, the Company entered into a second amended and restated limited liability company agreement for Nautilus
("the "Second A&R Nautilus Agreement"). Under the Second A&R Nautilus Agreement, the Company will hold a 25% equity interest in Nautilus and Talen will hold a 75% equity interest in Nautilus, each subject to adjustment based on relative capital contributions. Bitcoin distributions will be made every two weeks in accordance with each Member's respective hash rate contributions after deducting each Member's share of power and operational costs and cash reserves, as established by the board of managers, to fund, among other things, one month of estimated power costs and two months of budgeted expenditures. Nautilus will be governed by a board of managers comprised of one manager appointed by TeraWulf Member and four managers appointed by Cumulus Member. Generally, neither TeraWulf Member nor Cumulus Member may directly transfer any of its interests in Nautilus to any third parties without the majority consent of the board of managers, except that TeraWulf Member is entitled to transfer its interests in Nautilus if certain conditions are met. Pursuant to the terms of the Second A&R Nautilus Agreement, the Nautilus Cryptomine facility will initially require 200 MW of electric capacity, and the Talen Member may elect to expand the energy requirement by up to 100 MW, funded solely by the Talen Member, prior to May 13, 2024, for a total capacity of 300 MW. Upon such election, Nautilus will call additional capital for expansion and enter into an additional energy supply agreement with Talen Member or its affiliate for the additional capacity, subject to any regulatory approvals and third-party consents.

On March 29, 2023, TeraWulf and Beowulf E&D entered into an Amendment No. 1 to the administrative and infrastructure services agreement, pursuant to which TeraWulf agreed to pay Beowulf E&D, effective as of January 1, 2023, a reduced annual base fee equal to $8.46 million payable in monthly installments, until all obligations under the Company's Loan, Guaranty and Security Agreement dated as of December 1, 2021, as amended and restated from time to time, are either indefeasibly repaid in full or refinanced.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. In connection with this 2022 Form 10-K, our management evaluated, with the participation of our current chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of December 31, 2022, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation and in light of the material weakness in our internal control over financial reporting as described below, our Certifying Officers concluded that our disclosure controls and procedures were not effective as of December 31, 2022.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of our internal control over financial reporting. The internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and our expenditures are being made only in accordance with authorizations of management and our directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2022. In making the assessment of the effectiveness of our internal control over financial reporting, management has utilized the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, (2013 framework) ("COSO"). Based on our evaluation under the COSO criteria, our management concluded that our internal control over financial reporting was not effective as of December 31, 2022 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As part of the Company's financial statement close process and preparation of the 2022 Form 10-K, the Company identified errors in its historical interim unaudited financial statements. The misstatements relate solely to incorrectly calculating the impact of noncash activity on purchase and deposits on plant and equipment, resulting in an understatement of net cash used in investing activities and a corresponding overstatement of net cash used in operating activities as originally included in the respective unaudited consolidated statements of cash flows. The Company determined that its interim unaudited consolidated financial statements for the quarterly periods ended March 31, 2022, June 30, 2022 and September 30, 2022 were materially misstated and needed to be restated. The restatements are presented in Note 18 to the consolidated financial statements.

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As a result of the misstatements, management and the Company's audit committee have determined that a material weakness in our internal control over financial reporting existed as of December 31, 2022. The material weakness relates to the inadequate design and operation of management's review controls over identification of noncash activity on purchase and deposits on plant and equipment in the preparation in its consolidated statements of cash flows.

Restatement of Previously Issued Financial Statements

As part of the Company's financial statement close process and preparation of the 2022 Form 10-K, the Company identified errors in its historical interim unaudited financial statements. The misstatements relate solely to incorrectly calculating the impact of noncash activity on purchase and deposits on plant and equipment, resulting in an understatement of net cash used in investing activities and a corresponding overstatement of net cash used in operating activities as originally included in the respective unaudited consolidated statements of cash flows. The Company determined that its interim unaudited consolidated financial statements for the quarterly periods ended March 31, 2022, June 30, 2022 and September 30, 2022 were materially misstated and needed to be restated. The restatements are presented in Note 18 to the consolidated financial statements.

Changes in Internal Control over Financial Reporting

To remediate this material weakness, we have added procedures to our review controls related to the accounting for identification of noncash activity on purchase and deposits on plant and equipment to ensure that our consolidated financial statements are prepared in accordance with U.S. GAAP. The material weakness will not be considered remediated until management designs and implements effective controls that operate for a sufficient period of time and management has concluded, through testing, that these controls are effective.

Other as described above, there were no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects.

ITEM 9B. Other Information

Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

As part of the Company's financial statement close process and preparation of the 2022 Form 10-K, the Company identified errors in its historical interim unaudited consolidated financial statements. The misstatements relate solely to incorrectly calculating the impact of noncash activity on purchase and deposits on plant and equipment, resulting in an understatement of net cash used in investing activities and a corresponding overstatement of net cash used in operating activities as originally included in the respective unaudited consolidated statements of cash flows. The Company determined that its interim unaudited consolidated financial statements for the quarterly periods ended March 31, 2022, June 30, 2022 and September 30, 2022 were materially misstated and needed to be restated.

On March 29, 2023, the Audit Committee of the Company's Board of Directors, based on the recommendation of management of the Company and after consultation with RSM US LLP, the Company's independent registered public accounting firm, concluded that the Company's previously issued interim unaudited condensed consolidated financial statements for the first three quarters of 2022 (collectively, the "Relevant Periods"), as well as the associated earnings press releases, were materially misstated and therefore the financial statements should be restated and the financial statements and earnings press releases should no longer be relied upon.

The Company will correct for such misstatements by restating its financial information as of and for the Relevant Periods in the 2022 Form 10-K.

Additionally, the Company has determined that a material weakness existed in its internal control over financial reporting as of December 31, 2022. The material weakness relates to the inadequate design and operation of management's review controls over identification of noncash activity on purchase and deposits on plant and equipment in the preparation of the Company's consolidated statements of cash flows.

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As a result, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2022.

The Company's management and the Audit Committee have discussed the matters disclosed above with the Company's independent registered public accounting firm, RSM US LLP.

Amendment No. 1 to Administrative and Infrastructure Services Agreement

On March 29, 2023, TeraWulf and Beowulf E&D entered into Amendment No. 1 to the administrative and infrastructure services agreement, pursuant to which TeraWulf agreed to pay Beowulf E&D, effective as of January 1, 2023, a reduced annual base fee equal to $8.46 million payable in monthly installments, until all obligations under the LGSA, are either indefeasibly repaid in full or refinanced.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of TeraWulf Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of TeraWulf Inc. and its subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of Indicators of Impairment of Long-Lived Assets

As discussed in Note 2 to the consolidated financial statements, the Company reviews its long-lived assets, including property, plant and equipment, for impairment when indicators of impairment are present that indicate the carrying amount of an asset group may not be recoverable.

The Company has long-lived assets which include property, plant and equipment, net of $205.3 million and operating lease right-of-use assets of $10.9 million as of December 31, 2023. We identified the evaluation of indicators of impairment of long-lived assets as a critical audit matter given the significant judgments management utilizes in identifying whether events or changes in circumstances indicate that long-lived asset carrying amounts may not be recoverable, such as the determination of the break-even point of bitcoin prices on the Company's operating model. Auditing management's judgments required a high degree of auditor judgment and an increased extent of effort.

Our audit procedures related to management's identification of impairment indicators of long-lived assets included the following, among others:

- We evaluated management's determination of indicators of impairment by inspecting the Company's impairment analysis and performed an independent assessment of potential indicators of impairment to determine if contrary evidence existed as to the completeness of the population of identified indicators of impairment.
- We evaluated management's assessment of whether indicators of impairment were present during the reporting period by evaluating the significant assumptions used by management relating to their break-even analysis, and corroborating other industry and macroeconomic factors, such as bitcoin prices, utilized in the Company's analysis for evaluating indicators of impairment.

/s/ RSM US LLP

We have served as the Company's auditor since 2021.

Minneapolis, Minnesota
March 19, 2024

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2023 AND 2022
(In thousands, except number of shares, per share amounts and par value)

	December 31, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 54,439	$ 1,279
Restricted cash	—	7,044
Digital currency, net	1,801	183
Prepaid expenses	4,540	5,095
Other receivables	1,001	—
Other current assets	806	543
Total current assets	62,587	14,144
Equity in net assets of investee	98,613	98,741
Property, plant and equipment, net	205,284	191,521
Right-of-use asset	10,943	11,944
Other assets	679	1,337
TOTAL ASSETS	$ 378,106	$ 317,687
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 15,169	$ 21,862
Accrued construction liabilities	1,526	2,903
Other accrued liabilities	9,179	14,963
Share based liabilities due to related party	2,500	14,583
Other amounts due to related parties	972	3,295
Contingent value rights	—	10,900
Current portion of operating lease liability	48	42
Insurance premium financing payable	1,803	2,117
Convertible promissory notes	—	3,416
Current portion of long-term debt	123,465	51,938
Total current liabilities	154,662	126,019
Operating lease liability, net of current portion	899	947
Long-term debt	56	72,967
TOTAL LIABILITIES	155,617	199,933
Commitments and Contingencies (See Note 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 100,000,000 and 25,000,000 authorized at December 31, 2023 and 2022, respectively; 9,566 shares issued and outstanding at December 31, 2023 and 2022; aggregate liquidation preference of $11,423 and $10,349 at December 31, 2023 and 2022, respectively.	9,273	9,273
Common stock, $0.001 par value, 400,000,000 and 200,000,000 authorized at December 31, 2023 and 2022, respectively; 276,733,329 and 145,492,971 issued and outstanding at December 31, 2023 and 2022, respectively.	277	145
Additional paid-in capital	472,834	294,810
Accumulated deficit	(259,895)	(186,474)
Total stockholders' equity	222,489	117,754
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 378,106	$ 317,687

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In thousands, except number of shares and loss per common share)

	Year Ended December 31,	
	2023	2022
Revenue	$ 69,229	$ 15,033
Cost of revenue (exclusive of depreciation shown below)	27,315	11,083
Gross profit	41,914	3,950
Cost of operations:		
Operating expenses	2,116	2,038
Operating expenses — related party	2,773	1,248
Selling, general and administrative expenses	23,693	22,770
Selling, general and administrative expenses — related party	13,325	13,280
Depreciation	28,350	6,667
Realized gain on sale of digital currency	(3,174)	(569)
Impairment of digital currency	3,043	1,457
Loss on disposals of property, plant, and equipment	1,209	—
Loss on nonmonetary miner exchange	—	804
Total cost of operations	71,335	47,695
Operating loss	(29,421)	(43,745)
Interest expense	(34,812)	(24,679)
Loss on extinguishment of debt	—	(2,054)
Other income	231	—
Loss before income tax and equity in net loss of investee	(64,002)	(70,478)
Income tax benefit	—	256
Equity in net loss of investee, net of tax	(9,290)	(15,712)
Loss from continuing operations	(73,292)	(85,934)
Loss from discontinued operations, net of tax	(129)	(4,857)
Net loss	(73,421)	(90,791)
Preferred stock dividends	(1,074)	(783)
Net loss attributable to common stockholders	$ (74,495)	$ (91,574)
Loss per common share:		
Continuing operations	$ (0.35)	$ (0.78)
Discontinued operations	—	(0.04)
Basic and diluted	$ (0.35)	$ (0.82)
Weighted average common shares outstanding:		
Basic and diluted	209,956,392	110,638,792

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In thousands, except number of shares)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Number	Amount	Number	Amount			
Balances as of December 31, 2021	—	$ —	99,976,253	$ 100	$ 218,762	$ (95,683)	$ 123,179
Issuance of Series A Convertible Preferred Stock, net of issuance costs	9,566	9,273	—	—	—	—	9,273
Warrant issuances in conjunction with debt offerings	—	—	—	—	8,315	—	8,315
Warrant issuances in conjunction with equity offerings	—	—	—	—	5,700	—	5,700
Stock-based compensation expense	—	—	—	—	1,568	—	1,568
Warrant exercise	—	—	5,714,823	6	52	—	58
Modifications to embedded conversion feature of convertible promissory notes	—	—	—	—	1,592	—	1,592
Issuance of common stock, net of issuance costs	—	—	39,801,895	39	58,821	—	58,860
Net loss	—	—	—	—	—	(90,791)	(90,791)
Balances as of December 31, 2022	9,566	$ 9,273	145,492,971	$ 145	$ 294,810	$ (186,474)	$ 117,754
Common stock reacquired in exchange for warrants	—	—	(12,000,000)	(12)	(12,479)	—	(12,491)
Warrant issuance in conjunction with debt modification	—	—	—	—	16,036	—	16,036
Warrant offerings	—	—	—	—	14,991	—	14,991
Warrant exercise	—	—	25,871,539	27	3,500	—	3,527
Common stock offering, net of issuance costs	—	—	99,136,670	98	132,444	—	132,542
Convertible promissory notes converted to common stock	—	—	11,762,956	12	4,693	—	4,705
Common stock issued for share based liabilities due to related party	—	—	2,460,513	2	14,998	—	15,000
Stock-based compensation expense and issuance of stock	—	—	5,586,736	5	5,854	—	5,859
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(1,578,056)	—	(2,013)	—	(2,013)
Net loss	—	—	—	—	—	(73,421)	(73,421)
Balances as of December 31, 2023	9,566	$ 9,273	276,733,329	$ 277	$ 472,834	$ (259,895)	$ 222,489

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In thousands)

	Year Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (73,421)	$ (90,791)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of debt issuance costs, commitment fees and accretion of debt discount	19,515	11,676
Related party expense to be settled with respect to common stock	2,917	2,083
Common stock issued for interest expense	26	82
Stock-based compensation expense	5,859	1,568
Depreciation	28,350	6,667
Amortization of right-of-use asset	1,001	303
Increase in digital currency from mining	(63,877)	(10,810)
Impairment of digital currency	3,043	1,457
Realized gain on sale of digital currency	(3,174)	(569)
Proceeds from sale of digital currency	83,902	9,739
Loss on disposals of property, plant, and equipment	1,209	—
Loss on nonmonetary miner exchange	—	804
Loss on extinguishment of debt	—	2,054
Deferred income tax benefit	—	(256)
Equity in net loss of investee, net of tax	9,290	15,712
Loss from discontinued operations, net of tax	129	4,857
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	555	(3,601)
Decrease in amounts due from related parties	—	815
Increase in other receivables	(1,001)	—
Increase in other current assets	(215)	(46)
Decrease (increase) in other assets	310	(994)
(Decrease) increase in accounts payable	(7,272)	10,197
(Decrease) increase in other accrued liabilities	(931)	5,916
(Decrease) increase in other amounts due to related parties	(2,013)	700
(Decrease) increase in operating lease liability	(42)	175
Net cash provided by (used in) operating activities from continuing operations	4,160	(32,262)
Net cash provided by (used in) operating activities from discontinued operations	103	(1,804)
Net cash provided by (used in) operating activities	4,263	(34,066)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in joint venture, including direct payments made on behalf of joint venture	(2,845)	(46,172)
Reimbursable payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	—	(11,741)
Reimbursement of payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	—	11,716
Purchase of and deposits on plant and equipment	(75,168)	(61,116)
Proceeds from sale of net assets held for sale	—	13,266
Net cash used in investing activities	(78,013)	(94,047)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt, net of issuance costs paid of $0 and $38	—	22,462
Principal payments on long-term debt	(6,599)	—
Proceeds from insurance premium and property, plant and equipment financing	2,513	7,041
Principal payments on insurance premium and property, plant and equipment financing	(2,738)	(4,924)
Proceeds from issuance of promissory notes to stockholders	—	3,416
Proceeds from issuance of common stock, net of issuance costs paid of $1,051 and $142	135,917	47,326
Proceeds from warrant issuances in conjunction with equity offerings	2,500	5,700
Payments of tax withholding related to net share settlements of stock-based compensation awards	(2,013)	—
Proceeds from issuance of preferred stock	—	9,566
Proceeds from issuance of convertible promissory note	1,250	14,700
Principal payments on convertible promissory note	—	(15,306)
Payment of contingent value rights liability related to proceeds from sale of net assets held for sale	(10,964)	—
Net cash provided by financing activities	119,866	89,981
Net change in cash, cash equivalents and restricted cash	46,116	(38,132)

Net change in cash, cash equivalents and restricted cash	46,116	(38,132)
Cash, cash equivalents and restricted cash at beginning of period	8,323	46,455
Cash, cash equivalents and restricted cash at end of period	$ 54,439	$ 8,323
Cash paid during the period for:		
Interest	$ 19,572	$ 13,989
Income taxes	$ —	$ —

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

Organization

TeraWulf Inc. ("TeraWulf" or the "Company") is a digital asset technology company with a core business of digital infrastructure and energy development to enable sustainable bitcoin mining. TeraWulf's principal business consists of developing and operating bitcoin mining facilities in the United States that are fueled by clean, low cost and reliable power sources. The Company generates revenue in the form of bitcoin by providing hash computation services to a mining pool operator to mine bitcoin and validate transactions on the global bitcoin network using application-specific integrated circuit computers ("ASIC" or "miners") owned by the Company. The earned bitcoin are routinely sold for U.S. dollars. The Company also earns revenue by providing miner hosting services to third parties. In 2023, the Company established WULF Compute as its internal innovation center, with a specific focus on the research, development, and deployment of its expansive and scalable digital infrastructure. Subsequent to a successful pilot phase involving a compact graphics processing unit ("GPU") system designed to bolster generative AI and large language model applications, the Company made an initial commitment by allocating a 2 MW power block at the Lake Mariner Facility located in upstate New York (the "Lake Mariner Facility"). This allocation is intended to support a broader high-performance computing ("HPC") initiative, strategically aimed at diversifying the Company's revenue streams. While the Company may choose to mine other digital currencies or pursue other data center services in the future, it has no plans to do so currently.

TeraWulf currently owns and operates, either independently or through a joint venture, two bitcoin mining facilities: the Lake Mariner Facility; and the Nautilus Cryptomine Facility located in central Pennsylvania (the "Nautilus Cryptomine Facility"). The Company's wholly-owned Lake Mariner Facility began mining bitcoin in March 2022 and as of December 31, 2023, the Company had energized two buildings and additional infrastructure comprising 115 MW of capacity. Subsequent to December 31, 2023, Company energized a third building which houses an incremental 45 MW of capacity, bringing the operational infrastructure capacity at the Lake Mariner Facility to approximately 160 MW. The Nautilus Cryptomine Facility, which has been developed and constructed through a joint venture (see Note 11), commenced mining operations in February 2023 and, in April 2023, achieved full energization of the Company's allotted infrastructure capacity of 50 MW.

On December 13, 2021, TeraWulf Inc. completed a strategic business combination (the "Merger") with IKONICS Corporation ("IKONICS") , a Minnesota corporation, pursuant to which, among other things, the Company effectively acquired IKONICS and became a publicly traded company on the National Association of Securities Dealers Automated Quotations ("Nasdaq"), which was the primary purpose of the business combination. TeraWulf initially classified the IKONICS business as held for sale and discontinued operations in its consolidated financial statements. During the year ended December 31, 2022, the Company completed sales of substantially all of IKONICS' historical net assets (see Note 3). Subsequent to the asset sales, IKONICS' name was changed to RM 101 Inc. ("RM 101").

Risks and Uncertainties

Liquidity and Financial Condition

The Company incurred a net loss attributable to common stockholders of $74.5 million and generated cash flows from continuing operations of $4.2 million for the year ended December 31, 2023. As of December 31, 2023, the Company had balances of cash and cash equivalents of $54.4 million, a working capital deficiency of $92.1 million, total stockholders' equity of $222.5 million and an accumulated deficit of $259.9 million. As of December 31, 2023, the working capital deficiency included the then outstanding $139.4 million principal balance of the Company's Term Loans (See Note 9) which matures on December 1, 2024. The Company had 5.5 EH/s of operating capacity across the Lake Mariner Facility and the Nautilus Cryptomine Facility as of December 31, 2023 which increased to 7.9 EH/s upon energization of the third building at the Lake Mariner Facility during the first quarter of 2024. To date, the Company has relied primarily on proceeds from its issuances of debt and equity and sale of bitcoin, both self-mined and distributed from the joint venture which owns the Nautilus Cryptomine Facility (see Note 11), to fund its principal operations.

In accordance with development of its bitcoin mining facilities, during the year ended December 31, 2023, the Company invested approximately $75.2 million for purchases of and deposits on plant and equipment as well as $2.8 million in its joint venture. TeraWulf expects to fund its business operations and incremental infrastructure buildout primarily through

positive cash flows from operations, including sales of bitcoin, both self-mined and distributed from the joint venture which owns the Nautilus Cryptomine Facility, cash on the balance sheet and the issuance of equity securities.

During the year ended December 31, 2023, the Company accomplished several notable steps to achieve positive cash flows from operations and in the aggregate, namely: (1) the Company amended its long-term debt agreement (see Note 9) to, among other changes, remove the fixed principal amortization through April 7, 2024 and, subsequent to December 31, 2023, through maturity on December 1, 2024 (see Note 18), (2) the Company received net proceeds of $135.9 million through the issuance of shares of our common stock, par value $0.001 per share (the "Common Stock"), $2.5 million from warrant issuances in conjunction with equity offerings (see Note 15), and $1.3 million from issuance of a convertible promissory note (see Note 10), (3) the Company commenced mining activities at the Nautilus Cryptomine Facility, deems that it has funded all known and expected capital commitments at that facility, and received bitcoin distributions of $21.9 million from the joint venture which owns the Nautilus Cryptomine Facility, (4) for the existing operations at the Lake Mariner Facility in buildings one and two and at the Nautilus Cryptomine Facility, the Company received substantially all contracted miners from the miner suppliers and has no remaining outstanding financial commitments under the miner purchase agreements (see Notes 11 and 12), and (5) the construction activities at the Lake Mariner Facility for buildings one, two and three and at the Nautilus Cryptomine Facility are substantially complete as of December 31, 2023, although the Company intends to continue to expand its infrastructure. Additionally, if a business need requires its use, the Company has an active at-the-market sales agreement for sale of shares of Common Stock having an aggregate offering price of up to $200.0 million (the "ATM Sales Agreement"), which had a remaining capacity of $81.2 million and $29.8 million as of December 31, 2023 and March 19, 2024, respectively. The issuance of Common Stock under this agreement would be made pursuant to the Company's effective registration statement on Form S-3 (Registration statement No. 333-262226). As of December 31, 2023, the Company is required to pay amounts under its long-term debt agreement subject to an excess cash flow sweep, as defined, on a quarterly basis which automatically extends to the maturity of the Term Loans of December 1, 2024, in the event the Company repays at least $40.0 million of the principal balance of the Term Loans by April 1, 2024 (see Note 9). In February 2024, the Company achieved aggregate repayment of $40.0 million of the principal balance of the Term Loans, thereby automatically extending the excess cash flow sweep to December 1, 2024 (see Note 18). As of March 19, 2024, the outstanding principal balance of the Term Loans was $106.0 million. The Company has determined, based on its expected range of forecasted bitcoin prices, network hashrate, and power prices, that it is probable that it will generate positive cash flows from operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, including the Term Loans through maturity without the use of proceeds from equity offerings. Therefore, the Company determined there is not substantial doubt about the Company's ability to continue as a going concern through at least the next twelve months. The consolidated financial statements do not include any adjustments that might result from TeraWulf's possible inability to continue as a going concern.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform with current period presentation.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for (but are not limited to) such items as the fair value of contingent consideration issued in a business combination, the establishment of useful lives for property, plant and equipment and intangible assets, the impairment of held for sale assets, the fair value of equity securities or warrants to purchase common stock issued individually or as a component of a debt or equity offering, the fair value of changes to the conversion terms of embedded conversion features, the fair value and requisite service periods of stock-based compensation, the fair value of assets received in nonmonetary transactions, the establishment of right-of-use assets and lease liabilities that arise from leasing arrangements, the timing of commencement of capitalization for plant and equipment, impairment of indefinite-lived intangible assets, impairment of long-lived assets, recoverability of deferred tax assets, amortization of deferred issuance costs and debt discount, and the recording of various accruals. These estimates are made after considering past and current events and assumptions about future events. Actual results could differ from those estimates.

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

The Company recognizes revenue under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). The core principle of the 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
- 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

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Mining Pool

The Company has entered into an arrangement with a cryptocurrency mining pool (the Foundry USA Pool) to perform hash computations (i.e. hashrate) for the mining pool in exchange for consideration. Providing hash computation services to a mining pool is an output of the Company's ordinary activities. The provision of such hash computation services is the sole performance obligation. The mining pool arrangement is terminable at any time without substantial penalty by Foundry USA Pool and may be terminated without substantial penalty by the Company upon providing one Contract Day's, as defined, prior written notice. The Company's enforceable right to compensation only begins when and continues while the Company provides hash computation services to its customer, the mining pool operator. Accordingly, the

contract term with Foundry USA Pool is deemed to be less than 24 hours and to continuously renew throughout the day. Additionally, the Company concluded that the mining pool operator's (i.e., the customer's) renewal right is not a material right because the renewal rights do not include any discounts; that is, the terms, conditions, and compensation amounts are at the then-current market rates.

There is no significant financing component in these transactions.

The mining pool applies the Full Pay Per Share ("FPPS") payout model. Under the FPPS model, in exchange for providing hash computation services to the pool, the Company is entitled to pay-per-share base amount and transaction fee reward compensation, calculated on a daily basis, at an amount that approximates the total bitcoin that could have been mined and transaction fees that could have been awarded using the Company's hash computation services, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation, payable in bitcoin, regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

The transaction consideration the Company receives, if any, is noncash consideration and is all variable. Because digital currency is considered noncash consideration, fair value of the digital currency award received would generally be determined using the quoted price of the related digital currency in the Company's principal market at the time of contract inception. The Company has adopted an accounting policy to aggregate individual contracts with individual terms less than 24 hours within each intraday period and apply a consistent valuation point, the start of day Coordinated Universal Time (00:00:00 UTC), to value the related noncash consideration. Revenue is recognized when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, which is the same day that control of the contracted service transfers to the mining pool and is the same day as the contract inception. After every 24-hour contract term, the mining pool transfers the digital currency consideration to the Company's designated digital currency wallets.

Consideration payable to the customer in the form of a pool operator fee, which is incurred only to the extent that the Company has generated FPPS consideration, is deducted from the bitcoin the Company receives and is recorded as contra-revenue, as it does not represent a payment for a distinct good or service.

Data Center Hosting

The Company's current hosting contracts are service contracts with a single performance obligation. The service the Company provides primarily includes hosting the customers' miners in a physically secure data center with electrical power, internet connectivity, ambient air cooling and available maintenance resources. Hosting revenue is recognized over time as the customer simultaneously receives and consumes the benefits of the Company's performance. The Company recognizes hosting revenue to the extent that a significant reversal of such revenue will not occur. Data center hosting customers are invoiced and payments are due on a monthly basis. While the majority of consideration is paid in cash, certain consideration is payable in digital currency. Because digital currency is considered noncash consideration, fair value of the digital currency award received is determined using the quoted price of the related digital currency in the Company's principal market at the time of contract inception. The Company has one data center hosting contract with a customer, which expired in February 2024, for which the quoted price of bitcoin in the Company's principal market at the time of contract inception was approximately $38,000. The Company recorded miner hosting revenue of $7.5 million and $4.6 million during the years ended December 31, 2023 and 2022, respectively.

Cost of Revenue

Cost of revenue for mining pool revenue is comprised primarily of direct costs of electricity, but excludes depreciation which is separately presented. Cost of revenue for data center hosting is comprised primarily of direct costs of electricity, labor and internet provision.

Power Curtailment Credits

Proceeds related to participation in demand response programs are recorded as a reduction in cost of revenue in the consolidated statements of operations in the period corresponding to the underlying associated demand response program period. The Company recorded demand response program amounts of approximately $3.5 million and $0.1 million during the years ended December 31, 2023 and 2022, respectively.

Cash and Cash Equivalents

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Highly liquid instruments with an original maturity of three months or less are classified as cash equivalents. As of December 31, 2023 and December 31, 2022, the Company had cash and cash equivalents of $54.4 million and $1.3 million, respectively.

The Company maintains cash and cash equivalent balances primarily at two financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's accounts at these institutions are insured, up to $250,000, by the FDIC. As of December 31, 2023, the Company bank balances exceeded the FDIC insurance limit by $17.9 million . To reduce its risk associated with the failure of such financial institutions, the Company evaluates at least annually the rating of the financial institutions in which it holds deposits.

The Company previously held approximately $0.9 million in accounts with Signature Bank ("SBNY"). In March 2023, SBNY was closed by its state chartering authority, the New York State Department of Financial Services. On the same date the FDIC was appointed as receiver and transferred all customer deposits and substantially all of the assets of SBNY to Signature Bridge Bank, N.A., a full-service bank that is operated by the FDIC. The Company transferred all funds out of Signature Bridge Bank, N.A. by April 2023.

Restricted Cash

The Company considers cash and marketable securities to be restricted when withdrawal or general use is legally restricted. The Company reports restricted cash in the consolidated balance sheets and determines current or non-current classification based on the expected duration of the restriction. The Company had no restricted cash as of December 31, 2023. The restricted cash of $7.0 million included in the consolidated balance sheet as of December 31, 2022 was restricted primarily due to being held in escrow in accordance with an asset purchase agreement governing the sale of certain RM 101 assets (see Note 3).

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that total to the amounts shown in the consolidated statements of cash flows (in thousands):

	December 31, 2023	December 31, 2022
Cash and cash equivalents	$ 54,439	$ 1,279
Restricted cash	—	7,044
Cash, cash equivalents and restricted cash	$ 54,439	$ 8,323

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Cash Flow Information

The following table shows supplemental cash flow information (in thousands):

	Year Ended December 31,	
	2023	2022
Supplemental disclosure of noncash activities:		
Right-of-use asset obtained in exchange for lease obligation	$ —	$ 11,223
Contribution of plant and equipment or deposits on plant and equipment to joint venture	$ 35,792	$ 11,267
Deferred financing costs in accounts payable or other accrued liabilities	$ —	$ 249
Common stock issuance costs in accounts payable	$ —	$ 131
Preferred stock issuance costs in other accrued liabilities or accounts payable	$ —	$ 293
Purchases of and deposits on plant and equipment in accounts payable, accrued construction liabilities, other accrued liabilities and long-term debt	$ 5,182	$ 8,451
Purchases of and deposits on plant and equipment with digital currency	$ 437	$ —
Investment in joint venture in other accrued liabilities, other amounts due to related parties and long-term debt	$ 452	$ 5,203
Convertible promissory notes converted to common stock	$ 4,666	$ —
Convertible promissory note deferred issuance costs in accounts payable	$ —	$ 104
Common stock issued for share based liabilities due to related party	$ 15,000	$ —
Common stock issued pursuant to operating lease amendment	$ —	$ 11,489
Common stock issued for payment on convertible promissory note	$ —	$ 168
Common stock warrants issued for long-term debt commitment fee	$ —	$ 1,967
Common stock warrants issued for discount on long-term debt	$ 16,036	$ 6,348
Decrease to investment in joint venture and increase in plant and equipment for distribution or transfer of nonmonetary assets	$ 6,868	$ 51,978
Decrease to investment in joint venture due to bitcoin received as distribution from investee	$ 21,949	$ —
Common stock reacquired in exchange for warrants	$ 12,491	$ —
Change in fair value of embedded conversion feature of convertible promissory note in additional paid-in capital	$ —	$ 1,591

Nonmonetary Transactions

The Company accounts for goods and services exchanged in nonmonetary transactions at fair value unless the underlying exchange transaction lacks commercial substance or the fair value of the assets received or relinquished is not reasonably determinable, in which case the nonmonetary exchange would be measured based on the recorded amount of the nonmonetary asset relinquished.

Digital currency, net

Digital currency, net is comprised of bitcoin earned as noncash consideration in exchange for providing hash computation services to a mining pool as well as in exchange for data center hosting services which are accounted for in connection with the Company's revenue recognition policy disclosed above. From time to time, the Company also receives bitcoin as distributions-in-kind from its joint venture. Digital currency is included in current assets in the consolidated balance sheets due to the Company's ability to sell it in a highly liquid marketplace and because the Company reasonably expects to liquidate its digital currency to support operations within the next twelve months. The Company sells its digital currency on a first-in-first-out basis.

Digital currency is accounted for as intangible assets with indefinite useful lives. An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether

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it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test.

The Company has elected to bypass the optional qualitative impairment assessment and to track its bitcoin activity daily for impairment assessment purposes. The Company determines the fair value of its bitcoin on a nonrecurring basis in accordance with ASC 820, *Fair Value Measurement*, based on quoted prices on the active trading platform that the Company normally transacts and has determined is its principal market for bitcoin (Level 1 inputs), based on all information that is reasonably available. The Company performs an analysis each day to identify whether events or changes in circumstances, principally decreases in the quoted price of bitcoin on the active trading platform, indicate that it is more likely than not that its bitcoin are impaired. For impairment testing purposes, the lowest intraday trading price of bitcoin is identified at the single bitcoin level (one bitcoin). The excess, if any, of the carrying amount of bitcoin and the lowest daily trading price of bitcoin represents a recognized impairment loss. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of previously recorded impairment losses is prohibited. The Company recognized impairment of digital currency of $3.0 million and $1.5 million during the years ended December 31, 2023 and 2022, respectively.

Digital currency awarded to the Company through its mining activities are included as an adjustment to reconcile net loss to cash used in operating activities on the consolidated statements of cash flows. Proceeds from sales of digital currency are included within cash flows from operating activities on the consolidated statements of cash flows and any realized gains or losses from such sales are included in costs and operating expenses on the consolidated statements of operations. The receipt of digital currency as distributions-in-kind from equity investees are included within supplemental disclosure of noncash investing activities.

Concentrations

The Company and its joint venture have contracted with two suppliers for the provision of bitcoin miners and one mining pool operator. The Company does not believe that these counterparties represent a significant performance risk. Revenue from one data center hosting customer represents 10.9% and 20.8% of consolidated revenue for the years ended December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, the Company only operated bitcoin mining facilities; however, the Company has made an initial commitment by allocating a 2 MW power block at the Lake Mariner Facility intended to support a broader HPC initiative. While the Company may choose to mine other digital currencies or pursue other data center services in the future, it has no plans to do so currently. If the market value of bitcoin declines significantly, the consolidated financial condition and results of operations of the Company may be adversely affected.

Variable Interest Entities

Variable interest entities ("VIE") are legal entities in which equity investors do not have (i) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, or (ii) as a group, the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (iii) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. The Company would consolidate any VIE in which it has a controlling financial interest through being deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both characteristics are met, the Company considers itself to be the primary beneficiary and therefore will consolidate that VIE into its consolidated financial statements.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with a VIE and reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether an entity is a VIE and whether the Company is the primary beneficiary of a VIE is based upon facts and circumstances for the VIE and requires significant judgments such as whether the entity is a VIE, whether the Company's interest in a VIE is a variable interest, the determination of the activities that most significantly impact the economic performance of the entity, whether the Company controls those activities, and whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

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In 2021, the Company entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), with an unrelated co-venturer to develop, construct and operate up to 300 MW of zero-carbon bitcoin mining in Pennsylvania (the "Joint Venture"). Due to the initial nature of the Joint Venture and the continued commitment for additional financing, the Company determined Nautilus is a VIE. While the Company has the ability to exercise significant influence over Nautilus, the Company has determined that it does not have the power to direct the activities that most significantly impact the economic performance of Nautilus. Initially, the power to direct the activities of Nautilus that most significantly impact Nautilus' economic performance were shared equally by both parties within the Joint Venture due to the requirement for both equity holders to approve many of the key operating decisions and when not equally shared, were predominantly under the control of the co-venturer, including through the co-venturer's majority representation on the board of managers. As such, the Company has determined that it is not the primary beneficiary of Nautilus and, therefore, has accounted for this entity under the equity method of accounting. Risks associated with the Company's involvement with Nautilus include a commitment to potentially fund additional equity investments. The Company's ownership interest in Nautilus was 25% as of December 31, 2023. See Note 11 for additional information.

Equity Method of Accounting

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee company. Under the equity method of accounting, an investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of operations; however, the Company's share of the earnings or losses of the investee company is reflected in the caption "Equity in net loss of investee, net of tax" in the consolidated statements of operations. The Company's carrying value in an equity method investee company is reflected in the caption "Equity in net assets of investee" in the Company's consolidated balance sheets.

Interest related to construction of assets at equity method investee companies is capitalized when the financial statement effect of capitalization is material, construction of the asset at the equity method investee has begun, the equity method investee has not commenced its principal operations and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use, the equity method investee commences principal operations or when interest costs are no longer being incurred.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company has guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally 5 years for computer equipment and 4 years for miners). Leasehold improvements and electrical equipment are depreciated over the shorter of their estimated useful lives or the lease term. Property, plant and equipment includes deposits, amounting to approximately $36.5 million and $57.6 million as of December 31, 2023 and 2022, respectively, on purchases of such assets, including miners, which would be included in property, plant and equipment upon receipt.

Interest related to construction of assets is capitalized when the financial statement effect of capitalization is material, construction of the asset has begun, and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use or when interest costs are no longer being incurred.

Impairment of Long-lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or asset group, may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. Any impairment loss recorded is measured as the

amount by which the carrying value of the assets exceeds the fair value of the assets. During the years ended December 31, 2023 and 2022, the Company recorded no impairment charges for long-lived assets.

Leases

The Company determines if an arrangement is a lease at inception and, if so, classifies the lease as an operating or finance lease. Operating leases are included in right-of-use ("ROU") asset, current portion of operating lease liability, and operating lease liability, net of current portion in the consolidated balance sheets. Finance leases would be included in property, plant and equipment, current portion of finance lease liabilities, and finance lease liabilities, net of current portion in the consolidated balance sheets. The Company does not recognize a ROU asset or lease liability for short-term leases having initial terms of 12 months or less and instead recognizes rent expense on a straight-line basis over the lease term. In an arrangement that is determined to be a lease, the Company includes both the lease and nonlease components as a single component and accounts for it as a lease when the Company would otherwise recognize the cost associated with both the lease and nonlease components in a similar fashion.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date, and subsequently remeasured upon changes to the underlying lease arrangement, based on the present value of lease payments over the lease term. If the rate implicit in the lease is not readily determinable, the Company generally uses an estimate of its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. The ROU asset also includes any lease prepayments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Costs associated with operating lease ROU assets are recognized on a straight-line basis within operating expenses or selling, general and administrative, as appropriate, over the term of the lease. Variable lease costs are recognized as incurred and primarily consist of common area maintenance charges not included in the measurement of right-of-use assets and operating lease liabilities. Finance ROU lease assets are amortized within operating expenses or selling, general and administrative expenses, as appropriate, on a straight-line basis over the shorter of the estimated useful lives of the assets or, in the instance where title does not transfer at the end of the lease term, the lease term. The interest component of a finance lease is included in interest expense and recognized using the effective interest method over the lease term.

As of December 31, 2023 and 2022, the Company was not a counterparty to any finance leases.

Debt Issuance Costs and Debt Discount

Debt issuance costs and debt discount are recorded as a direct reduction of the carrying amount of the debt and are amortized to interest expense using the effective interest method over the contractual term of the debt and in consideration of expected future principal payments subject to an excess cash flow sweep (see Note 9). Debt issuance costs include incremental third-party costs directly related to debt issuance such as attorney and financial advisor fees. Debt discount includes upfront fees and proceeds allocated to other components included in the debt issuance. The allocation of proceeds between the debt instrument and any other components included in the debt issuance, including common stock or warrants to purchase common stock, is generally based on the relative fair value allocation method. All warrants granted by the Company as a component of debt transactions are classified as equity in the consolidated balance sheets as of December 31, 2023 and 2022.

Debt Modification

The Company evaluates amendments to its debt instruments in accordance with ASC 470-50, *Debt Modifications and Extinguishments*. This evaluation includes comparing (1) if applicable, the change in fair value of an embedded conversion option to that of the carrying amount of the debt immediately prior to amendment and (2) the net present value of future cash flows of the amended debt to that of the original debt to determine, in each case, if a change greater than 10% occurred. In instances where the net present value of future cash flows or the fair value of an embedded conversion option, if any, changed more than 10%, the Company applies extinguishment accounting. In instances where the net present value of future cash flows and the fair value of an embedded conversion option, if any, changed less than 10%, the Company accounts for the amendment to the debt as a debt modification. For debt that has been amended more than once in a twelve-month period, the debt terms that existed just prior to the earliest amendment occurring in the prior twelve months are

applied to the 10% test, provided modification accounting was previously applied. Gains and losses on debt amendments that are considered extinguishments are recognized in current earnings. Debt amendments that are considered debt modifications are accounted for prospectively through yield adjustments, based on the revised terms. Legal fees and other costs incurred with third parties that are directly related to debt modifications are expensed as incurred and generally are included in interest expense in the consolidated statements of operations. Amounts paid by the Company to the lenders, including upfront fees and the fair value of warrants issued, are included in future cash flows for accounting treatment determination and, if debt modification is applicable, are also included in the determination of yield adjustment.

Convertible Instruments

The Company accounts for its issuance of convertible debt and convertible equity instruments in accordance with applicable U.S. GAAP. In connection with that accounting, the Company assesses the various terms and features of the agreement in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"), and ASC 815, *Derivatives and Hedging Activities* ("ASC 815"). ASC 480 requires liability accounting for certain financial instruments, including shares that embody an unconditional obligation to transfer a variable number of shares, provided that the monetary value of the obligation is based solely or predominantly on one of the following three characteristics: (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the issuer's equity shares or (3) variations in the fair value of the issuer's equity shares, but the monetary value to the counterparty moves in the opposite direction as the value of the issuer's shares. In accordance with ASC 815, the Company assesses the various terms and features of the agreement to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in the current period's operating results.

Warrants

The Company applies ASC 480 and ASC 815 to assist in the determination of whether warrants issued for the purchase of Common Stock should be classified as liabilities or equity. Warrants that are determined to require liability classification are measured at fair value upon issuance and are subsequently remeasured to their then fair value at each subsequent reporting period with changes in fair value recorded in current earnings. Warrants that are determined to require equity classification are measured at fair value upon issuance and are not subsequently remeasured unless they are required to be reclassified. As of December 31, 2023, all outstanding warrants granted by the Company were classified as equity.

Stock Issuance Costs

Stock issuance costs are recorded as a reduction to issuance proceeds. Stock issuance costs incurred prior to the closing of the related issuances, including under shelf registration statements, are recorded in other assets in the consolidated balance sheets if the closing of the related issuance is deemed probable.

Stock-based Compensation

The Company periodically issues restricted stock units ("RSU") to employees and non-employees in non-capital raising transactions for services. In accordance with ASC 718, *Compensation – Stock Compensation* ("ASC 718"), the Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award. For RSUs with time-based vesting, the fair value is determined by the Company's stock price on the date of grant. For RSUs with vesting based on market conditions, the effect of the market condition is considered in the determination of fair value on the grant date using a Monte Carlo simulation model. As of December 31, 2023, the Company has not issued stock options.

Expense for RSUs is recognized on a straight-line basis over the employee's or non-employee's requisite service period, including the derived service period for RSUs with market conditions. Stock-based compensation for RSUs with market conditions is recorded over the derived service period unless the market condition is satisfied in advance of the derived service period, in which case a cumulative catch-up is recognized as of the date of achievement. Stock-based compensation for RSUs with market conditions is recorded regardless of whether the market conditions are met unless the service conditions are not met. The Company accounts for forfeitures as they occur. The Company recognizes excess tax benefits or deficiencies on vesting or settlement of awards as discrete items within income tax benefit or provision within net loss and the related cash flows are classified within operating activities.

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Other Income

Other income consists primarily of interest income on bank deposits. The Company recorded other income of $39,000 and $0 during the years ended December 31, 2023 and 2022, respectively, related to a disgorgement of short-swing profits arising from trades by a non-management insider under Section 16(b) of the Securities and Exchange Act of 1934.

Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740, *Accounting for Income Taxes* ("ASC 740"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of ASC 740 related to accounting for uncertain income tax positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

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 accrue either interest or penalties for the years ended December 31, 2023 or 2022.

Loss per Share

The Company computes earnings (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic loss per share of common stock is computed by dividing the Company's net loss attributed to common stockholders (adjusted for preferred stock dividends declared or accumulated) by the weighted average number of shares of common stock outstanding during the period. Convertible preferred stock, which are participating securities because they share in a pro rata basis any dividends declared on common stock but because they do not have the obligation to share in the loss of the Company, are excluded from the calculation of basic net loss per share. Diluted loss per share reflects the effect on weighted average shares outstanding of the number of additional shares outstanding if potentially dilutive instruments, if any, were converted into common stock using the treasury stock method or as-converted method as appropriate. The computation of diluted loss per share does not include dilutive instruments in the weighted average shares outstanding, as they would be anti-dilutive. The Company's dilutive instruments or participating securities as of December 31, 2023 include convertible preferred stock, common stock warrants, and RSUs issued for services. The Company's dilutive instruments or participating securities as of December 31, 2022 included convertible preferred stock, convertible promissory notes, common stock warrants and RSUs issued for services. If the entire liquidation preference of the Convertible Preferred Stock (as defined in Note 14) was converted at its conversion price as of December 31, 2023, the Company would issue approximately 1.1 million shares of Common Stock. As of December 31, 2023, Common Stock warrants outstanding were 49,120,642 with a weighted average strike price of $0.58 and total RSUs outstanding were 6,342,141.

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Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision–making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision–making group ("CODM") is composed of the chief executive officer, chief operating officer and chief strategy officer. Currently, the Company solely operates in the Digital Currency Mining segment. The Company's mining operations are located in the United States, and the Company has employees only in the United States and views its mining operations as one operating segment as the CODM reviews financial information on a consolidated basis in making decisions regarding resource allocations and assessing performance. Prior to the sale of substantially all of RM 101's assets, through its ownership of RM 101, the Company operated in the Imaging Technology segment. TeraWulf classified the RM 101 segment as held for sale and discontinued operations in these consolidated financial statements (see Note 3).

Held for Sale and Discontinued Operations Classification

The Company classifies a business as held for sale in the period in which management commits to a plan to sell the business, the business is available for immediate sale in its present condition, an active program to complete the plan to sell the business is initiated, the sale of the business within one year is probable and the business is being marketed at a reasonable price in relation to its fair value.

Newly acquired businesses that meet the held-for-sale classification criteria upon acquisition are reported as discontinued operations. Upon a business' classification as held for sale, net assets are measured for impairment. An impairment loss is recorded for long-lived assets held for sale when the carrying amount of the asset exceeds its fair value less cost to sell. Other assets and liabilities are generally measured for impairment by comparing their carrying values to their respective fair values. A long-lived asset is not depreciated or amortized while it is classified as held for sale.

Recent Accounting Standards

In June 2022, the FASB issued Accounting Standards Update ("ASU") No. 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* ("ASU 2022-03"). ASU 2022-03 was issued to (1) to clarify the guidance in Topic 820, *Fair Value Measurement*, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this update are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact of the accounting and disclosure requirements of ASU 2022-03 on the Company's consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets* ("ASU 2023-08"). ASU 2023-08 was issued to improve the accounting for and disclosure of crypto assets by requiring entities to subsequently measure crypto assets at fair value with changes recognized in net income each reporting period. This ASU also requires that entities present (1) crypto assets measured at fair value separately from other intangible assets in the balance sheet, and (2) changes from the remeasurement of crypto assets separately from the changes in carrying amounts of other intangible assets in the income statement. Additionally, ASU 2023-08 requires that entities present cash receipts arising from crypto assets that are received as noncash consideration in the ordinary course of business and are converted nearly immediately into cash as operating activities. The amendments in this update are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact of the accounting and disclosure requirements of ASU 2023-08 on the Company's consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"). ASU 2023-09 expands existing income tax disclosures for rate reconciliations by requiring disclosure of certain specific categories and additional reconciling items that meet the quantitative threshold and expands disclosures for income taxes paid by requiring disaggregation by certain jurisdictions , amount of income taxes separated by federal and individual jurisdiction, and the amount of income (loss) from continuing operations before income tax expense (benefit) disaggregated between federal, state, and foreign. The amendments in this update are effective for fiscal

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years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting the standard.

NOTE 3 – BUSINESS COMBINATION, ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On December 13, 2021, the Company completed the Merger with RM 101 (formerly known as IKONICS Corporation) pursuant to which, among other things, the Company effectively acquired RM 101 and became a publicly traded company on the Nasdaq. The consideration in the Merger included, among other things, contractual contingent value rights ("CVR") per a Contingent Value Rights Agreement (the "CVR Agreement"). Pursuant to the CVR Agreement, each shareholder of RM 101 as of immediately prior to the Merger, received one non-transferable CVR for each outstanding share of common stock of RM 101 then held. The holders of the CVRs were entitled to receive 95% of the Net Proceeds (as defined in the CVR Agreement), if any, from the sale, transfer, disposition, spin-off, or license of all or any part of the pre-merger business of RM 101. Payments under the CVR Agreement were calculated quarterly, paid on the sixtieth day after the respective quarterly calculation period and were subject to a reserve of up to 10% of the Gross Proceeds (as defined in the CVR Agreement) from such transaction or more under certain conditions. The CVRs did not confer to the holders thereof any voting or equity or ownership interest in TeraWulf. The CVRs were not transferable, except in limited circumstances, and were not listed on any quotation system or traded on any securities exchange. The CVR Agreement terminated after all payment obligations to the holders thereof were satisfied.

In August 2022, RM 101 sold a certain property, including a warehouse, to a third party for $6.7 million gross with net sale proceeds of $6.2 million. The agreement governing the sale included certain indemnifications which were subject to an $850,000 limitation and which expired in August 2023.

In August 2022, RM 101 sold (i) certain property, including a warehouse and a building which houses manufacturing, operations and administration, (ii) substantially all of its working capital and (iii) its historical business to a third party for $7.7 million gross, including net working capital, with net sale proceeds of $7.0 million. The Asset Purchase Agreement (the "APA") governing the sale was structured as an asset sale. The APA included certain indemnifications which were subject to a $650,000 limitation and a related escrow of that amount upon consummation of the transaction. Substantially all the remaining purchase price was placed into escrow upon consummation of the transaction pending the completion of certain remaining environmental testing and remediation resulting therefrom, if any. As of December 31, 2022, proceeds from this sale were included in restricted cash in the consolidated balance sheet. In February 2023, all escrowed funds were released to the Company.

The Company made CVR payments of $3.9 million, $5.7 million, and $1.4 million in February, May, and November of 2023, respectively. In accordance with the CVR Agreement, as of December 31, 2023, all RM 101 assets previously held for sale had been sold and the Company has made all of the aggregate distributions of $11.0 million of proceeds to the CVR Holders such that the CVR Agreement is deemed terminated as of December 31, 2023.

Upon acquisition, the Company determined the RM 101 business met the assets held-for-sale and discontinued operations criteria and was, prior to sale, reflected as discontinued operations held for sale in these consolidated financial statements. During the year ended December 31, 2022, the Company determined that certain changes in circumstances indicated that the then carrying amount of RM 101's long-lived assets may not have been recoverable and recognized an impairment loss in loss on discontinued operations, net of tax of $4.5 million to write down the related carrying amounts to their fair values less estimated cost to sell. All net assets held for sale had been sold as of December 31, 2022. The loss from discontinued operations, net of tax presented in the consolidated statements of operations includes the following results of RM 101 (in thousands):

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	Year Ended December 31,	
	2023	2022
Net sales	$ —	$ 10,843
Cost of goods sold	—	8,129
Gross profit	—	2,714
Selling, general and administrative expenses	88	3,451
Research and development expenses	—	437
Impairment on remeasurement or classification as held for sale	—	4,541
Loss on sale of net assets held for sale	—	239
Loss from discontinued operations before other income	(88)	(5,954)
Interest expense	—	(12)
Other income	23	23
Loss from discontinued operations before income tax	(65)	(5,943)
Income tax expense	—	(14)
Loss from discontinued operations, net of tax	$ (65)	$ (5,957)

Loss from discontinued operations, net of tax in the consolidated statements of operations also included a (loss) gain on CVR remeasurement of $(0.1) million and $1.1 million for the years ended December 31, 2023 and 2022, respectively. Total cash flows provided by (used in) operating activities from discontinued operations was $0.1 million and $(1.8) million in the consolidated statements of cash flows for the years ended December 31, 2023 and 2022, respectively.

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-level fair value hierarchy prioritizing the inputs to valuation techniques is used to measure fair value. The levels are as follows: (Level 1) observable inputs such as quoted prices in active markets for identical assets or liabilities; (Level 2) observable inputs for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable either directly or indirectly from market data; and (Level 3) unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The following tables present the Company's financial instruments that are measured and recorded at fair value on the Company's consolidated balance sheets on a non-recurring basis, segregated by hierarchy fair value levels as of December 31, 2023 and 2022 (in thousands):

	Fair Value Measured as of December 31, 2023				
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Remeasurement Gain (Loss)
Contingent consideration liability - Contingent Value Rights	$ —	$ —	$ —	$ —	$ (64)
	$ —	$ —	$ —	$ —	$ (64)

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	Fair Value Measured as of December 31, 2022				
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Remeasurement Gain (Loss)
Contingent consideration liability - Contingent Value Rights (1)	$ 10,900	$ —	$ 10,900	$ —	$ 1,100
	$ 10,900	$ —	$ 10,900	$ —	$ 1,100

(1) During the three months ended March 31, 2022, the Company changed the valuation approach from the use of other unobservable inputs to other observable inputs based on information obtained through the active marketing and sale of the underlying assets.

The Company has determined the fair value of long-term debt is approximately $128.9 million as of December 31, 2023 (see Note 9). The carrying values of cash and cash equivalents, restricted cash, prepaid expenses, other receivables, other current assets, accounts payable, accrued construction liabilities, other accrued liabilities and other amounts due to related parties are considered to be representative of their respective fair values principally due to their short-term maturities. There were no additional material non-recurring fair value measurements as of December 31, 2023 and 2022, except for (i) the calculation of fair value of Common Stock warrants issued in connection with amendments to the Company's long-term debt agreement (see Note 9), in connection with the issuance of Common Stock (see Note 16), in connection with a Common Stock exchange agreement (see Note 15) and on a standalone basis (see Note 15), (ii) the change in fair value of embedded derivatives in certain of the Company's convertible promissory notes (see Note 15), and (iii) the calculation of fair value of nonmonetary assets distributed from the Company's Joint Venture (see Note 11). The Company utilized a Black-Scholes option pricing model to value its Common Stock warrants (except as discussed above for warrants issued in connection with the New Term Facility and the Fifth Amendment) and to value the change in fair value of embedded derivatives in certain of the Company's convertible promissory notes. The estimated fair value of the warrants and embedded derivatives is determined using Level 2 and Level 3 inputs. Inherent in the model and fair value estimate are assumptions related to expected share-price volatility, expected life, risk-free interest rate and dividend yield. The Company estimates volatility based on public company peer group volatility over the contractual term of the warrants. The risk-free interest rate is based on the U.S. Treasury rate on the grant date for a maturity similar to the expected life of the warrants or the conversion term, as applicable. The dividend rate is based on the historical rate, which the Company anticipates will remain at zero.

The Company utilized a Black-Scholes option pricing model and the application of a discount for lack of marketability ("DLOM") to value its Common Stock warrants issued in connection with the New Term Facility and to value its Common Stock warrants issued in connection with the Fifth Amendment (each as defined in Note 9). The DLOM is applied primarily due to contractual restrictions on the exercise of the respective warrants. The estimated fair value of the warrants is determined using Level 3 inputs. Inherent in the model and fair value estimate are assumptions related to expected share-price volatility, expected life, risk-free interest rate, dividend yield and DLOM. The Company estimates volatility based on public company peer group volatility over the contractual term of the warrants. The risk-free interest rate is based on the U.S. Treasury rate on the grant date for a maturity similar to the expected life of the warrants, which is assumed to be equivalent to their contractual term. The dividend rate is based on the historical rate, which the Company anticipates will remain at zero. The Company applied a DLOM of 20% to value its Common Stock warrants issued in connection with the New Term Facility and applied a DLOM of 30% to value its Common Stock warrants issued in connection with the Fifth Amendment.

NOTE 5 — BITCOIN

The following table presents the Company's bitcoin activity (in thousands):

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	Year Ended December 31,	
	2023	2022
Beginning balance	$ 183	$ —
Bitcoin received from mining pool and hosting services	63,877	10,810
Bitcoin received as distribution from investee	21,949	—
Impairment	(3,043)	(1,457)
Disposition	(80,728)	(9,170)
Bitcoin exchanged for goods or services	(437)	—
Ending balance	$ 1,801	$ 183

NOTE 6 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Miners	$ 100,531	$ 71,114
Construction in process	24,578	32,360
Leasehold improvements	62,850	29,880
Equipment	15,736	7,208
Vehicles	104	—
Deposits on miners	36,469	57,626
	240,268	198,188
Less: accumulated depreciation	(34,984)	(6,667)
	$ 205,284	$ 191,521

The Company capitalizes a portion of the interest on funds borrowed to finance its capital expenditures. Capitalized interest is recorded as part of an asset's cost and is depreciated over the same period as the related asset. Capitalized interest costs were $2.2 million and $5.3 million for the years ended December 31, 2023 and 2022, respectively.

Depreciation expense was $28.4 million and $6.7 million for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 — LEASES

In May 2021, the Company entered into a ground lease (the "Ground Lease") related to the Lake Mariner Facility in New York with a counterparty which is a related party due to control by a member of Company management. The Ground Lease includes fixed payments and contingent payments, including an annual escalation factor as well as the Company's proportionate share of the landlord's cost to own, operate and maintain the premises. The Ground Lease originally had an initial term of five years and a renewal term of five years at the option of the Company, subject to the Company not then being in default, as defined.

In July 2022, the Ground Lease was amended to increase the initial term of the lease to eight years and to amend certain other non-financial sections to adjust environmental obligations, site access rights and leasehold mortgage rights. In September 2022, the Company issued 8,510,638 shares of Common Stock with a fair value of $11.5 million as compensation to the landlord for entering into the lease amendment. The Ground Lease, which is classified as an operating lease, was remeasured as of the date of the amendment, resulting in an increase of $11.2 million to both right-of-use asset and operating lease liability in the consolidated balance sheets. The Ground Lease remained classified as an operating lease based on the remeasurement analysis that utilized a discount rate of 12.6%, which was an estimate of the Company's incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the remeasurement date. Upon expiration of the lease, the buildings and improvements on the premises will revert to the landlord in good order.

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For the years ended December 31, 2023 and 2022, the Company recorded operating lease expense of $1.3 million and $0.9 million, respectively, including contingent expense of $0.2 million and $0.3 million, respectively, in operating expenses – related party in the consolidated statements of operations and made cash payments pursuant to the Ground Lease of $0.9 million and $0.2 million, respectively, in addition to the issuance of the aforementioned Common Stock. The remaining lease term based on the terms of the amended Ground Lease was 10.4 years as of December 31, 2023.

The following is a maturity analysis of the annual undiscounted cash flows of the estimated operating lease liabilities as of December 31, 2023 (in thousands):

Year ending December 31:	
2024	$ 163
2025	163
2026	163
2027	163
2028	163
Thereafter	882
	$ 1,697

A reconciliation of the undiscounted cash flows to the operating lease liabilities recognized in the consolidated balance sheet as of December 31, 2023 follows (in thousands):

Undiscounted cash flows of the operating lease	$ 1,697
Unamortized discount	750
Total operating lease liability	947
Current portion of operating lease liability	48
Operating lease liability, net of current portion	$ 899

During the year ended December 31, 2022, the Company entered into a short term lease arrangement for miners. The term of the operating lease was two months and concluded in May 2022. There were no variable charges under this arrangement. For the year ended December 31, 2022, lease expense related to this arrangement of $1.3 million was recorded in operating expenses in the consolidated statement of operations. The Company periodically enters into short term lease arrangements for operating equipment and recorded $0.2 million and $0.4 million under these short term lease arrangements in operating expenses in the consolidated statements of operations for the years ended December 31, 2023 and 2022, respectively.

NOTE 8 – INCOME TAXES

The components of net loss before income tax for continuing operations (comprised of the total of loss before income tax and equity in net loss of investee and equity in net loss of investee, net of tax) for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	Year Ended December 31,	
	2023	2022
Domestic	$ (73,419)	$ (86,190)
Foreign	—	—
Total	$ (73,419)	$ (86,190)

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The Company's income tax benefit for continuing operations for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	Year Ended December 31,	
	2023	2022
Current:		
Federal	$ —	$ —
State	—	—
Foreign	—	—
Total current income tax benefit	—	—
Deferred:		
Federal	—	(256)
State	—	—
Foreign	—	—
Total deferred income tax benefit	—	(256)
Income tax benefit	$ —	$ (256)

A reconciliation between income tax benefit and the expected tax benefit at the statutory rate for the years ended December 31, 2023 and 2022 are as follows:

	Year Ended December 31,	
	2023	2022
Federal statutory rate	21.0 %	21.0 %
State rate, net of federal benefit	0.4 %	3.0 %
Permanent differences	0.8 %	— %
Non-deductible compensation	(1.3)%	— %
Change in valuation allowance	(15.6)%	(24.6)%
Share based liabilities	(4.5)%	— %
Other items	(0.8)%	0.9 %
Effective tax rate	— %	0.3 %

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The significant components of the Company's deferred tax liabilities, net consist of the following at December 31, 2023 and 2022 (in thousands):

	December 31, 2023	December 31, 2022
Deferred tax assets:		
Net operating loss	$ 37,833	$ 21,599
Share based liabilities	543	3,811
Accruals and reserves	1,079	1,632
Property, plant and equipment	—	458
Operating lease liability	206	259
Investment in joint venture	2,075	1,520
Stock compensation	656	410
Gross deferred tax assets	42,392	29,689
Valuation allowance	(40,948)	(29,464)
Deferred tax assets, net	1,444	225
Deferred tax liabilities:		
Right-of-use asset	(182)	(225)
Property, plant and equipment	(1,262)	—
Gross deferred tax liabilities	(1,444)	(225)
Deferred tax liabilities, net	$ —	$ —

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2023 and 2022, the Company estimated a portion of its deferred tax assets will be utilized to offset the Company's deferred tax liabilities. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a valuation allowance as of December 31, 2023 and 2022, for the amount of deferred tax assets that will not be realized. The increase in the December 31, 2023 valuation allowance of $11.5 million is primarily attributable to the current year net loss.

As of December 31, 2023 and, 2022, for federal income tax purposes the Company had total net operating loss carryforwards of approximately $172.4 million and $96.3 million, respectively. As of December 31, 2023, the net operating losses will have an indefinite carryforward as a result of the Tax Cuts and Jobs Act, but may be limited in utilization to 80% of taxable income. For state income tax purposes, as of December 31, 2023 and 2022 the Company had state net operating loss carryforwards of approximately $30.8 million and $22.1 million, respectively, which begin to expire in 2041.

As of December 31, 2023 and 2022, the Company did not have any available federal or state research and development tax credit carryforwards.

Under the provisions of the Internal Revenue Code, the net operating loss carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. The Company has not completed a formal study to conclude whether an annual limitation may exist. Net operating loss carryforwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code, respectively, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on the value of the Company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years.

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The Company follows the provisions of ASC 740 which specifies how tax benefits for uncertain tax positions are to be recognized, measured, and recorded in the consolidated financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the consolidated balance sheet; and provides transition and interim period guidance, among other provisions. As of December 31, 2023 and 2022, the Company had not recorded any long-term liabilities for uncertain tax positions. The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any, in its consolidated statements of operations. For the years ended December 31, 2023 and 2022, no estimated interest or penalties were recognized on uncertain tax positions.

The Company files income tax returns in the U.S. federal tax jurisdiction and various state jurisdictions. Since the Company is in a loss carryforward position, the Company is generally subject to examination by the U.S. federal, state and local income tax authorities for all years in which a loss carryforward is available. The statute of limitations for assessment by federal and state tax jurisdictions in which the Company has business operations is open for the tax year ended December 31, 2023. The tax years subject to examination vary by jurisdiction.

NOTE 9 – DEBT

Long-Term Debt

Long-term debt consists of the following (in thousands):

	December 31, 2023	December 31, 2022
Term loan	$ 139,401	$ 146,000
Debt issuance costs and debt discount	(15,970)	(21,095)
Property, plant and equipment finance agreement	90	—
	123,521	124,905
Less long-term debt due within one year	123,465	51,938
Total long-term debt, net of portion due within one year	$ 56	$ 72,967

On December 1, 2021, the Company entered into a Loan, Guaranty and Security Agreement (the "LGSA") with Wilmington Trust, National Association as administrative agent, which consisted of an original term loan facility of $123.5 million (the "Original Term Loan"). In July 2022, the Company entered into an amendment to the LGSA (the "First Amendment") and borrowed $15.0 million at its closing (the "First Amendment Term Loan"). In October 2022, the Company entered into a third amendment to the LGSA (the "Third Amendment") and borrowed $7.5 million at its closing (the "Third Amendment Term Loan" and, collectively with the Original Term Loan and First Amendment Term Loan, the "Term Loans"). The Term Loans bear an interest rate of 11.5% and have a maturity date of December 1, 2024. Upon the occurrence and during the continuance of an event of default, as defined, the applicable interest rate will be 13.5%. The interest rate may be increased, if applicable, to the cash interest rate on any junior capital raised plus 8.5%, if higher. As of December 31, 2023, no interest rate adjustments had been made under this provision.

Subsequent to an amendment to the LGSA in March 2023 (the "Fifth Amendment," as described below) and as of December 31, 2023, the Company is required to pay amounts subject to an excess cash flow sweep, as defined, on a quarterly basis which will automatically extend to the maturity of the Term Loans in the event the Company repays at least $40.0 million of the principal balance of the Term Loans by April 1, 2024. During the year ended December 31, 2023, the Company repaid $6.6 million of the principal balance in accordance with the excess cash flow sweep. In February 2024, the Company repaid $40.0 million of the principal balance of the Term Loans, in the aggregate, thereby automatically extending the excess cash flow sweep to the maturity of the Term Loans (see Note 18). Interest payments were due quarterly in arrears prior to the Fifth Amendment and are due monthly in arrears subsequent to the Fifth Amendment. The Company has the option to prepay all or any portion of the Term Loans in increments of at least $5.0 million subject to certain prepayment fees for the Original Term Loan equal to (1) if paid prior to December 1, 2023, an amount of 3.0% of the prepaid principal and (2) if paid subsequent to December 1, 2023 but prior to the maturity date of the Term Loans, an amount of 2.0% of the prepaid principal. Certain events, as described in the LGSA, require mandatory prepayment. The Term Loans are guaranteed by TeraWulf Inc. and TeraCub and its subsidiaries, as defined, and is collateralized by substantially all of the properties, rights and assets of TeraWulf Inc. and its subsidiaries (except RM 101), as defined.

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The LGSA, as amended, requires the Company to maintain or meet certain affirmative, negative and reporting covenants. The affirmative covenants include, among other things, a requirement for the Company to maintain insurance coverage, maintain mining equipment and comply in all material respects with the Nautilus Joint Venture agreement (see Note 11), each as defined. The negative covenants restrict or limit the Company's ability to, among other things, incur debt, create liens, divest or acquire assets, make restricted payments and permit the Company's interest in the Nautilus Joint Venture to be reduced below 25.0%, each as defined. The LGSA also contains usual and customary events of default. If an event of default occurs and is continuing, the then outstanding obligations under the LGSA may become immediately due and payable.

As of December 31, 2022, certain of the investors in the Term Loans were related parties due to cumulative voting control by members of the Company's management and a member of the Company's board of directors. As of December 31, 2022, NovaWulf Digital Master Fund, L.P. and NovaWulf Digital Private Fund, LLC, held outstanding principal balances in the amount of $2.0 million and $15.7 million, respectively. In October 2023, all outstanding principal amounts held by NovaWulf Digital Master Fund, L.P. and NovaWulf Digital Private Fund, LLC were distributed to respective entities controlled by certain limited partners of NovaWulf Digital Master Fund, L.P. and all the members of NovaWulf Digital Private Fund, LLC, of which certain are members of Company management and an individual who was then a member of the Company's board of directors. As of December 31, 2023, $12.9 million of outstanding principal amounts under the Term Loans were held by related party entities controlled by certain members of Company management and an individual who was then a member of the Company's board of directors.

In connection with the Original Term Loan, the Company issued to the holders of the Original Term Loan 839,398 shares of Common Stock (the "Term Loan Equity"), which is a quantity of Common Stock which represented 1.5% of the outstanding shares of the publicly registered shares of TeraWulf subsequent to the closing of the Original Term Loan. In connection with the issuance of the Original Term Loan, the Company incurred aggregate issuance costs of approximately $4.0 million, in addition to a $1.2 million upfront fee. The aggregate issuance costs and the upfront fee were allocated to the Term Loan Equity and the Original Term Loan based on the relative fair value method in the amounts of $1.1 million and $4.1 million, respectively. For the Original Term Loan, this $4.1 million was included in debt discount along with the fair value of the Term Loan Equity, an amount of $25.7 million. The total of these items, an amount of $29.8 million, represented debt issuance costs and debt discount and was deducted from the Original Term Loan proceeds and was being accreted into the long-term debt balance over the term of the debt at an effective interest rate of 12.9%, which was in addition to the stated interest rate.

In July 2022, the First Amendment to the LGSA provided for an additional $50.0 million term loan facility (the "New Term Facility"). Pursuant to the New Term Facility, funds could have been drawn in three tranches. The First Amendment Term Loan represented the first tranche and was drawn at closing in July 2022, and the subsequent tranches of up to $35.0 million (the "Delayed Draw Term Loan Commitment") may have been drawn at Company's option prior to December 31, 2022, subject to certain conditions, including the raising of matching junior capital, as defined. The New Term Facility required the Company to extend the initial term of the Ground Lease from five years to eight years. In connection with the New Term Facility, the Company paid an upfront fee of $0.1 million and issued warrants to the lenders under the New Term Facility to purchase 5,787,732 shares of Common Stock at $0.01 per share, an aggregate number of shares of the Company's Common Stock equal to 5.0% (comprised of 2.0% related to the Delayed Draw Term Loan Commitment and 3.0% related to the First Amendment Term Loan) of the then fully diluted equity of the Company. In connection with the issuance of the New Term Facility, the Company also incurred aggregate issuance costs of approximately $1.5 million, in addition to the aforementioned upfront fee. If the Company drew subsequent tranches, it was required to issue warrants to the lenders to purchase shares of the Company's Common Stock equal to dilution of 3.75% upon the issuance of a second tranche in the amount of $15.0 million and 4.25% upon issuance of a third tranche in the amount of $20.0 million, in each case as a percentage of the then fully diluted equity of the Company, respectively.

The Company determined that debt modification accounting applied in connection with the New Term Facility. Third party and upfront fees were allocated pro rata between the First Amendment Term Loan and the Delayed Draw Term Loan Commitment. Third-party fees of $0.4 million related to the First Amendment Term Loan were expensed to interest expense in the consolidated statement of operations. Fees paid to lenders and the allocated value of the Common Stock warrants, an aggregate $3.5 million, related to the First Amendment Term Loan were included with the unamortized discount on the Original Term Loan and were being amortized as an adjustment of interest expense over the remaining term of the Term Loans at an effective rate of 13.1%, which was in addition to the stated interest rate.

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Fees paid and the fair value of the Common Stock warrants related to the Delayed Draw Term Loan Commitment, an aggregate $3.4 million, were capitalized to other assets (the "Commitment Fee Asset") and were amortized on a straight-line basis over the commitment period, which expired December 31, 2022. If a tranche of the Delayed Draw Term Loan Commitment was drawn, the then related carrying value of the Commitment Fee Asset would be derecognized and a discount on debt would be recorded and amortized over the term of the commitment drawn.

In October 2022, the Third Amendment to the LGSA divided the initial funding of up to $15.0 million of the Delayed Draw Term Loan Commitment under the First Amendment to the LGSA into two tranches of up to $7.5 million each. The Third Amendment Term Loan represented the first tranche and was borrowed upon the closing in October 2022. In connection with the Third Amendment, the Company entered into an amendment and restatement of the warrant agreement related to the New Term Facility. The amended and restated warrant agreement provides that holders thereto are entitled to additional warrants to purchase an aggregate number of shares of Common Stock equal to an incremental 3.75%, to be divided into two separate increments of 1.875% each, of the fully diluted equity of the Company, determined on the date of the funding of the two separate sub-tranches of $7.5 million each pursuant to the Third Amendment. In connection with the Third Amendment Term Loan, the Company issued warrants to purchase 2,667,678 shares of Common Stock at $0.01 per share. The fair value of the Common Stock warrants and the related proportional carrying value of the Commitment Fee Asset, an aggregate $2.9 million, related to Third Amendment were included with the unamortized discount on the Original Term Loan and First Amendment Term Loan and were being amortized as an adjustment of interest expense over the remaining term of the Term Loans at an effective rate of 25.1%, which was in addition to the stated interest rate.

In March 2023, the Fifth Amendment to the LGSA eliminated mandatory amortization of the Term Loans through April 7, 2024, as long as the Company received aggregate net proceeds of at least $33.5 million from the issuance of equity or equity-linked securities by March 15, 2023 (such condition, the "Amortization Relief Condition"). The Company satisfied the Amortization Relief Condition on March 9, 2023. As a condition of the Fifth Amendment becoming effective, the Company entered into a warrant agreement (the "Warrant Agreement") to issue the following warrants to the lenders: (i) 27,759,265 warrants to purchase an aggregate number of shares of the Company's Common Stock equal to 10.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $0.01 per share of the Company's Common Stock (the "Penny Warrants") and (ii) 13,879,630 warrants to purchase an aggregate number of shares of the Company's Common Stock equal to 5.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $1.00 per share of the Company's Common Stock (the "Dollar Warrants"). The quantity of the Penny Warrants and the Dollar Warrants include the final impact of anti-dilution protection for additional capital raising transactions by the Company of up to $5.0 million subsequent to the $33.5 million aggregate net proceeds associated with the Amortization Relief Condition. The Penny Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2025, and the Dollar Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2026. In March 2023, in connection with the issuance of the warrants pursuant to the Warrant Agreement, the Company entered into a registration rights agreement pursuant to which the Company has agreed to provide customary shelf and piggyback registration rights to the LGSA lenders with respect to the Common Stock issuable upon exercise of the warrants described above.

The Company determined that debt modification accounting applied in connection with the Fifth Amendment. Because the First Amendment and the Fifth Amendment occurred within a twelve-month period, the debt terms that existed just prior to the First Amendment were applied in determining the appropriateness of the debt modification accounting model. The allocated value of the Penny Warrants and Dollar Warrants, an aggregate $16.0 million, related to the Fifth Amendment were included with the unamortized discount on the LGSA, as amended, and are being amortized as an adjustment of interest expense over the remaining term of the modified LGSA at an effective rate of 17.0%, which is in addition to the stated interest rate.

During the years ended December 31, 2023 and 2022, the Company amortized total debt issuance costs and debt discount of $21.2 million and $14.2 million, respectively, of which $19.5 million and $9.3 million, respectively, were recorded as interest expense in the consolidated statements of operations, $1.2 million and $2.6 million, respectively, were capitalized interest in property, plant and equipment, net in the consolidated balance sheets as of December 31, 2023 and December 31, 2022, respectively, and $0.5 million and $2.3 million, respectively, were capitalized interest in equity in net assets of investee in the consolidated balance sheets as of December 31, 2023 and December 31, 2022, respectively.

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Principal maturities of outstanding long-term debt as of December 31, 2023 are as follows (in thousands):

Year ending December 31:		
2024	$	139,435
2025		36
2026		20
Total principal maturities	$	139,491

NOTE 10 – STANDBY EQUITY PURCHASE AGREEMENT AND CONVERTIBLE PROMISSORY NOTES

Standby Equity Purchase Agreement

In June 2022, the Company entered into a Standby Equity Purchase Agreement ("SEPA") with YA II PN, Ltd. ("Yorkville"). Pursuant to the SEPA, the Company had the right, but not the obligation, to sell to Yorkville, subject to certain limitations and conditions, up to $50.0 million of its shares of Common Stock, at the Company's request any time during the commitment period commencing on June 2, 2022 and terminating on the earliest of (i) the first day of the month following the 36-month anniversary of the SEPA and (ii) the date on which Yorkville shall have made payment of any advances requested pursuant to the SEPA for shares of the Common Stock equal to the commitment amount of $50.0 million. In addition to the Company's right to request advances, subject to certain conditions precedent, the Company had the option to, but was not obligated to, effect a pre-advance loan with a principal amount of $15.0 million through the issuance and sale to Yorkville of a convertible promissory note (the "Promissory Note").

In June 2022, the Company elected to issue and sell the Promissory Note to Yorkville. Subject to the terms of the SEPA, the Company had the right to terminate the SEPA at any time, at no cost or penalty, upon five trading days' prior written notice so long as there are no outstanding advances, no outstanding balance on the Promissory Note and no other amounts owed to Yorkville. No termination of the SEPA affects the indemnification provisions contained within the SEPA, which provisions survive a termination. The SEPA was terminated in December 2022. No advances occurred while the SEPA was outstanding.

Yorkville Convertible Promissory Note

In June 2022, the Company issued the Promissory Note to Yorkville, which was issued with a 2.0% original issue discount, for proceeds of $14.7 million. The maturity date of the $15.0 million Promissory Note was originally November 25, 2022 and the Company was required to pay the outstanding principal balance in five monthly $3.0 million payments commencing July 27, 2022. Upon reasonable advance notice, the Company had the right to defer 50% of a monthly payment amount due on two such monthly payments to later dates to be mutually agreed by the Company and Yorkville. In July 2022, $1.5 million of the $3.0 million July monthly payment amount was deferred until the October 2022 monthly payment due date. In August 2022, $1.5 million of the $3.0 million August monthly payment amount was deferred until the November 2022 monthly payment due date. The Promissory Note, which bore an interest rate of 4.0% and had an initial conversion price of $3.75 per share of Common Stock, may have been repaid with the proceeds of a sale of Common Stock to Yorkville or repaid in cash and, if repaid in cash, together with a cash payment premium originally of 6.0%, provided that if the Company's Common Stock market price, as defined, was less than $2.25 per share, the cash payment premium would have been 4.0%.

In October and November 2022, the Company amended and restated the Promissory Note to, among other things, change the then-existing repayment schedule, change the cash payment premium to 12.0% and change the conversion price (the "First A&R Promissory Note" and "Second A&R Promissory Note," respectively). The Company determined that extinguishment of debt accounting applied to the First A&R Promissory Note in October 2022 because the change in the fair value of the embedded conversion feature was greater than 10% of the carrying value of the Promissory Note immediately prior to the modification. The Company recorded a loss on debt extinguishment of $2.1 million in the consolidated statement of operations for the year ended December 31, 2022. This extinguishment loss was primarily related to the change in the fair value of the embedded conversion feature of $1.6 million and the excess of the fair value of the amended and restated Promissory Note of $9.4 million over the carrying value of the Promissory Note immediately prior to the modification. The Company determined that debt modification accounting applied to the Second A&R Promissory Note in November 2022 because the change in the fair value of the embedded conversion feature was not greater than 10%

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of the carrying value of the First A&R Promissory Note immediately prior to the modification. The $20,000 change in the fair value of the embedded conversion feature was accounted for as a debt discount and amortized as an adjustment of interest expense over the remaining term of the Second A&R Promissory Note at an effective rate of 3.1%. No portion of the Second A&R Promissory Note was converted into shares of Common Stock and the Second A&R Promissory Note was paid in full in December 2022.

Convertible Promissory Notes

In November 2022, the Company issued convertible promissory notes (the "Convertible Notes") in an aggregate principal amount of approximately $3.4 million to certain accredited investors, including to members of Company management in the amount of $1.7 million. The Convertible Notes were issued in privately negotiated transactions as part of a private placement exempt from registration under the Securities Act of 1933, as amended. The Convertible Notes, which contained usual and customary antidilution provisions, had a maturity date of April 1, 2025 and accrued annual interest at a rate of 4.0%, which would have increased to 15.0% upon the occurrence of an event of default, as defined. The Convertible Notes were originally automatically convertible into shares of equity securities of the Company upon the closing of a Qualified Financing, as defined in the Convertible Notes as the issuance and sale of equity securities with an aggregate gross sales price of not less than $5.0 million, with certain sales of equity securities excluded, at a conversion price equal to the price per share paid by the investors purchasing such equity securities in such Qualified Financing. The Convertible Notes originally embodied an unconditional obligation to settle a fixed monetary amount with, upon a Qualified Financing, a variable number of shares and was initially considered potentially share settled debt. In December 2022, the Company entered into a private placement (see Note 15) which met the definition of a Qualified Financing and contemporaneously amended the Convertible Notes to (a) change the conversion date to March 1, 2023 and (b) allow for the conversion price to be reduced if an additional Qualified Financing were to occur prior to the conversion date at a price lower than the then existing Convertible Notes conversion price. The Company determined that debt modification accounting applied in connection with the December 2022 amendment to the Convertible Notes. There was no change to the effective interest rate as the result of this amendment. As a result of the private placement, the conversion price was $0.40 per share of Common Stock. The Convertible Notes are included in convertible promissory notes in the consolidated balance sheet as of December 31, 2022. In January 2023, the Convertible Notes were amended to change the conversion date to the third business day following the Shareholder Approval Date (as defined in Note 15). In March 2023, the Convertible Notes and accrued but unpaid interest were converted into 8,628,024 shares of Common Stock.

In January 2023, the Company entered into a convertible promissory note (the "January Convertible Note") to an accredited investor in a privately negotiated transaction as part of a private placement exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act in an aggregate principal amount of $1.3 million. The January Convertible Note had a maturity date of April 1, 2025 and accrued annual interest at a rate of 4.0%. The January Convertible Note was automatically convertible into Common Stock on the third business day following the Shareholder Approval Date (the "Conversion Date") at a conversion price equal to the lowest price per share paid by investors purchasing equity securities in any sale of equity securities by the Company between November 25, 2022 and the Conversion Date with an aggregate gross sales price of not less than $5.0 million, subject to certain exclusions set forth in the January Convertible Note. The conversion price was $0.40 per share of Common Stock upon issuance. In March 2023, the January Convertible Note and accrued but unpaid interest were converted into 3,134,932 shares of Common Stock.

NOTE 11 – JOINT VENTURE

In May 2021, the Company and a subsidiary of Talen Energy Corporation ("Talen") (each a "Member" and collectively the "Members") entered into the Nautilus Joint Venture to develop, construct and operate up to 300 MW of zero-carbon bitcoin mining in Pennsylvania. In connection with the Joint Venture, Nautilus simultaneously entered into (i) a ground lease (the "Nautilus Ground Lease"), which includes an electricity supply component, with a related party of Talen, (ii) a Facility Operations Agreement (the "FOA") with a related party of the Company and (iii) a Corporate Services Agreement (the "CSA") with a related party of Talen. Each Member originally held a 50% interest in the Joint Venture. The Company capitalized a portion of the interest on funds borrowed to finance its investments in Nautilus prior to Nautilus commencing its principal operations. Capitalized interest costs were $0.9 million and $4.6 million for the years ended December 31, 2023 and 2022, respectively. During the year ended December 31, 2023, the Company received bitcoin distributions from Nautilus with a fair value of $21.9 million. The Company received no bitcoin distributions during the year ended December 31, 2022.

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In August 2022, the Members entered into an amended and restated Joint Venture agreement (the "A&R Nautilus Agreement") whereby, among other changes, the unit ownership will be determined by infrastructure contributions while distributions of mined bitcoin will be determined by each Member's respective hashrate contributions. Members are allowed to make contributions of miners up to the effective electrical capacity of their owned infrastructure percentage. Each party retains access to 50% of the electricity supply outlined in the Nautilus Ground Lease. Additionally, the Company's scheduled capital contributions were amended such that the Company would retain a 33% ownership interest in the Joint Venture if such capital contributions were funded. With the change in ownership percentage, governance rights were amended to provide for greater Talen board participation, among other changes. As allowed under the A&R Nautilus Agreement, the Company structured its capital contributions to achieve a targeted 25% ownership interest in Nautilus.

In March 2023, the Members entered into a second amended and restated Joint Venture agreement (the "Second A&R Nautilus Agreement"). Under the Second A&R Nautilus Agreement, the Company holds a 25% equity interest in Nautilus and Talen holds a 75% equity interest in Nautilus, each subject to adjustment based on relative capital contributions. Distributions are made periodically in accordance with each Member's respective hashrate contributions after deducting primarily each Member's share of power and operational costs. Pursuant to the terms of the Second A&R Nautilus Agreement, the Nautilus Cryptomine Facility initially requires 200 MW of electric capacity. Prior to May 13, 2024, the Company may elect to expand the energy requirement of the Nautilus Cryptomine Facility by up to 50 MW, funded solely by the Company. If the Company makes such an election, the Talen Member may, within twelve months thereof, elect to expand the energy requirement of the Nautilus Cryptomine Facility by up to an additional 50 MW, funded solely by the Talen Member, for a total capacity of up to 300 MW. Upon such election, Nautilus will call additional capital for expansion and enter into an additional energy supply agreement with the Talen Member or its affiliate for the additional capacity, subject to any regulatory approvals and third-party consents. In February 2024, as allowed under the Second A&R Nautilus Agreement, the Company exercised its election to expand the energy requirements of the Nautilus Cryptomine Facility by an additional 50 MW.

In March 2021, the Company executed an agreement with MinerVA Semiconductor Corp. ("MinerVA") for the purchase of 30,000 MV7 miners, with originally scheduled monthly deliveries of miners each between November 2021 and January 2022, for an aggregate price of $118.5 million (the "MinerVA Purchase Agreement"). Concurrently with the execution of the Joint Venture agreement, TeraWulf assigned the MinerVA Purchase Agreement to Nautilus. Prior to December 31, 2022, total payments of $40.5 million were made under the MinerVA Purchase Agreement. Production delays at MinerVA's factory impacted the initial pricing and delivery schedule. Accordingly, Nautilus and MinerVA have deemed all payments made to date to apply to the initial approximately 9,000 miners shipped or to be shipped. As of December 31, 2023, Nautilus had not amended the MinerVA Purchase Agreement.

In June 2021, Nautilus entered into two Non-fixed Price Sales and Purchase Agreements for the purchase of bitcoin miners from Bitmain Technologies Limited ("Bitmain") for a total of 30,000 S19j Pro miners, with originally scheduled monthly deliveries of 5,000 miners each between January 2022 and March 2022 under one agreement (the "Q1 2022 Bitmain Agreement') and 5,000 miners each between April 2022 and June 2022 under a second agreement (the "Q2 2022 Bitmain Agreement" and, together, the "Bitmain Purchase Agreements"). During the year ended December 31, 2022, the Company paid Bitmain $22.8 million and was reimbursed by Talen for 50% of that amount. As of December 31, 2022, the Q1 2022 Bitmain Agreement was concluded with all parties performing under the contract. In September 2022, the Q2 2022 Bitmain Agreement was cancelled whereby each Member received a $31.2 million credit with Bitmain to use at the respective Member's discretion (the "Bitmain Credit"). See Note 12. The Company recorded a distribution from the Joint Venture whereby equity in net assets of investee was reduced and property, plant and equipment, net was correspondingly increased by the $31.2 million distributed credit in the consolidated balance sheet as of December 31, 2022.

In December 2022, the Company entered into a Payment Netting Agreement with Nautilus, Talen and the related party FOA and CSA agreement counterparties whereby certain amounts were owed by Nautilus to each of the FOA and CSA counterparties, including for the termination of the FOA agreement. These amounts were offset to arrive at a net result whereby the Company owed the related party FOA counterparty (see Note 17) approximately $2.2 million. This amount was recorded in equity in net assets of investee in the consolidated balance sheet as of December 31, 2022.

The Company's direct payments to MinerVA and Bitmain, among others, on behalf of Nautilus for the year ended December 31, 2022, are included in investments in joint venture, including direct payments made on behalf of joint venture

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in the consolidated statement of cash flows. A reconciliation of amounts included within this footnote to captions in the consolidated statements of cash flows for the years ended December 31, 2023 and 2022 follows (in thousands):

	Year Ended December 31,	
	2023	2022
Payment of TeraWulf 50% share of Bitmain deposits	$ —	$ (11,402)
Investments in joint venture related to direct payments made on behalf of joint venture	—	(11,402)
Direct investments in joint venture and payments made on plant and equipment contributed to joint venture	(2,845)	(34,796)
Investments in joint venture, including direct payments made on behalf of joint venture	$ (2,845)	$ (46,198)
Payment of Talen 50% share of Bitmain deposits	$ —	$ (11,402)
Other reimbursable payments	—	(339)
Reimbursable payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	$ —	$ (11,741)
Talen reimbursement of 50% share of Bitmain deposits	$ —	$ 11,402
Other reimbursable payments	—	314
Reimbursement of payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	$ —	$ 11,716

Nautilus is a VIE accounted for using the equity method of accounting. The table below summarizes the Company's interest in Nautilus and the Company's maximum exposure to loss as a result of its involvement with the VIE as of December 31, 2023 (in thousands, except for percentages):

Entity	% Ownership	Initial Investment	Additional Investment, Net	Net loss Inception to Date	Company's Variable Interest in Entity	Commitment to Future Additional Contributions (1)	Company's Maximum Exposure to Loss in Entity (2)
Nautilus	25.0 %	$ 18,000	$ 107,153	$ 26,540	$ 98,613	$ —	$ 98,613

(1) The Members may mutually agree on changes to the Nautilus Cryptomine Facility, including the Company's election to expand the energy requirements of the Nautilus Cryptomine Facility by an additional 50 MW in February 2024, which could increase the amount of contributions the Company is required to provide. The Members may seek alternate financing for the Nautilus Cryptomine Facility, which could reduce the amount of investments each Member may be required to provide.

(2) The maximum exposure at December 31, 2023 is determined by adding the Company's variable interest in the entity and any explicit or implicit arrangements that could require the Company to provide additional financial support. The amount represents the contractually required capital contributions of the Company which were required for the initial phase of the buildout of the Nautilus Cryptomine Facility.

In August 2022, due to the change in Member ownership percentage and governance rights under the A&R Nautilus Agreement, Talen determined it controlled the Joint Venture from an accounting perspective and thereby was required to fair value the identifiable assets and liabilities of the Joint Venture for its internal accounting purposes. Under the CSA, Talen is responsible for maintaining the books and records of the Joint Venture and elected to push down the fair value adjustments to Nautilus' books and records. The Company accounts for the Joint Venture as an equity method investment and the change in ownership percentage does not impact the Company's method of accounting or basis. Therefore, there is a basis difference between the books and records of Nautilus and the Company's accounting basis in the Joint Venture. The

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condensed results of operations for the years ended December 31, 2023 and 2022 and the condensed financial position as of December 31, 2023 and 2022 of Nautilus are summarized below (in thousands):

	Year Ended December 31, (1)	
	2023	2022
Condensed statement of operations information:		
Revenue	$ 108,001	$ 19
Operating expense	95,142	10,823
Net income (loss)	$ 12,859	$ (10,804)

	December 31, 2023 (1)	December 31, 2022 (1)
Condensed balance sheet information:		
Current assets	$ 12,406	$ 28,986
Noncurrent assets	171,245	154,552
Total assets	$ 183,651	$ 183,538
Current liabilities	$ 13,149	$ 12,864
Noncurrent liabilities	29,493	—
Equity	141,009	170,674
Total liabilities and equity	$ 183,651	$ 183,538

(1) The condensed statements of operations information for the years ended December 31, 2023 and 2022 and the condensed balance sheet information as of December 31, 2023 and 2022 reflect the impact of the Talen-estimated fair value measurements of Nautilus which, resulting from the application of ASC 805, *Business Combinations*, have been pushed down to the books and records of Nautilus by Talen, as discussed above. The Company's basis in the assets and liabilities of Nautilus continue to be recorded at historical value on the accompanying consolidated balance sheets.

In March 2022, the Company entered into an exchange agreement with Nautilus and the Nautilus co-venturer whereby the Company purchased 2,469 of Nautilus' Bitmain S19j Pro miners (the "Nautilus Miners") to be received under the Bitmain Purchase Agreements in exchange for an option to either (1) deliver miners that are not less favorable in all material respects to those of the Nautilus Miners (the "Exchange Miners") by July 1, 2022 or (2) incur a pro forma adjustment to Nautilus' distributions such that the Nautilus co-venturer is made whole as though the miners had not been transferred to the Company. If the Exchange Miners were not delivered by September 30, 2022, the Nautilus co-venturer would have been entitled to elect to distribute in-kind a number of miners then in possession of Nautilus comparable to the then-undelivered Exchange Miners. During the year ended December 31, 2022, the Nautilus Miners were received and recorded at fair value to property, plant and equipment, net in the amount of $16.0 million with a corresponding recognition of an exchange miner liability of the same amount. The A&R Nautilus Agreement removed the Company's obligation to deliver the Exchange Miners to the Joint Venture. Accordingly, the Company derecognized the miner exchange liability and recorded a $16.8 million reduction in equity in net assets of investee in the consolidated balance sheet as of December 31, 2022 and recorded a loss on nonmonetary miner exchange of $0.8 million in the consolidated statement of operations for the year ended December 31, 2022.

In September 2022, the Company, as allowed under the A&R Nautilus Agreement and because its Lake Mariner Facility was operational, transferred 2,500 Bitmain S19j Pro miners from Nautilus to its Lake Mariner Facility. Accordingly, the Company recorded the miners at an estimated fair value of $4.8 million, determined based on a contemporaneous observed market price for identical assets, in property, plant and equipment, net and the Company reduced the equity in net assets of investee balance by $16.3 million, the book value of the miners in Nautilus' books and records, in the consolidated balance sheet as of December 31, 2022 and recorded a loss of $11.5 million as a component of equity in net loss of investee, net of tax in the consolidated statement of operations for the year ended December 31, 2022.

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In February, March and April 2023, the Company, as allowed under the A&R Nautilus Agreement, transferred control of approximately 4,900 MinerVA miners from Nautilus to its Lake Mariner Facility, including certain miners that have yet to be shipped from MinerVA. Accordingly, the Company recorded the miners at an estimated fair value of $6.9 million, determined based on a contemporaneous observed market price for similar assets, in property, plant and equipment, net and the Company reduced the equity in net assets of investee balance by $20.4 million, the book value of the miners in Nautilus' books and records, in the consolidated balance sheet as of December 31, 2023 and recorded a loss of $13.6 million as a component of equity in net loss of investee, net of tax in the consolidated statement of operations for the year ended December 31, 2023. The Company had recorded $0.8 million in deposits on miners related to approximately 600 miners that had yet to be shipped from MinerVA. As of December 31, 2023, the Company determined it not probable that the miners would be received and, accordingly, recognized a loss on disposal of deposits on miners of $0.8 million, which is included within loss on disposals of property, plant, and equipment in the consolidated statement of operations for the year ended December 31, 2023.

As contemplated in the A&R Nautilus Agreement, members are allowed to make contributions of miners up to the effective electrical capacity of their owned infrastructure percentage. During the years ended December 31, 2023 and 2022, the Company contributed to Nautilus certain miners with a fair value, determined based on miner vendor contracts, of $36.7 million and $11.6 million, respectively. Accordingly, as of December 31, 2023 and 2022, the Company increased the equity in net assets of investee balance by $36.7 million and $11.6 million, respectively, and reduced the property, plant and equipment, net balance by the same amounts in the consolidated balance sheets.

On March 1, 2024, a subsidiary of Talen sold substantially all its assets to an unaffiliated third party, including the land that Nautilus utilizes pursuant to the Nautilus Ground Lease. In connection with the sale, the Nautilus Ground Lease was assigned from Talen to the purchaser of the assets.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company is not a party to any material legal proceedings and is not aware of any pending or threatened claims. From time to time, the Company may be subject to various legal proceedings, regulatory inquiries and claims that arise in the ordinary course of its business activities.

Bitmain Miner Purchase Agreements

In July 2023, the Company entered into a Future Sales and Purchase Agreement with Bitmain Technologies Delaware Limited ("Bitmain Delaware") for the aggregate purchase of 15,100 S19j XP miners, with an option to receive an additional 3,400 miners, pursuant to certain payment timing conditions, for delivery in the fourth quarter of 2023 (the "July 2023 Bitmain Agreement") for a total purchase price of $75.4 million. The Company was entitled to apply coupons equivalent to 30% of the total purchase price, resulting in an estimated effective purchase price of $53.4 million for the total of 18,500 miners. In September 2023, the Company entered into a binding letter of intent with Bitmain Development PTE. Ltd. ("Bitmain PTE"), for the purchase of at least 1,200 PH of Antminer S21 miners, pursuant to which the Company paid a security deposit of $1.2 million during the year ended December 31, 2023. During the year ended December 31, 2023, the Company elected not to purchase the applicable quantity of Antminer S21 miners, as allowed under the letter of intent, and instead the $1.2 million security deposit was credited to the Company's account with Bitmain PTE and applied to the July 2023 Bitmain Agreement. As of December 31, 2023, the Company had made payments of $36.2 million representing 67% of the effective purchase price, including application of coupons and credits. Subsequent to December 31, 2023, the Company made the remaining $17.7 million payments to Bitmain Delaware and received all miners contracted under the July 2023 Bitmain Agreement.

Other Commitments

In February 2022, the Company entered into an agreement with the Power Authority of the State of New York ("NYPA") for the purchase of up to 90 MW of electric power over a term of ten years. This agreement includes certain Company site investment commitments including employment targets and capital investment targets. The allocation of 90 MW may be reduced by NYPA based on the Company's actual electricity usage, as defined and periodically measured, if lower than the allocation or if the site investment commitments are not met.

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NOTE 13 – DEFINED CONTRIBUTION PLAN

The TeraWulf Inc. 401(k) Plan is a safe harbor defined contribution plan which qualified under section 401(k) of the Internal Revenue Code. A participant's right to claim a distribution of his or her account balance is dependent on the plan, Employee Retirement and Income Security Act guidelines and Internal Revenue Service regulations. All active participants are fully vested in all contributions to the 401(k) plan. During the years ended December 31, 2023 and 2022, the Company expensed approximately $0.2 million and $0.1 million, respectively, for Company matching contributions.

NOTE 14 – CONVERTIBLE PREFERRED STOCK

TeraWulf Convertible Preferred Stock

In March 2022, TeraWulf entered into Series A Convertible Preferred Stock Subscription Agreements (the "Subscription Agreements") with certain accredited and institutional investors (collectively, the "Holders"). Pursuant to the Subscription Agreements, the Company sold 9,566 shares (of 10,000 shares authorized) of Series A Convertible Preferred Stock, par value $0.001 per share (the "Convertible Preferred Stock") to the Purchasers for an aggregate purchase price of $9.6 million. The Subscription Agreements contain customary representations, warranties, covenants and agreements of the Company. The offer and sale of the Convertible Preferred Stock were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement.

Holders of the Convertible Preferred Stock will accumulate cumulative dividends at an annual rate of 10.0% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share, accumulating on a daily basis and payable quarterly on March 31st, June 30th, September 30th and December 31st, respectively, in each year and commencing June 30, 2022. Commencing June 30, 2022, unpaid dividends will be accreted to the liquidation preference. The initial liquidation preference is $1,000 per share. Holders of the Convertible Preferred Stock will also be entitled to such dividends paid to holders of the Company's Common Stock, if applicable, as if such Holders of the Convertible Preferred Stock had converted their Preferred Shares into Common Stock (without regard to any limitations on conversions) and had held such shares of the Company's Common Stock on the record date for such dividends and distributions. If applicable, such payments will be made concurrently with the dividend or distribution to the holders of the Company's Common Stock. Upon liquidation, the Convertible Preferred Stock will rank senior to the Company's Common Stock, and will have the right to be paid, out of the assets of the Company legally available for distribution to its stockholders, an amount equal to the Liquidation Preference (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of the Convertible Preferred Stock. Holders of Convertible Preferred Stock will not generally have the right to vote at any meeting of stockholders, except for certain protective voting rights, as defined. The Convertible Preferred Stock does not have a maturity date.

The Holders of the Convertible Preferred Stock will have a right to effect an optional conversion of all or any whole number of shares of the Convertible Preferred Stock at any time and from time to time. The Company will have a right to effect a mandatory conversion of the Convertible Preferred Stock after the third anniversary of the issuance date if the Last Reported Sale Price (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of Common Stock exceeds 130.0% of the Conversion Price, as defined, on each of at least five (5) trading days (whether or not consecutive) during the fifteen consecutive trading days ending on, and including, the trading day immediately before the mandatory conversion notice date for such mandatory conversion. The number of shares of Common Stock issuable upon conversion will be equal to the liquidation preference, including accumulated and unpaid dividends, divided by the Conversion Price, as defined. The Conversion Price is determined by dividing $1,000 by the Conversion Rate, as defined, which is initially 100 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. The Conversion Rate will be adjusted for certain customary events, including (but not limited to) stock dividends, stock splits or combinations, tender offers or exchange offers and, additionally, for Fundamental Changes, as defined, to include (but are not limited to) a change in control of the Company, disposition of substantially all assets of the Company, the Company's Common Stock holders approve a plan of liquidation or dissolution or the Company's Common Stock cease to be listed on the Nasdaq Capital Market. A Fundamental Change will adjust the Conversion Rate based on the date of the Fundamental Change and the Stock Price, as defined, on such date. The Conversion rate will not exceed 125 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. If any Convertible Preferred Stock is to be converted pursuant to a Holder's optional conversion, the Company will have the option to settle such conversion in cash, as defined.

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No dividends were paid during the years ended December 31, 2023 and 2022. Cumulative dividends of $1.9 million were accumulated and accreted to liquidation preference as of December 31, 2023. As of December 31, 2023, the aggregate liquidation preference of the Convertible Preferred Stock was approximately $11.4 million. If the entire liquidation preference of the Convertible Preferred Stock was converted at the Conversion Price, the Company would issue approximately 1.1 million shares of Common Stock.

NOTE 15 – COMMON STOCK

On February 23, 2023 (the "Shareholder Approval Date"), the Company held a Special Meeting of Stockholders. Two proposals were approved. The results of the matters submitted to a stockholder vote at the Special Meeting were as follows: (1) the Company's stockholders adopted a charter amendment to increase the number of authorized shares of the Company's common stock, par value $0.001 per share, from 200,000,000 to 400,000,000 and increase the number of authorized shares of the Company's preferred stock, par value $0.001 per share, from 25,000,000 to 100,000,000 and (2) the Company's stockholders adopted a charter amendment to remove the restriction on stockholder action by written consent.

As of December 31, 2023, TeraWulf's Certificate of Incorporation provides for authorized shares of 500,000,000, divided into (a) 400,000,000 shares of Common Stock, with par value of $0.001 per share and (b) 100,000,000 shares of Preferred Stock, with par value of $0.001 per share. Each holder of a share of Common Stock shall be entitled to one vote of each common share held. Each holder of a share of Preferred Stock shall not be entitled to any voting powers, except as provided in an applicable Certificate of Designations. The board of directors may authorize one or more series of Preferred Stock and may fix the number of shares in such series and the designation, powers, preferences, rights, qualifications, limitations and restrictions in respect of the shares of such series. One series of preferred stock, the Convertible Preferred Stock, was authorized as of December 31, 2023.

In March 2022, the Company concluded a private placement of 271,447 of unregistered Common Stock for proceeds of $2.1 million to an entity controlled by a member of Company management (the "Subscriber"). The Subscriber is entitled to customary registration rights as reasonably agreed between the Subscriber and the Company.

In April 2022, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Cantor Fitzgerald & Co., as underwriter (the "Underwriter"), pursuant to which the Company issued and sold to the Underwriter an aggregate of 2,985,966 shares of the Company's Common Stock, par value $0.001 per share (the "April Shares"), for gross proceeds of approximately $20.6 million, before deducting underwriting discounts and commissions and offering expenses payable by the Company. The issuance and sale of the April Shares by the Company under the Underwriting Agreement were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated April 11, 2022.

In April 2022, the Company concluded a private placement of 634,517 of unregistered Common Stock for proceeds of $5.0 million to an entity controlled by a member of Company management and to certain other significant stockholders.

In April 2022, the Company entered into a sales agreement (the "ATM Sales Agreement") with Cantor Fitzgerald & Co., B. Riley Securities, Inc. and D.A. Davidson & Co. ("D.A. Davidson"), pursuant to which the Company may offer and sell, from time to time, through or to the agents thereunder, shares of the Company's Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million (the "ATM Program"). The ATM Sales Agreement replaced a similar agreement with B. Riley Securities, Inc. and D.A. Davidson. Following the Company's and D.A. Davidson's agreement to terminate the ATM Sales Agreement with respect to D.A. Davidson effective August 7, 2023, the ATM Sales Agreement was further amended on August 11, 2023, adding Northland Securities, Inc. and Compass Point Research & Trading, LLC as agents (all four agents, collectively, the "ATM Agents"). The Company is not obligated to sell any shares under the ATM Program. The Company will pay the ATM Agents a commission equal to 3.0% of the gross sales price from each sale of shares. The issuance and sale of the shares of Common Stock by the Company under the ATM Program are made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated April 26, 2022. During the years ended December 31, 2023 and 2022, the Company sold pursuant to the ATM Program 56,985,498 and 2,910,909 shares of Common Stock, respectively, for net proceeds of $105.5 million and $9.7 million, respectively. As of December 31, 2023, the remaining capacity of the ATM Program to offer and sell shares of Common Stock is $81.2 million.

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In October 2022, the Company entered into unit subscription agreements with certain accredited investors in privately negotiated transactions (collectively, the "October Purchasers") as part of a private placement (the "October Private Placement") exempt from registration under the Securities Act of 1933, as amended. Pursuant to the agreements, the Company sold 7,481,747 units, each consisting of one share of the Common Stock and one warrant (the "October Warrants"), exercisable at a price of $1.93 per Common Share, to the October Purchasers for an aggregate purchase price of approximately $9.4 million based on an offering price equal to the trailing 10-day volume weighted price of $1.26 for each Common Share plus one warrant. Approximately $3.5 million of the aggregate purchase price related to investments by entities controlled by members of Company management. In connection with the agreements, the Company and the October Purchasers entered into a Registration Rights Agreement, pursuant to which the Company agreed to provide customary shelf and piggyback registration rights to the October Purchasers with respect to the shares of Common Stock underlying the October Warrants. The Company allocated the proceeds between the Common Stock and the October Warrants based on the relative fair values of the financial instruments, with $5.1 million allocated to the Common Stock and $4.3 million allocated to the October Warrants. In January 2023, certain of these investors agreed to amend the terms of their October Warrants such that their warrants would become exercisable only after the Shareholder Approval Date.

In December 2022, the Company entered into subscription agreements or unit subscription agreements with certain accredited and institutional investors in privately negotiated transactions (the "December Purchasers") as part of a private placement (the "December Private Placement") exempt from registration under the Securities Act of 1933, as amended. Pursuant to these agreements, the Company issued for an aggregate purchase price of $6.7 million (i) 16,850,000 shares of Common Stock at a purchase price of $0.40 per share of Common Stock and (ii) 11,250,000 warrants (the "December Warrants") exercisable for 8,750,000 shares of Common Stock, at an exercise price equal to $0.40 per share of Common Stock. The December Warrants became exercisable on January 16, 2023 and expired on January 31, 2023. In connection with the issuance of the December Warrants, the Company and the December Purchasers entered into a Registration Rights Agreement, pursuant to which the Company agreed to provide customary shelf and piggyback registration rights to the December Purchasers with respect to the shares of Common Stock underlying the December Warrants. The Company allocated the proceeds between the Common Stock and the December Warrants based on the relative fair values of the financial instruments, with $5.4 million allocated to the Common Stock and $1.3 million allocated to the December Warrants. In January 2023, 50% of the December Warrants were exercised for proceeds of $1.8 million while the remaining 50% of the December Warrants expired. In January 2023, the Company entered into additional subscription agreements with certain December Purchasers pursuant to which such December Purchasers purchased from the Company shares of Common Stock, at a purchase price of $0.40 per share of Common Stock, in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $1.8 million (the "January Private Placement"). The January Private Placement effectively replaced the then 50% unexercised December Warrants at the same purchase price of $0.40 per share of Common Stock. The closing of the January Private Placement was subject to certain conditions, including the completion of a $30 million equity capital raise by the Company, which may have been unilaterally waived by the December Purchasers, and the receipt of shareholder approval of an increase to issued and unauthorized shares of Common Stock. Pursuant to these Common Stock subscription agreements, the Company agreed to provide customary registration rights to the certain December Purchasers. These Common Stock subscription agreements contain customary representations, warranties, covenants and are subject to customary closing conditions and termination rights. The funds pursuant to the additional subscription agreements were received during the three months ended March 31, 2023 and the shares of Common Stock were issued in April 2023.

In January 2023, the Company entered into (a) subscription agreements (the "Warrant Subscription Agreements") with certain accredited investor entities controlled by members of Company management (the "Warrant Investors") pursuant to which such Warrant Investors purchased from the Company 2,380,952 warrants, each exercisable to purchase one share of the Company's Common Stock at an exercise price of $0.00001 per share of Common Stock (the "January 2023 Warrants"), in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $2.5 million, based on a price per share of Common Stock of $1.05 for a total of 2,380,952 shares of Common Stock and (b) warrant agreements (the "Warrant Agreements") with such Warrant Investors. The Warrant Agreements governed the terms and conditions of the January 2023 Warrants, which were exercisable beginning on the first business day following the date on which shareholder approval of an increase in the Company's authorized Common Stock was obtained, which occurred on the Shareholder Approval Date, and would have expired on December 31, 2023. The Warrant Investors are entitled to customary registration rights with respect to the shares of common stock issuable upon exercise of the Warrant Subscription Agreements. The January 2023 Warrants were exercised and 2,380,952 shares of Common Stock were issued in April 2023.

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In January 2023, the Company entered into an exchange agreement (the "Exchange Agreement") with an entity controlled by a member of management (the "Exchanging Shareholder"). Pursuant to the Exchange Agreement, the Exchanging Shareholder exchanged a total of 12,000,000 shares of Common Stock for 12,000,000 new warrants issued by the Company (the "New Exchange Warrants") in a private exchange exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act. The reacquired shares of Common Stock were not retired. The New Exchange Warrants were exercisable at a strike price of $0.0001 per share beginning on the first business day following the date on which shareholder approval of an increase in the Company's authorized Common Stock was obtained, which occurred on the Shareholder Approval Date, and would have expired on December 31, 2023. The Exchanging Shareholder is entitled to customary registration rights with respect to the shares of common stock issuable upon exercise of the New Exchange Warrants. The Exchange Agreement contains customary representations, warranties, covenants and is subject to customary closing conditions and termination rights. The New Exchange Warrants were exercised and 12,000,000 shares of Common Stock were issued in April 2023.

In February 2023, the Company commenced an underwritten public offering of 36,764,706 shares of Common Stock at $0.68 per share (the "Offering"). JonesTrading Institutional Services LLC, as representative of the several underwriters (the "Underwriters") and pursuant to an underwriting agreement (the "Underwriting Agreement"), acted as book-running manager for the Offering. The Underwriting Agreement includes customary representations, warranties and covenants by the Company and customary conditions to closing, obligations of the parties and termination provisions. Additionally, under the terms of the Underwriting Agreement, the Company agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the Underwriters may be required to make in respect of these liabilities. Pursuant to the Underwriting Agreement, the Company granted the Underwriters a 30-day over-allotment option to purchase up to an additional 5,514,705 shares of its Common Stock, of which the Underwriters elected to purchase 4,000,000 of the over-allotment prior to the close of the Offering. The Offering closed on March 1, 2023 and the Company issued 40,764,706 shares of Common Stock and received net proceeds under the Offering of $26.6 million. The Common Stock was issued pursuant to the Company's effective Registration Statement on Form S-3 (File No. 333-262226).

In February 2023, the Company entered into subscription agreements with certain accredited investors (the "February Common Stock Investors"), pursuant to which the February Common Stock Investors purchased 1,386,467 shares of Common Stock at a purchase price of $0.68 per share for net proceeds to the Company of $0.9 million. The purchase funds were received during the three months ended March 31, 2023 and the shares of Common Stock were issued in April 2023. The private placement transaction was exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act.

During the year ended December 31, 2023, 2,740,587 warrants issued in connection with the LGSA were exercised for issuance of the same number of shares of Common Stock for aggregate proceeds to the Company of $27,000. During the year ended December 31, 2022, 5,714,823 warrants were exercised for issuance of the same number of shares of Common Stock for aggregate proceeds to the Company of $58,000.

No dividends were declared during the years ended December 31, 2023 and 2022.

NOTE 16 – STOCK BASED COMPENSATION

In May 2021, the Company made effective the 2021 Omnibus Incentive Plan (the "Plan") for purpose of attracting and retaining employees, consultants and directors of the Company and its affiliates by providing each the opportunity to acquire an equity interest in the Company or other incentive compensation in order to align the interests of such individuals with those of the Company's stockholders. The Plan provides for a maximum number of shares to be issued, limitations of shares to be delivered for incentive stock options and a maximum compensation amount for any non-employee member of the board of directors, among other provisions. The form of grants under the Plan includes stock options, stock appreciation rights, restricted stock and RSUs. Additionally, during the year ended December 31, 2023 the Company issued 415,910 shares of Common Stock to members of the board of directors for payment of quarterly fees in lieu of cash payments. For the years ended December 31, 2023 and 2022, stock-based compensation expense was $5.9 million and $1.6 million, respectively.

During the year ended December 31, 2023, certain employees, in lieu of paying withholding taxes on the vesting of certain shares of RSU awards, authorized the withholding of an aggregate of 1,578,056 shares of the Company's Common Stock

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TERAWULF INC. AND SUBSIDIARIES

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to satisfy statutory withholding requirements related to such vesting. Shares withheld for the payment of withholding taxes are not deemed issued under the Plan and remain available for issuance.

The following table summarizes the activities for unvested Company RSUs granted to employees and members of the board of directors during the year ended December 31, 2023:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2021	—	$ -
Granted	1,931,187	2.87
Vested	—	-
Forfeited/canceled	—	-
Unvested as of December 31, 2022	1,931,187	2.87
Granted	6,872,358	0.43
Vested	(4,797,854)	0.72
Forfeited/canceled	(52,942)	1.70
Unvested as of December 31, 2023	3,952,749	$ 1.26

RSUs granted as set out in the table above include RSUs representing 3,900,000 shares with vesting based on market conditions tied to the Company's stock price (the "PSUs"). The PSUs are subject to performance-based vesting conditions measured over a three-year performance period and vest based on the Company's achievement of stock price hurdles as follows: (i) one-third of the PSUs vested on the Company's achievement of a stock price hurdle equal to $1.50 per share or greater during the year ended December 31, 2023; (i) one-third of the PSUs vested on the Company's achievement of a stock price hurdle equal to $2.50 per share or greater during the year ended December 31, 2023; and (iii) one-third of the PSUs will vest on the Company's achievement of a stock price hurdle equal to $3.50 per share or greater, in each case, subject to the respective employee's continued service through the applicable determination date. The stock price hurdle represents the average closing price of the Company's common stock on Nasdaq during the 45 trading days immediately preceding the applicable determination date. Any unvested PSUs will be forfeited if the performance targets are not achieved within three years of the grant date. The requisite service period for RSUs is between one and three years. As of December 31, 2023, there was $3.0 million of unrecognized compensation cost related to unvested RSUs and PSUs granted to employee and members of the board of directors. The amount is expected to be recognized over a weighted average period of 0.6 years.

The following table summarizes the activities for unvested Company RSUs granted to non-employees, excluding members of the board of directors, during the year ended December 31, 2023:

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	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2021	—	$ -
Granted	134,669	1.41
Vested	—	-
Forfeited/canceled	(52,024)	1.73
Unvested as of December 31, 2022	82,645	1.21
Granted	2,870,564	0.82
Vested	(372,972)	1.15
Forfeited/canceled	(190,845)	0.70
Unvested as of December 31, 2023	2,389,392	$ 0.79

The requisite service period for grants, including derived service periods for RSUs with market conditions, is generally between one and three years. As of December 31, 2023, there was $1.1 million of unrecognized compensation cost related to unvested non-employee, excluding members of the board of directors, RSUs. The amount is expected to be recognized over a weighted average period of 1.0 years.

NOTE 17 – RELATED PARTY TRANSACTIONS

In April 2021, the Company entered into an Administrative and Infrastructure Services Agreement (the "Services Agreement") with Beowulf Electricity & Data Inc. ("Beowulf E&D"), a related party due to control by a member of Company management. Under the Services Agreement, Beowulf E&D will provide, or cause its affiliates to provide, to TeraWulf certain services necessary to construct and operate certain bitcoin mining facilities developed or anticipated to be developed by the Company and support the Company's ongoing business, including, among others, services related to construction, technical and engineering, operations and maintenance, procurement, information technology, finance and accounting, human resources, legal, risk management and external affairs consultation. The Services Agreement has an initial term of five years and provides for certain fixed, passthrough and incentive payments to Beowulf E&D, including issuing to certain designated employees of Beowulf E&D awards with respect to shares of TeraWulf Common Stock upon the consummation of an initial public offering of TeraWulf or the consummation of a merger following which TeraWulf is listed on a nationally recognized securities exchange and, thereafter, upon achievement of certain milestones regarding bitcoin mining capacity deployed at the bitcoin mining facilities. For the base fee, the Company originally agreed to pay Beowulf E&D in monthly installments an annual fee for the first year in the amount of $7.0 million and, thereafter, an annual fee equal to the greater of $10.0 million or $0.0037 per kilowatt hour of electric load utilized by the bitcoin mining facilities. In March 2023, TeraWulf and Beowulf E&D entered into an Amendment No. 1 to the Services Agreement, pursuant to which TeraWulf agreed to pay Beowulf E&D, effective as of January 1, 2023, a reduced annual base fee equal to $8.5 million payable in monthly installments, until all obligations under the Company's LGSA, as amended and restated from time to time, are either indefeasibly repaid in full or refinanced. The Services Agreement also provides for reimbursement of cost and expenses incurred in connection with providing the services. For the years ended December 31, 2023 and 2022, the Company paid Beowulf E&D $20.3 million and $16.9 million, respectively, under the Services Agreement, including payments related to construction agreements with contractors at the Lake Mariner Facility. For the years ended December 31, 2023 and 2022, selling, general and administrative expenses – related party in the consolidated statements of operations includes $13.3 million and $12.6 million, respectively, and operating expenses – related party in the consolidated statements of operations includes $1.5 million and $0.5 million, respectively, in each case related to the base fee and reimbursement of costs and expenses. As of December 31, 2023, $0.7 million is included in prepaid expenses, $1.0 million is included in other amounts due to related parties and $6.6 million is included in property, plant and equipment, net in the consolidated balance sheet. As of December 31, 2022, $0.8 million is included in prepaid expenses, $3.0 million, including $2.2 million related to the Payment Netting Agreement, is included in amounts due to related parties and $5.9 million is included in property, plant and equipment, net in the consolidated balance sheet.

The Services Agreement also provides for performance related milestones and related incentive compensation. In connection with the listing of its Common Stock on a nationally recognized stock exchange in December 2021, pursuant to the Services Agreement, the Company agreed to issue awards valued at $12.5 million with respect to shares of its Common

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Stock to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. Once the mining facilities have utilized 100 MW of cryptocurrency mining load in the aggregate, and for every incremental 100 MW of cryptocurrency mining load deployed thereafter, the Company agreed to issue additional awards of shares of the Company's Common Stock each in the amount of $2.5 million to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. During the year ended December 31, 2022, the Company considered it probable that the first performance milestone of 100 MW of mining load deployed by the mining facilities would be met, and it was deemed met in April 2023. During the year ended December 31, 2023, the Company considered it probable that the second performance milestone of incremental 100 MW of mining load deployed by the mining facilities would be met, and it was deemed met in December 2023. Accordingly, the Company recognized $2.9 million and $2.1 million in expense during the years ended December 31, 2023 and 2022, respectively, which is included within selling, general and administrative expense – related party in the consolidated statements of operations and recognized corresponding share based liabilities due to related party in the consolidated balance sheets as of December 31, 2023 and 2022, respectively. In September 2023, the Company and Beowulf E&D agreed to settle the then outstanding $15.0 million share based liabilities due to related party by issuing 2,460,513 shares of the Company's Common Stock with a fair value of $3.4 million and the Company recorded the remaining reduction to the share based liabilities due to related party of $11.6 million to additional paid-in capital during the year ended December 31, 2023. As of December 31, 2023 and 2022, $2.5 million and $14.6 million, respectively, are included in share based liabilities due to related party in the consolidated balance sheets. In February 2024, the Company issued 1,083,189 shares of the Company's Common Stock with a fair value of $2.5 million to settle the share based liabilities due to related party as of December 31, 2023.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent to December 31, 2023 and through March 19, 2024, the Company repaid $33.4 million of the outstanding principal balance of the Term Loans, which was comprised of (i) $14.8 million in accordance with the excess cash flow sweep provision of the Fifth Amendment to the LGSA for the quarter ended December 31, 2023, and (ii) $18.6 million as a voluntary prepayment of the Term Loans. The Company incurred prepayment fees of $0.3 million and, as the Company repaid at least $40.0 million of the principal balance of the Term Loans, the excess cash flow sweep automatically extended to the maturity of the Term Loans.

Subsequent to December 31, 2023 and through March 19, 2024, the Company sold, pursuant to the ATM Program, 22,945,565 shares of Common Stock for net proceeds of $49.9 million.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. In connection with this 2023 Form 10-K, our management evaluated, with the participation of our current chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of December 31, 2023, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that our disclosure controls and procedures were effective as of December 31, 2023.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of our internal control over financial reporting. The internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and our expenditures are being made only in accordance with authorizations of management and our directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making the assessment of the effectiveness of our internal control over financial reporting, management has utilized the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, (2013 framework) ("COSO"). Based on our evaluation under the COSO criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2023, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

As previously disclosed in Item 4, Controls and Procedures on Form 10-Q/A for the quarterly period ended September 30, 2023, the Company identified a material weakness in internal control over financial reporting related to the inadequate design or operation of management's review controls over classification in the consolidated statements of cash flows of payments made related to business combinations. As of December 31, 2023, this weakness had been remediated with more robust and timely review controls over classification in the consolidated statements of cash flows of payments made related to business combinations to ensure that our consolidated financial statements are prepared in accordance with U.S. GAAP.

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TERAWULF INC. AND SUBSIDIARIES

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*Deloitte & Touche LLP, PCAOB Firm ID No. 34; RSM US LLP, PCAOB Firm ID No. 49

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of TeraWulf Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of TeraWulf Inc. and subsidiaries (the "Company") as of December 31, 2024, the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2024, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024, and the results of its operations and its cash flows for the year ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2025, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Mining Revenue- Refer to Notes 2 and 5 to the financial statements

Critical Audit Matter Description

The Company participates in a cryptocurrency mining pool (“the mining pool”) to provide hash computation services to the mining pool operator. The Company recognizes revenue as they fulfill their performance obligation over time by providing hash computation services in exchange for Bitcoin. Once the hash computation services are transferred to the mining pool operator, the mining pool operator will compensate the Company for the hash computation services provided with a payout in Bitcoin. For the year ended December 31, 2024, revenue from mining (“mining revenue”) was $139.2 million.

We identified the auditing of mining revenue as a critical audit matter due to the extent of audit effort required to perform audit procedures over the Company’s hash computation services provided to the mining pool operator, the associated contractual payouts including the blockchain contractual inputs, the Company’s valuation of bitcoin received from the mining pool operator, and evaluating the results of those procedures.

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How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's process for recording mining revenue included the following, among others:

- With the assistance of our Information Technology (IT) specialists, we identified the significant systems used to monitor hash computation and tested the general IT controls over each of these systems, including complementary user entity controls.
- We tested the effectiveness of controls over the Company's mining revenue calculation.
- We tested the amount of the mining revenue recorded by developing an expectation for the amount recorded based on the hash computation services provided to the mining pool operator and the payout method prescribed in the contract with the mining pool operator and comparing our expectation to the amount recorded by the Company.
- We confirmed with the mining pool operator the significant contractual terms utilized in the determination of mining revenue, total mining rewards earned, and the digital asset wallet addresses in which the rewards are deposited.
- We utilized our proprietary audit tool to independently obtain evidence from the Bitcoin blockchain to test the occurrence and accuracy of mining revenue.
- With the assistance of our Valuation specialists, we evaluated the reasonableness of the prices utilized by the Company to value bitcoin by obtaining independent bitcoin prices and comparing those to the prices selected by the Company.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 28, 2025

We have served as the Company's auditor since 2024.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of TeraWulf Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of TeraWulf Inc. and subsidiaries (the Company) as of December 31, 2023, the related consolidated statements of operations, stockholders' equity and cash flows, for each of the two years then ended, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We served as the Company's auditor from 2021 to 2024.

Minneapolis, Minnesota
March 19, 2024

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2024 AND 2023
(In thousands, except number of shares, per share amounts and par value)

	December 31, 2024	December 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 274,065	$ 54,439
Digital currency	476	1,801
Prepaid expenses	2,493	4,540
Other receivables	3,799	1,001
Other current assets	598	806
Total current assets	281,431	62,587
Equity in net assets of investee	—	98,613
Property, plant and equipment, net	411,869	205,284
Operating lease right-of-use asset	85,898	10,943
Finance lease right-of-use asset	7,285	—
Other assets	1,028	679
TOTAL ASSETS	$ 787,511	$ 378,106
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 24,382	$ 15,169
Accrued construction liabilities	16,520	1,526
Accrued compensation	4,552	4,413
Other accrued liabilities	4,973	4,766
Share based liabilities due to related party	—	2,500
Other amounts due to related parties	1,391	972
Current portion of operating lease liability	25	48
Current portion of finance lease liability	2	—
Insurance premium financing payable	—	1,803
Current portion of long-term debt	—	123,465
Total current liabilities	51,845	154,662
Operating lease liability, net of current portion	3,427	899
Finance lease liability, net of current portion	292	—
Long-term debt	—	56
Convertible notes	487,502	—
TOTAL LIABILITIES	543,066	155,617
Commitments and Contingencies (See Note 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 100,000,000 authorized at December 31, 2024 and 2023; 9,566 shares issued and outstanding at December 31, 2024 and 2023; aggregate liquidation preference of $12,609 and $11,423 at December 31, 2024 and 2023, respectively.	9,273	9,273
Common stock, $0.001 par value, 600,000,000 and 400,000,000 authorized at December 31, 2024 and 2023, respectively; 404,223,028 and 276,733,329 issued and outstanding at December 31, 2024 and 2023, respectively.	404	277
Additional paid-in capital	685,261	472,834
Treasury Stock at cost, 18,568,750 and 0 at December 31, 2024 and 2023, respectively	(118,217)	—
Accumulated deficit	(332,276)	(259,895)
Total stockholders' equity	244,445	222,489
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 787,511	$ 378,106

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2024, 2023 AND 2022
(In thousands, except number of shares and loss per common share)

	Year Ended December 31,		
	2024	2023	2022
Revenue	$ 140,051	$ 69,229	$ 15,033
Costs and expenses:			
Cost of revenue (exclusive of depreciation shown below)	62,608	27,315	11,083
Operating expenses	3,387	2,116	2,038
Operating expenses — related party	4,262	2,773	1,248
Selling, general and administrative expenses	57,883	23,693	22,770
Selling, general and administrative expenses — related party	12,695	13,325	13,280
Depreciation	59,808	28,350	6,667
Gain on fair value of digital currency, net	(2,200)	—	—
Realized gain on sale of digital currency	—	(3,174)	(569)
Impairment of digital currency	—	3,043	1,457
Loss on disposals of property, plant, and equipment, net	17,824	1,209	—
Loss on nonmonetary miner exchange	—	—	804
Total costs and expenses	216,267	98,650	58,778
Operating loss	(76,216)	(29,421)	(43,745)
Interest expense	(19,794)	(34,812)	(24,679)
Loss on extinguishment of debt	(6,300)	—	(2,054)
Other income	3,927	231	—
Loss before income tax and equity in net income (loss) of investee	(98,383)	(64,002)	(70,478)
Income tax benefit	—	—	256
Equity in net income (loss) of investee, net of tax	3,363	(9,290)	(15,712)
Gain on sale of equity interest in investee	22,602	—	—
Loss from continuing operations	(72,418)	(73,292)	(85,934)
Loss from discontinued operations, net of tax	—	(129)	(4,857)
Net loss	$ (72,418)	$ (73,421)	$ (90,791)
Loss per common share:			
Continuing operations	$ (0.21)	$ (0.35)	$ (0.78)
Discontinued operations	—	—	(0.04)
Basic and diluted	$ (0.21)	$ (0.35)	$ (0.82)
Weighted average common shares outstanding:			
Basic and diluted	351,315,476	209,956,392	110,638,792

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024, 2023 AND 2022
(In thousands, except number of shares)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
	Number	Amount	Number	Amount				
Balances as of January 1, 2022	—	$ —	99,976,253	$ 100	$ 218,762	$ —	$ (95,683)	$ 123,179
Issuance of Series A Convertible Preferred Stock, net of issuance costs	9,566	9,273	—	—	—	—	—	9,273
Warrant issuances in conjunction with debt offerings	—	—	—	—	8,315	—	—	8,315
Warrant issuances in conjunction with equity offerings	—	—	—	—	5,700	—	—	5,700
Stock-based compensation expense	—	—	—	—	1,568	—	—	1,568
Warrant exercise	—	—	5,714,823	6	52	—	—	58
Modifications to embedded conversion feature of convertible promissory notes	—	—	—	—	1,592	—	—	1,592
Issuance of common stock, net of issuance costs	—	—	39,801,895	39	58,821	—	—	58,860
Net loss	—	—	—	—	—	—	(90,791)	(90,791)
Balances as of December 31, 2022	9,566	$ 9,273	145,492,971	$ 145	$ 294,810	$ —	$ (186,474)	$ 117,754
Common stock reacquired in exchange for warrants	—	—	(12,000,000)	(12)	(12,479)	—	—	(12,491)
Warrant issuance in conjunction with debt modification	—	—	—	—	16,036	—	—	16,036
Warrant offerings	—	—	—	—	14,991	—	—	14,991
Warrant exercise	—	—	25,871,539	27	3,500	—	—	3,527
Common stock offering, net of issuance costs	—	—	99,136,670	98	132,444	—	—	132,542
Convertible promissory notes converted to common stock	—	—	11,762,956	12	4,693	—	—	4,705
Common stock issued for share based liabilities due to related party	—	—	2,460,513	2	14,998	—	—	15,000
Stock-based compensation expense and issuance of stock	—	—	5,586,736	5	5,854	—	—	5,859
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(1,578,056)	—	(2,013)	—	—	(2,013)
Net loss	—	—	—	—	—	—	(73,421)	(73,421)
Balances as of December 31, 2023	9,566	$ 9,273	276,733,329	$ 277	$ 472,834	$ —	$ (259,895)	$ 222,489
Cumulative-effect adjustment due to the adoption of Accounting Standard Update 2023-08 (See Note 2)	—	—	—	—	—	—	37	37
Warrant exercise	—	—	31,853,909	32	4,776	—	—	4,808
Common stock offering, net of issuance costs	—	—	67,368,125	67	189,146	—	—	189,213
Common stock issued for share based liabilities due to related party	—	—	1,083,189	1	2,499	—	—	2,500
Common stock issued for new ground lease to related party	—	—	20,000,000	20	68,740	—	—	68,760

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Purchase of capped call	—	—	—	—	(60,000)	—	—	(60,000)
Treasury stock repurchased	—	—	—	—	—	(118,217)	—	(118,217)
Stock-based compensation expense and issuance of stock	—	—	12,241,621	7	30,920	—	—	30,927
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(5,057,145)	—	(23,654)	—	—	(23,654)
Net loss	—	—	—	—	—	—	(72,418)	(72,418)
Balances as of December 31, 2024	9,566	$ 9,273	404,223,028	$ 404	$ 685,261	$ (118,217)	$ (332,276)	$ 244,445

See Notes to Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024, 2023 AND 2022
(In thousands)

	Year Ended December 31,		
	2024	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (72,418)	$ (73,421)	$ (90,791)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Amortization of debt issuance costs, commitment fees and accretion of debt discount	11,382	19,515	11,676
Related party expense to be settled with respect to common stock	—	2,917	2,083
Common stock issued for interest expense	—	26	82
Stock-based compensation expense	30,927	5,859	1,568
Depreciation	59,808	28,350	6,667
Amortization of right-of-use asset	1,373	1,001	303
Revenue recognized from digital currency mining and hosting services	(139,278)	(63,877)	(10,810)
Gain on fair value of digital currency, net	(2,200)	—	—
Realized gain on sale of digital currency	—	(3,174)	(569)
Impairment of digital currency	—	3,043	1,457
Proceeds from sale of digital currency	97,559	83,902	9,739
Digital currency paid as consideration for services	370	—	—
Loss on disposals of property, plant, and equipment, net	17,824	1,209	—
Loss on nonmonetary miner exchange	—	—	804
Loss on extinguishment of debt	6,300	—	2,054
Deferred income tax benefit	—	—	(256)
Equity in net loss of investee, net of tax	(3,363)	9,290	15,712
Gain on sale of equity interest in investee	(22,602)	—	—
Loss from discontinued operations, net of tax	—	129	4,857
Changes in operating assets and liabilities:			
Decrease (increase) in prepaid expenses	2,047	555	(3,601)
Decrease in amounts due from related parties	—	—	815
Increase in other receivables	(2,774)	(1,001)	—
Decrease (increase) in other current assets	288	(215)	(46)
(Increase) decrease in other assets	(466)	310	(994)
Increase (decrease) increase in accounts payable	740	(7,272)	10,197
Increase (decrease) in accrued compensation and other accrued liabilities	694	(931)	5,916
Increase (decrease) increase in other amounts due to related parties	480	(2,013)	700
(Decrease) increase in operating lease liability	(11,113)	(42)	175
Net cash (used in) provided by operating activities from continuing operations	(24,422)	4,160	(32,262)
Net cash (used in) provided by operating activities from discontinued operations	—	103	(1,804)
Net cash (used in) provided by operating activities	(24,422)	4,263	(34,066)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in joint venture, including direct payments made on behalf of joint venture	—	(2,845)	(46,172)
Reimbursable payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	—	—	(11,741)
Reimbursement of payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	—	—	11,716
Proceeds from sale of equity interest in investee	86,086	—	—
Purchase of and deposits on plant and equipment	(267,940)	(75,168)	(61,116)
Proceeds from sales of property, plant and equipment	23,324	—	—
Proceeds from sale of net assets held for sale	—	—	13,266
Proceeds from sale of digital currency	67,371	—	—
Net cash used in investing activities	(91,159)	(78,013)	(94,047)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt, net of issuance costs paid of $0, $0 and $38	—	—	22,462
Principal payments on long-term debt	(139,401)	(6,599)	—
Payments of prepayment fees associated with early extinguishment of long-term debt	(1,261)	—	—
Principal payments on finance lease	(941)	—	—
Proceeds from insurance premium and property, plant and equipment financing	211	2,513	7,041
Principal payments on insurance premium and property, plant and equipment financing	(2,103)	(2,738)	(4,924)
Proceeds from issuance of promissory notes to stockholders	—	—	3,416
Proceeds from issuance of common stock, net of issuance costs paid of $663, $1,051 and $142	188,715	135,917	47,326
Proceeds from exercise of warrants	4.808	2.500	5.700

Purchase of capped call	(60,000)	—	—
Purchase of treasury stock	(118,217)	—	—
Payments of tax withholding related to net share settlements of stock-based compensation awards	(23,654)	(2,013)	—
Proceeds from issuance of preferred stock	—	—	9,566
Proceeds from issuance of convertible notes, net of issuance costs paid of $12,950, $0, and $0	487,050	—	—
Proceeds from issuance of convertible promissory note	—	1,250	14,700
Principal payments on convertible promissory note	—	—	(15,306)
Payment of contingent value rights liability related to proceeds from sale of net assets held for sale	—	(10,964)	—
Net cash provided by financing activities	335,207	119,866	89,981
Net change in cash, cash equivalents and restricted cash	219,626	46,116	(38,132)
Cash, cash equivalents and restricted cash at beginning of year	54,439	8,323	46,455
Cash, cash equivalents and restricted cash at end of year	$ 274,065	$ 54,439	$ 8,323
Cash paid during the year for:			
Interest	$ 6,957	$ 19,572	$ 13,989
Income taxes	$ —	$ —	$ —

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TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

Organization

TeraWulf Inc. ("TeraWulf" or the "Company") is a vertically integrated owner and operator of next-generation digital infrastructure, primarily powered by zero-carbon energy. The Company develops and operates high-performance data centers optimized for bitcoin mining and high-performance computing ("HPC") workloads, leveraging clean, cost-effective, and reliable energy sources to drive long-term sustainability in digital infrastructure.

The Company generates revenue by providing hash computation services to a mining pool operator, enabling the validation of transactions on the global bitcoin network using application-specific integrated circuit ("ASIC") miners owned by TeraWulf. The bitcoin earned as consideration is routinely sold for U.S. dollars. The Company also generated revenue by providing bitcoin miner hosting services to third parties. While the Company has the capability to mine other digital currencies, it has no current plans to do so.

In 2024, the Company established WULF Compute, an internal initiative focused on development and deployment of scalable digital infrastructure to support a broader HPC strategy aimed at diversifying revenue streams by providing HPC hosting and colocation, cloud, and connectivity services for GPU-based HPC operations (see Note 7). Given the growing demand for high-density compute loads, TeraWulf's assets are well-positioned to supply low-cost, predominantly zero-carbon power to support these workloads.

During the years ended December 31, 2024 and 2023, TeraWulf owned and operated two bitcoin mining facilities: the Lake Mariner Facility in upstate New York (the "Lake Mariner Facility") and the Nautilus Cryptomine Facility in central Pennsylvania (the "Nautilus Cryptomine Facility").

The Lake Mariner Facility began mining bitcoin in March 2022, and as of December 31, 2024, the Company had energized 195 MW of capacity across four buildings and supporting infrastructure. The Company plans to energize a fifth miner building, adding 50 MW of incremental capacity, bringing the Lake Mariner Facility's total operational capacity to approximately 245 MW in the first half of 2025.

The Nautilus Cryptomine Facility, developed through a joint venture (see Note 11), commenced bitcoin mining operations in February 2023 and, by April 2023, had reached full energization of the Company's 50 MW allotted capacity. In October 2024, TeraWulf sold its entire 25% equity interest in the joint venture which owns the Nautilus Cryptomine Facility, enabling the Company to reallocate capital toward expanding its wholly owned digital infrastructure and advancing its HPC strategy.

In December 2021, TeraWulf completed a strategic business combination (the "Merger") with IKONICS Corporation ("IKONICS"), a Minnesota corporation, pursuant to which, among other things, the Company effectively acquired IKONICS and became a publicly traded company on the National Association of Securities Dealers Automated Quotations ("Nasdaq"), which was the primary purpose of the business combination. As of the date of the Merger, TeraWulf classified the IKONICS business as held for sale and discontinued operations in its consolidated financial statements. During the year ended December 31, 2023, the Company completed the sale of substantially all IKONICS' historical net assets (see Note 3). Subsequent to the asset sales, IKONICS' name was changed to RM 101 Inc. ("RM 101").

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform with current period presentation.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for (but are not limited to) such items as the fair value of contingent consideration issued in a business combination, the establishment of useful lives for property, plant and equipment and intangible assets, the fair value of equity securities or warrants to purchase the Company's common stock ("Common Stock") issued individually or as a component of a debt or equity offering, the fair value of changes to the conversion terms of embedded conversion features, the fair value and requisite service periods of stock-based compensation, the fair value of assets received in nonmonetary transactions, the establishment of right-of-use assets and lease liabilities that arise from leasing arrangements, the timing of commencement of capitalization for plant and equipment, impairment of indefinite-lived intangible assets, impairment of long-lived assets, recoverability of deferred tax assets, amortization of deferred issuance costs and debt discount, the fair value of leased assets for the purpose of lease classification, and the recording of various accruals. These estimates are made after considering past and current events and assumptions about future events. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"). The core principle of the 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
- 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

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative

standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Mining Pool

The Company has entered into an arrangement with a cryptocurrency mining pool (the Foundry USA Pool) to perform hash computations (i.e. hashrate) for the mining pool in exchange for consideration. Providing hash computation services to a mining pool is an output of the Company's ordinary activities. The provision of such hash computation services is the sole performance obligation. The mining pool arrangement is terminable at any time without substantial penalty by Foundry USA Pool and may be terminated without substantial penalty by the Company upon providing one Contract Day's, as defined, prior written notice. The Company's enforceable right to compensation only begins when and continues while the Company provides hash computation services to its customer, the mining pool operator. Accordingly, the contract term with Foundry USA Pool is deemed to be less than 24 hours and to continuously renew throughout the day. Additionally, the Company concluded that the mining pool operator's (i.e., the customer's) renewal right is not a material right because the renewal rights do not include any discounts; that is, the terms, conditions, and compensation amounts are at the then-current market rates.

There is no significant financing component in these transactions.

The mining pool applies the Full Pay Per Share ("FPPS") payout model. Under the FPPS model, in exchange for providing hash computation services to the pool, the Company is entitled to pay-per-share base amount and transaction fee reward compensation, calculated on a daily basis, at an amount that approximates the total bitcoin that could have been mined and transaction fees that could have been awarded using the Company's hash computation services, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation, payable in bitcoin, regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

The transaction consideration the Company receives, if any, is noncash consideration and is all variable. Because digital currency is considered noncash consideration, fair value of the digital currency award received would generally be determined using the quoted price of the related digital currency in the Company's principal market at the time of contract inception. The Company has adopted an accounting policy to aggregate individual contracts with individual terms less than 24 hours within each intraday period and apply a consistent valuation point, the start of day Coordinated Universal Time (00:00:00 UTC), to value the related noncash consideration. Revenue is recognized when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, which is the same day that control of the contracted service transfers to the mining pool and is the same day as the contract inception. After every 24-hour contract term, the mining pool transfers the digital currency consideration to the Company's designated digital currency wallets.

Consideration payable to the customer in the form of a pool operator fee, which is incurred only to the extent that the Company has generated FPPS consideration, is deducted from the bitcoin the Company receives and is recorded as contra-revenue, as it does not represent a payment for a distinct good or service.

The Company recorded revenue from mining of $139.3 million, $61.7 million, and $10.5 million during the years ended December 31, 2024, 2023, and 2022, respectively.

Bitcoin Miner Hosting

The Company's bitcoin miner hosting contracts were structured as service agreements with a single performance obligation. The primary service provided under these contracts included hosting customers' miners within a secure data center while supplying electrical power, internet connectivity, ambient air cooling, and access to maintenance resources.

Bitcoin miner hosting revenue was recognized over time, as customers simultaneously received and consumed the benefits of the Company's services. Revenue was recognized only to the extent that it was not subject to a significant risk of reversal. Customers were invoiced monthly, with payments primarily made in cash, although some consideration was received in digital currency. Because digital currency is treated as noncash consideration, its fair value was determined at the time of contract inception based on the quoted market price of the digital currency in the Company's principal market.

The Company had certain bitcoin miner hosting contracts, the last of which expired in February 2024. At the time of contract inception, the quoted price of bitcoin in the Company's principal market was approximately $38,000. The

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company recorded bitcoin miner hosting revenue of $0.8 million, $7.5 million and $4.6 million during the years ended December 31, 2024, 2023 and 2022, respectively.

HPC Hosting

In December 2024, the Company entered into long-term data center lease agreements (the "HPC Leases") with a customer to lease specified data center infrastructure at the Lake Mariner Facility to support the customer's HPC operations. In accordance with ASC 842, Leases ("ASC 842"), the Company determined at contract inception that these agreements contain a lease, including lease components related to the right to use data center space, as well as non-lease components covering power delivery, physical security, and maintenance services. The HPC Leases are expected to commence at various dates in 2025, each with an initial term of ten years. The agreements also provide the customer with two five-year renewal options and include a provision for expanding near-term HPC hosting capacity (see Note 7).

Cost of Revenue

Cost of revenue for mining pool revenue is comprised primarily of direct costs of electricity, but excludes depreciation which is separately presented. Cost of revenue for bitcoin miner hosting is comprised primarily of direct costs of electricity, labor and internet provision.

Power Curtailment Credits

Proceeds from participation in demand response programs are recorded as a reduction in cost of revenue in the consolidated statements of operations for the period in which the corresponding demand response program occurs. The Company recorded demand response program amounts of approximately $8.6 million, $3.5 million and $0.1 million during the years ended December 31, 2024, 2023 and 2022, respectively.

Cash and Cash Equivalents

Highly liquid instruments with an original maturity of three months or less are classified as cash equivalents. As of December 31, 2024 and 2023, the Company had cash and cash equivalents of $274.1 million and $54.4 million, respectively.

The Company maintains cash and cash equivalent balances primarily at two financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's accounts at these institutions are insured, up to $250,000, by the FDIC. As of December 31, 2024, the Company bank balances exceeded the FDIC insurance limit by $4.7 million. To reduce its risk associated with the failure of such financial institutions, the Company evaluates at least annually the rating of the financial institutions in which it holds deposits.

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Supplemental Cash Flow Information

The following table shows supplemental cash flow information (in thousands):

	Year Ended December 31,		
	2024	2023	2022
Supplemental disclosure of noncash activities:			
Cumulative-effect adjustment due to the adoption of Accounting Standard Update 2023-08	$ 37	$ —	$ —
Operating right-of-use asset obtained in exchange for lease obligation	$ 77,056	$ —	$ 11,223
Finance right-of-use asset obtained in exchange for lease obligation	$ 6,557	$ —	$ —
Contribution of plant and equipment or deposits on plant and equipment to joint venture	$ —	$ 35,792	$ 11,267
Deferred financing costs in accounts payable or other accrued liabilities	$ —	$ —	$ 249
Common stock issuance costs in accounts payable	$ —	$ —	$ 131
Preferred stock issuance costs in other accrued liabilities or accounts payable	$ —	$ —	$ 293
Purchases of and deposits on plant and equipment in accounts payable, accrued construction liabilities, other accrued liabilities and long-term debt	$ 27,661	$ 5,182	$ 8,451
Purchases of and deposits on plant and equipment with digital currency	$ 316	$ 437	$ —
Investment in joint venture in other accrued liabilities, other amounts due to related parties and long-term debt	$ —	$ 452	$ 5,203
Convertible promissory notes converted to common stock	$ —	$ 4,666	$ —
Convertible promissory notes deferred issuance costs in accounts payable	$ —	$ —	$ 104
Common stock issued for share based liabilities due to related party	$ 2,500	$ 15,000	$ —
Common stock issued to related party pursuant to operating lease	$ 63,368	$ —	$ 11,489
Common stock issued to related party pursuant to finance lease	$ 5,392	$ —	$ —
Common stock issued for payment on convertible promissory notes	$ —	$ —	$ 168
Common stock warrants issued for long-term debt commitment fee	$ —	$ —	$ 1,967
Common stock warrants issued for discount on long-term debt	$ —	$ 16,036	$ 6,348
Decrease to investment in joint venture and increase in plant and equipment for distribution or transfer of nonmonetary assets	$ —	$ 6,868	$ 51,978
Decrease to investment in joint venture due to bitcoin received as distribution from investee	$ 22,776	$ 21,949	$ —
Increase in plant and equipment for miners assigned in connection with sale of equity interest in investee	$ 15,715	$ —	$ —
Common stock reacquired in exchange for warrants	$ —	$ 12,491	$ —
Change in fair value of embedded conversion feature of convertible promissory note in additional paid-in capital	$ —	$ —	$ 1,591

Nonmonetary Transactions

The Company accounts for goods and services exchanged in nonmonetary transactions at fair value unless the underlying exchange transaction lacks commercial substance or the fair value of the assets received or relinquished is not reasonably determinable, in which case the nonmonetary exchange would be measured based on the recorded amount of the nonmonetary asset relinquished.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Digital currency

Digital currency consists of bitcoin earned as noncash consideration for providing hash computation services to a mining pool and for bitcoin miner hosting services, in accordance with the Company's revenue recognition policy. From time to time, the Company also received bitcoin as distributions-in-kind from its joint venture. Digital currency is classified as a current asset in the consolidated balance sheets, as it is highly liquid and the Company expects to sell it within the next twelve months to support operations.

In December 2023, the FASB issued Accounting Standards Update ("ASU") No. 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets ("ASU 2023-08"). This standard requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recorded in net income each reporting period. The standard applies to crypto assets that meet all of the following criteria:

- Qualify as intangible assets under ASC 350
- Do not provide the holder with enforceable rights to underlying goods, services, or assets
- Exist on a distributed ledger utilizing blockchain or similar technology
- Are secured through cryptography
- Are fungible
- Are not created or issued by the reporting entity or its affiliates

Entities must also provide additional disclosures regarding their crypto asset holdings.

ASU 2023-08 is effective for fiscal years beginning after December 15, 2024, including interim periods. However, early adoption is permitted, and the Company elected to early adopt the standard effective January 1, 2024.The adoption resulted in a cumulative-effect adjustment of $37,000, increasing the digital currency balance and decreasing the opening balance of accumulated deficit in the consolidated balance sheet as of January 1, 2024.

Upon adoption of ASU 2023-08, the Company now measures digital currency at fair value as of each reporting period under ASC 820, Fair Value Measurement ("ASC 820"). Fair value is determined using Level 1 inputs, based on quoted prices from the active trading platform the Company normally transacts on, which has been identified as its principal market for bitcoin. Since bitcoin is traded continuously, the Company utilizes the midnight UTC price, aligning with its revenue recognition policy. Gains and losses from remeasurement of digital currency are recorded under "Gain on fair value of digital currency, net" in the consolidated statements of operations.

Bitcoin sales proceeds are measured as the difference between cash proceeds and the bitcoin cost basis, determined on a first-in, first-out basis. These gains and losses are also recorded under "Gain on fair value of digital currency, net". During the year ended December 31, 2024, the Company recognized a net fair value gain of $2.2 million.

Accounting for Digital Currency Prior to ASU 2023-08

Before adopting ASU 2023-08, the Company accounted for bitcoin as an indefinite-lived intangible asset. Under this model, digital currency was not amortized, but assessed for impairment annually, or more frequently if events indicated a potential impairment. An impairment loss was recognized if the carrying amount exceeded fair value, determined using Level 1 inputs under ASC 820.

For impairment testing, the Company bypassed the optional qualitative assessment and monitored daily bitcoin price movements. The lowest intraday trading price was used to determine impairment at the single bitcoin level, with any excess of the carrying amount over the lowest daily trading price recorded as an impairment loss. Once impaired, the new cost basis was established, and subsequent reversals were prohibited. During the years ended December 31, 2023 and 2022, the Company recognized digital currency impairment losses of $3.0 million and $1.5 million, respectively.

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Statement of Cash Flows Treatment

Bitcoin earned through mining activities is recorded as an adjustment in the consolidated statements of cash flows, reconciling net loss to cash flows from operating activities. Bitcoin received as distributions-in-kind from equity investees is disclosed in supplemental noncash investing activities.

Prior to the repayment of the Term Loans in July 2024 (see Note 9), bitcoin sales proceeds were included in cash flows from operating activities, as bitcoin was converted into cash immediately during that period. Following repayment of the Term Loans, bitcoin sales proceeds are now classified under cash flows from investing activities, as the Company no longer converts bitcoin into cash immediately upon mining.

Concentrations

The Company has primarily contracted with two suppliers for the provision of bitcoin miners and one mining pool operator. The Company does not believe that these counterparties represent a significant performance risk. Revenue did not exceed 10% for any one bitcoin miner hosting customer during the year ended December 31, 2024. Revenue from one bitcoin miner hosting customer represented 10.9% and 20.8% of consolidated revenue for the years ended December 31, 2023 and 2022, respectively. During the years ended December 31, 2024, December 31, 2023 and 2022, the Company only operated bitcoin mining facilities. While the Company may choose to mine other digital currencies, it has no plans to do so currently. If the market value of bitcoin declines significantly, the consolidated financial condition and results of operations of the Company may be adversely affected.

Variable Interest Entities

Variable interest entities ("VIE") are legal entities in which equity investors do not have (i) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, or (ii) as a group, the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (iii) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. The Company would consolidate any VIE in which it has a controlling financial interest through being deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both characteristics are met, the Company considers itself to be the primary beneficiary and therefore will consolidate that VIE into its consolidated financial statements.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with a VIE and reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether an entity is a VIE and whether the Company is the primary beneficiary of a VIE is based upon facts and circumstances for the VIE and requires significant judgments such as whether the entity is a VIE, whether the Company's interest in a VIE is a variable interest, the determination of the activities that most significantly impact the economic performance of the entity, whether the Company controls those activities, and whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

In 2021, the Company entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), with an unrelated co-venturer to develop, construct and operate up to 300 MW of zero-carbon bitcoin mining in Pennsylvania (the "Joint Venture"). Due to the initial nature of the Joint Venture and the continued commitment for additional financing, the Company determined Nautilus was a VIE. While the Company had the ability to exercise significant influence over Nautilus, the Company determined that it did not have the power to direct the activities that most significantly impact the economic performance of Nautilus. Initially, the power to direct the activities of Nautilus that most significantly impact Nautilus' economic performance were shared equally by both parties within the Joint Venture due to the requirement for both equity holders to approve many of the key operating decisions and when not equally shared, were predominantly under the control of the co-venturer, including through the co-venturer's majority representation on the board of managers. As such, the Company determined that it was not the primary beneficiary of Nautilus and, therefore, had accounted for this entity under the equity method of accounting. Risks associated with the Company's involvement with Nautilus included a commitment to potentially fund additional equity investments. In October 2024, the Company sold its entire 25% equity interest in the Joint Venture. See Note 11 for additional information.

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Equity Method of Accounting

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee company. Under the equity method of accounting, an investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of operations; however, the Company's share of the earnings or losses of the investee company is reflected in equity in net income (loss) of investee, net of tax in the consolidated statements of operations. The Company's carrying value in an equity method investee company is reflected in equity in net assets of investee in the consolidated balance sheets.

Interest related to construction of assets at equity method investee companies is capitalized when the financial statement effect of capitalization is material, construction of the asset at the equity method investee has begun, the equity method investee has not commenced its principal operations and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use, the equity method investee commences principal operations or when interest costs are no longer being incurred.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company has guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally 5 years for computer equipment and 4 years for miners). Leasehold improvements and electrical equipment are depreciated over the shorter of their estimated useful lives (25 years) or the lease term. Changes in depreciation and amortization, generally accelerated depreciation and variable amortization, are determined and recorded when estimates of the remaining useful lives or residual values of long-term assets change. Property, plant and equipment includes deposits, amounting to approximately $53.9 million and $36.5 million as of December 31, 2024 and 2023, respectively, on purchases of such assets, including miners, which would be included in property, plant and equipment upon receipt.

Interest related to construction of assets is capitalized when the financial statement effect of capitalization is material, construction of the asset has begun, and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use or when interest costs are no longer being incurred.

Impairment of Long-lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or asset group, may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. Any impairment loss recorded is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. During the years ended December 31, 2024, 2023 and 2022, the Company recorded no impairment charges for long-lived assets.

Leases

In accordance with ASC 842, at inception of a contract, the Company determines whether the contract is or contains a lease. If the Company is the lessee, the lease is classified as an operating or finance lease at the commencement date. Operating leases are included in operating lease right-of-use ("ROU") asset, current portion of operating lease liability, and operating lease liability, net of current portion in the consolidated balance sheets. Finance leases are included in finance lease right-of-use asset, current portion of finance lease liabilities, and finance lease liabilities, net of current portion in the consolidated balance sheets. The Company does not recognize a ROU asset or lease liability for short-term leases having

initial terms of 12 months or less and instead recognizes rent expense on a straight-line basis over the lease term. The Company does not have any short-term leases as of December 31, 2024 and 2023.

In an arrangement that is determined to be or contain a lease, the Company includes both the lease and nonlease components as a single component and accounts for it as a lease when the Company would otherwise recognize the cost associated with both the lease and nonlease components in a similar fashion.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date, and subsequently remeasured upon changes to the underlying lease arrangement, based on the present value of lease payments over the lease term. If the rate implicit in the lease is not readily determinable, the Company generally uses an estimate of its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. The ROU asset also includes any lease prepayments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Costs associated with operating lease ROU assets are recognized on a straight-line basis within operating expenses or selling, general and administrative, as appropriate, over the term of the lease. Variable lease costs are recognized as incurred and primarily consist of common area maintenance charges not included in the measurement of right-of-use assets and operating lease liabilities. Finance lease ROU assets are amortized within operating expenses or selling, general and administrative expenses, as appropriate, on a straight-line basis over the shorter of the estimated useful lives of the assets or, in the instance where title does not transfer at the end of the lease term, the lease term. The interest component of a finance lease is included in interest expense and recognized using the effective interest method over the lease term.

Debt Issuance Costs and Debt Discount

Debt issuance costs and debt discount are recorded as a direct reduction of the carrying amount of the debt and are amortized to interest expense using the effective interest method over the contractual term of the debt and in consideration of expected future principal payments subject to an excess cash flow sweep (see Note 9). Debt issuance costs include incremental third-party costs directly related to debt issuance such as attorney and financial advisor fees. Debt discount includes upfront fees and proceeds allocated to other components included in the debt issuance. The allocation of proceeds between the debt instrument and any other components included in the debt issuance, including Common Stock or warrants to purchase Common Stock, is generally based on the relative fair value allocation method. All warrants granted by the Company as a component of debt transactions are classified as equity in the consolidated balance sheets as of December 31, 2024 and 2023.

Debt Modification

The Company evaluates amendments to its debt instruments in accordance with ASC 470-50, *Debt Modifications and Extinguishments*. This evaluation includes comparing (1) if applicable, the change in fair value of an embedded conversion option to that of the carrying amount of the debt immediately prior to amendment and (2) the net present value of future cash flows of the amended debt to that of the original debt to determine, in each case, if a change greater than 10% occurred. In instances where the net present value of future cash flows or the fair value of an embedded conversion option, if any, changed more than 10%, the Company applies extinguishment accounting. In instances where the net present value of future cash flows and the fair value of an embedded conversion option, if any, changed less than 10%, the Company accounts for the amendment to the debt as a debt modification. For debt that has been amended more than once in a twelve-month period, the debt terms that existed just prior to the earliest amendment occurring in the prior twelve months are applied to the 10% test, provided modification accounting was previously applied. Gains and losses on debt amendments that are considered extinguishments are recognized in current earnings. Debt amendments that are considered debt modifications are accounted for prospectively through yield adjustments, based on the revised terms. Legal fees and other costs incurred with third parties that are directly related to debt modifications are expensed as incurred and generally are included in interest expense in the consolidated statements of operations. Amounts paid by the Company to the lenders, including upfront fees and the fair value of warrants issued, are included in future cash flows for accounting treatment determination and, if debt modification is applicable, are also included in the determination of yield adjustment.

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Convertible Instruments

The Company accounts for its issuance of convertible debt and convertible equity instruments in accordance with applicable U.S. GAAP. In connection with that accounting, the Company assesses the various terms and features of the agreement in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"), and ASC 815, *Derivatives and Hedging Activities* ("ASC 815"). ASC 480 requires liability accounting for certain financial instruments, including shares that embody an unconditional obligation to transfer a variable number of shares, provided that the monetary value of the obligation is based solely or predominantly on one of the following three characteristics: (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the issuer's equity shares or (3) variations in the fair value of the issuer's equity shares, but the monetary value to the counterparty moves in the opposite direction as the value of the issuer's shares. In accordance with ASC 815, the Company assesses the various terms and features of the agreement to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in the current period's operating results.

Warrants

The Company applies ASC 480 and ASC 815 to assist in the determination of whether warrants issued for the purchase of Common Stock should be classified as liabilities or equity. Warrants that are determined to require liability classification are measured at fair value upon issuance and are subsequently remeasured to their then fair value at each subsequent reporting period with changes in fair value recorded in current earnings. Warrants that are determined to require equity classification are measured at fair value upon issuance and are not subsequently remeasured unless they are required to be reclassified. As of December 31, 2024, all outstanding warrants granted by the Company were classified as equity.

Stock Issuance Costs

Stock issuance costs are recorded as a reduction to issuance proceeds. Stock issuance costs incurred prior to the closing of the related issuances, including under shelf registration statements, are recorded in other assets in the consolidated balance sheets if the closing of the related issuance is deemed probable.

Stock-based Compensation

The Company periodically issues restricted stock units ("RSU") and restricted stock to employees and non-employees in non-capital raising transactions for services. In accordance with ASC 718, *Compensation – Stock Compensation* ("ASC 718"), the Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award. For RSUs with time-based vesting, the fair value is determined by the Company's stock price on the date of grant. For RSUs with vesting based on market conditions ("PSUs"), the effect of the market condition is considered in the determination of fair value on the grant date using a Monte Carlo simulation model. As of December 31, 2024, the Company has not issued stock options.

Expense for RSUs is recognized on a straight-line basis over the employee's or non-employee's requisite service period, including the derived service period for RSUs with market conditions. Expense for restricted stock is recognized on the date of grant as the awards are fully vested on the grant date. Stock-based compensation for PSUs is recorded over the derived service period unless the market condition is satisfied in advance of the derived service period, in which case a cumulative catch-up is recognized as of the date of achievement. Stock-based compensation for PSUs is recorded regardless of whether the market conditions are met unless the service conditions are not met. The Company accounts for forfeitures as they occur. The Company recognizes excess tax benefits or deficiencies on vesting or settlement of awards as discrete items within income tax benefit or provision within net loss and the related cash flows are classified within operating activities.

Other Income

Other income consists primarily of interest income on bank deposits.

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Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740, *Accounting for Income Taxes* ("ASC 740"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of ASC 740 related to accounting for uncertain income tax positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above are reflected as a liability for uncertain tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

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 accrue either interest or penalties for the years ended December 31, 2024, 2023 and 2022.

Loss per Share

The Company computes earnings (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between Common Stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic loss per share of Common Stock is computed by dividing the Company's net loss by the weighted average number of shares of Common Stock outstanding during the period. Convertible preferred stock, which are participating securities because they share in a pro rata basis any dividends declared on Common Stock but because they do not have the obligation to share in the loss of the Company, are excluded from the calculation of basic net loss per share. Diluted loss per share reflects the effect on weighted average shares outstanding of the number of additional shares outstanding if potentially dilutive instruments, if any, were converted into Common Stock using the treasury stock method or as-converted method as appropriate. The computation of diluted loss per share does not include dilutive instruments in the weighted average shares outstanding, as they would be anti-dilutive. Subsequent to December 31, 2023, the Company determined that its preferred stock dividends would be excluded as a reduction to net loss on the Company's consolidated statements of operations, and accordingly be excluded from the Company's computation of basic loss per common share. The Company had previously included dividends on its preferred stock in its computation of basic loss per common share. The Company's dilutive instruments or participating securities as of December 31, 2024 include convertible preferred stock, Common Stock warrants, convertible notes, and RSUs issued for services. The Company's dilutive instruments or participating securities as of December 31, 2023 included convertible preferred stock, convertible promissory notes, Common Stock warrants and RSUs issued for services. If the entire liquidation preference of the Convertible Preferred Stock (as defined in Note 14) was converted at its conversion price as of December 31, 2024, the Company would issue approximately 1.3 million shares of Common Stock. As of December 31, 2024, Common Stock warrants outstanding were 17,266,733 with a weighted average strike price of $1.38 and total RSUs outstanding were 4,312,764.

Segment Reporting

During the years ended December 31, 2024, 2023 and 2022, the Company was engaged in digital currency mining by providing hash computation services to a mining pool operator and providing bitcoin miner hosting services to third parties. The Company's operations are evaluated regularly by the chief operating decision maker, or decision–making group ("CODM"), in deciding how to allocate resources and in assessing performance. The Company's CODM is composed of the chief executive officer, chief technology officer and chief strategy officer.

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The CODM is regularly provided with only the consolidated expenses as presented in the consolidated statements of operations and the Company has determined that the expenses presented in the consolidated statements of operations represent significant segment expenses. The CODM reviews financial performance and allocates resources at a consolidated level on a recurring basis, such that the Company has one operating and one reportable segment.

The CODM manages its one reportable segment on a consolidated basis using consolidated net loss, which was $72.4 million, $73.4 million and $90.8 million for the years ended December 31, 2024, 2023 and 2022, respectively. The CODM reviews the measure of consolidated net loss to evaluate the Company's operating results and the effectiveness of business strategies and internally as a benchmark to compare the Company's performance to its competitors. As the Company discloses a single reportable segment, total revenue is reported in the consolidated statements of operations, segment assets are reported in the consolidated balance sheets, and capital expenditures are reported in the consolidated statements of cash flows.

The table below provides other segment disclosures for the years ended December 31, 2024, 2023 and 2022:

	Year Ended December 31,		
	2024	2023	2022
Interest income[(a)]	$ 3,927	$ 192	$ —

[(a)] Interest income is included in other income in the consolidated statements of operations.

Held for Sale and Discontinued Operations Classification

The Company classifies a business as held for sale in the period in which management commits to a plan to sell the business, the business is available for immediate sale in its present condition, an active program to complete the plan to sell the business is initiated, the sale of the business within one year is probable and the business is being marketed at a reasonable price in relation to its fair value.

Newly acquired businesses that meet the held-for-sale classification criteria upon acquisition are reported as discontinued operations. Upon a business' classification as held for sale, net assets are measured for impairment. An impairment loss is recorded for long-lived assets held for sale when the carrying amount of the asset exceeds its fair value less cost to sell. Other assets and liabilities are generally measured for impairment by comparing their carrying values to their respective fair values. A long-lived asset is not depreciated or amortized while it is classified as held for sale.

Recent Accounting Standards

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* ("ASU 2022-03"). ASU 2022-03 was issued (1) to clarify the guidance in Topic 820, *Fair Value Measurement*, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this update are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2022-03 effective January 1, 2024.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"), which updates reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses that are regularly provided to the CODM as well as other segment items. ASU 2023-07 also requires (i) disclosure of the title and position of the CODM, and (ii) that a public entity that has a single reportable segment provide all disclosures required by the amendments in this ASU and all existing segment disclosures in Topic 280, and (iii) inclusion of all annual disclosures in interim periods. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company adopted ASU 2023-07 effective December 31, 2024 and applied it retrospectively to all periods presented in the financial statements.

In December 2023, the FASB issued ASU No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets.* ASU 2023-08 was issued to improve the accounting for and disclosure of crypto assets by requiring entities to subsequently measure crypto assets at fair value with changes recognized

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in net income each reporting period. This ASU also requires that entities present (1) crypto assets measured at fair value separately from other intangible assets in the balance sheet, and (2) changes from the remeasurement of crypto assets separately from the changes in carrying amounts of other intangible assets in the income statement. Additionally, ASU 2023-08 requires that entities present cash receipts arising from crypto assets that are received as noncash consideration in the ordinary course of business and are converted nearly immediately into cash as operating activities. The amendments in this update are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. The Company early adopted ASU 2023-08 effective January 1, 2024.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"). ASU 2023-09 expands existing income tax disclosures for rate reconciliations by requiring disclosure of certain specific categories and additional reconciling items that meet the quantitative threshold and expands disclosures for income taxes paid by requiring disaggregation by certain jurisdictions , amount of income taxes separated by federal and individual jurisdiction, and the amount of income (loss) from continuing operations before income tax expense (benefit) disaggregated between federal, state, and foreign. The amendments in this update are effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting the standard.

In November 2024, the FASB issued ASU 2024-03, *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* ("ASU 2024-03") which requires disaggregated disclosure of income statement expenses for public business entities. Additionally, in January 2025, the FASB issued ASU 2025-01 to clarify the effective date of ASU 2024-03. The ASU does not change the expense captions an entity presents on the face of the income statement; rather, it requires disaggregation of certain expense captions into specified categories in disclosures within the footnotes to the financial statements. This guidance applies to all public business entities and is effective for annual reporting periods beginning after December 15, 2026 and interim reporting periods beginning after December 15, 2027, with early adoption permitted. The requirements will be applied prospectively with the option for retrospective application. The Company is currently reviewing this ASU to determine the impact on its disclosures within the footnotes to its consolidated financial statements.

In November 2024, the FASB issued ASU 2024-04, *Induced Conversions of Convertible Debt Instruments (Topic 470)* ("ASU 2024-04"). ASU 2024-04 clarifies the assessment of whether a transaction should be accounted for as an induced conversion or extinguishment of convertible debt when changes are made to conversion features as part of an offer to settle the instrument. ASU 2024-04 is effective for fiscal years beginning after December 15, 2025, with early adoption permitted. The Company is currently evaluating the impact this new standard will have on the Company's accounting and related disclosures in the consolidated financial statements.

NOTE 3 – BUSINESS COMBINATION, ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In December 2021, the Company completed the Merger with RM 101 pursuant to which, among other things, the Company effectively acquired RM 101 and became a publicly traded company on the Nasdaq. The consideration in the Merger included, among other things, contractual contingent value rights ("CVR") per a Contingent Value Rights Agreement (the "CVR Agreement"). Pursuant to the CVR Agreement, each shareholder of RM 101 as of immediately prior to the Merger, received one non-transferable CVR for each outstanding share of common stock of RM 101 then held. The holders of the CVRs were entitled to receive 95% of the Net Proceeds (as defined in the CVR Agreement), if any, from the sale, transfer, disposition, spin-off, or license of all or any part of the pre-merger business of RM 101.

In August 2022, RM 101 sold a certain property for net sale proceeds of $13.2 million with certain indemnifications that expired in February and August 2023. During the year ended December 31, 2023, the Company made payments of the CVR liability related to proceeds from sales of net assets held for sale of $11.0 million such that as of December 31, 2023, the Company had made all of the aggregate required distributions of proceeds to the CVR Holders and the CVR Agreement was deemed terminated.

Upon acquisition, the RM 101 business met the assets held-for-sale and discontinued operations criteria and was reflected as discontinued operations held for sale in these consolidated financial statements. During the year ended December 31, 2022, the Company determined that certain changes in circumstances indicated that the then carrying amount of RM 101's long-lived assets may not have been recoverable and recognized an impairment loss in loss on discontinued operations, net of tax of $4.5 million to write down the related carrying amounts to their fair values less estimated cost to sell. All net assets held for sale had been sold as of December 31, 2022.

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The Company recorded no loss from discontinued operations, net of tax for the year ended December 31, 2024. The loss from discontinued operations, net of tax presented in the consolidated statements of operations includes the following results of RM 101 (in thousands):

	Year Ended December 31,	
	2023	2022
Net sales	$ —	$ 10,843
Cost of goods sold	—	8,129
Gross profit	—	2,714
Selling, general and administrative expenses	88	3,451
Research and development expenses	—	437
Impairment on remeasurement or classification as held for sale	—	4,541
Loss on sale of net assets held for sale	—	239
Loss from discontinued operations before other income	(88)	(5,954)
Interest expense	—	(12)
Other income	23	23
Loss from discontinued operations before income tax	(65)	(5,943)
Income tax expense	—	(14)
Loss from discontinued operations, net of tax	$ (65)	$ (5,957)

Loss from discontinued operations, net of tax in the consolidated statements of operations also included a (loss) gain on CVR remeasurement of $(0.1) million and $1.1 million for the years ended December 31, 2023 and 2022, respectively.

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering such assumptions, a three-level fair value hierarchy prioritizing the inputs to valuation techniques is used to measure fair value. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The levels are as follows:

(Level 1) observable inputs such as quoted prices in active markets for identical assets or liabilities;

(Level 2) observable inputs for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable either directly or indirectly from market data; and

(Level 3) unobservable inputs for which there is little or no market data, which require the Company to develop its own assumptions.

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The following tables present the Company's financial instruments that are measured and recorded at fair value on the Company's consolidated balance sheets on a recurring basis, segregated by hierarchy fair value levels as of December 31, 2024 and 2023 (in thousands):

	Fair Value Measured as of December 31, 2024				
	Carrying Value	Level 1	Level 2	Level 3	Remeasurement Loss
Digital currency	$ 476	$ 476	$ —	$ —	$ —
	$ 476	$ 476	$ —	$ —	$ —

	Fair Value Measured as of December 31, 2023				
	Carrying Value	Level 1	Level 2	Level 3	Remeasurement Loss
Contingent consideration liability - Contingent Value Rights	$ —	$ —	$ —	$ —	$ (64)
	$ —	$ —	$ —	$ —	$ (64)

The Company has determined the fair value of convertible notes is approximately $490.7 million as of December 31, 2024 (see Note 9) using Level 1 inputs. The carrying values of cash and cash equivalents, prepaid expenses, other receivables, other current assets, accounts payable, accrued construction liabilities, other accrued liabilities and other amounts due to related parties are considered to be representative of their respective fair values principally due to their short-term maturities. There were no additional material non-recurring fair value measurements as of December 31, 2024 and 2023, except for (i) the calculation of fair value of Common Stock issued in connection with the New Ground Lease (see Note 7), (ii) the calculation of fair value of Common Stock warrants issued in connection with amendments to the Company's long-term debt agreement (see Note 9), in connection with the issuance of Common Stock (see Note 16), in connection with a Common Stock exchange agreement (see Note 15) and on a standalone basis (see Note 15), (iii) the change in fair value of embedded derivatives in certain of the Company's convertible promissory notes (see Note 10), and (iv) the calculation of fair value of nonmonetary assets distributed from the Company's Joint Venture (see Note 11) and (v) the calculation of fair value of PSUs ranted to employees as stock-based compensation (see Note 16). The Company utilized a Black-Scholes option pricing model to value its Common Stock warrants (except as discussed above for warrants issued in connection with the New Term Facility and the Fifth Amendment) and to value the change in fair value of embedded derivatives in certain of the Company's convertible promissory notes. The estimated fair value of the warrants and embedded derivatives is determined using Level 2 and Level 3 inputs. Inherent in the model and fair value estimate are assumptions related to expected share-price volatility, expected life, risk-free interest rate and dividend yield. The Company estimates volatility based on public company peer group volatility over the contractual term of the warrants. The risk-free interest rate is based on the U.S. Treasury rate on the grant date for a maturity similar to the expected life of the warrants or the conversion term, as applicable. The dividend rate is based on the historical rate, which the Company anticipates will remain at zero.

The Company utilized a Black-Scholes option pricing model and the application of a discount for lack of marketability ("DLOM") to value its Common Stock warrants issued in connection with the First Amendment to the LGSA and to value its Common Stock warrants issued in connection with the Fifth Amendment (each as defined in Note 9). The DLOM is applied primarily due to contractual restrictions on the exercise of the respective warrants. The estimated fair value of the warrants is determined using Level 3 inputs. Inherent in the model and fair value estimate are assumptions related to expected share-price volatility, expected life, risk-free interest rate, dividend yield and DLOM. The Company estimates volatility based on public company peer group volatility over the contractual term of the warrants. The risk-free interest rate is based on the U.S. Treasury rate on the grant date for a maturity similar to the expected life of the warrants, which is assumed to be equivalent to their contractual term. The dividend rate is based on the historical rate, which the Company anticipates will remain at zero. The Company applied a DLOM of 20% to value its Common Stock warrants issued in connection with the First Amendment to the LGSA and applied a DLOM of 30% to value its Common Stock warrants issued in connection with the Fifth Amendment. The Company utilized a Monte Carlo simulation model to estimate the fair value of PSUs and the application of the Company's and guideline public company historical and expected annual volatility of approximately 120%. The Company applied a DLOM of 10.0% in determining the fair value of the Common Stock issued in connection with the New Ground Lease.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 — BITCOIN

The following table presents information about the Company's bitcoin holdings as of December 31, 2024 and 2023 (in thousands, except for quantity of bitcoin):

	Quantity	Amount
Balance as of December 31, 2023	43	$ 1,801
Cumulative effect of change in accounting principle	—	37
Balance as of January 1, 2024	43	1,838
Revenue recognized from digital currency mining and hosting services	2,179	139,278
Bitcoin received as distribution from investee	395	22,776
Gains from remeasurement, net	—	2,200
Dispositions	(2,600)	(164,930)
Digital currency paid as consideration for services	(5)	(370)
Digital currency paid for purchases of and deposits on plant and equipment	(7)	(316)
Balance as of December 31, 2024	5	$ 476
Cost basis as of December 31, 2024[1]		$ 477

	Quantity	Amount
Balance as of January 1, 2023	11	$ 183
Revenue recognized from digital currency mining and hosting services	2,165	63,877
Bitcoin received as distribution from investee	698	21,949
Impairment	—	(3,043)
Dispositions	(2,818)	(80,728)
Digital currency paid for purchases of and deposits on plant and equipment	(13)	(437)
Balance as of December 31, 2023	43	$ 1,801

(1) Prior to the adoption of ASU 2023-08 on January 1, 2024, the carrying value of bitcoin represents the post-impairment value of all bitcoin held. After the adoption of ASU 2023-08, the cost basis of bitcoin represents the valuation of bitcoin at the time the Company earns the bitcoin through mining activities.

	Year Ended December 31,		
	2024	2023	2022
Realized gains on sales of digital currency, net[2]	$ 2,193	$ 3,174	$ 569

(2) Bitcoin is sold on a first in, first out (FIFO) basis. During the year ended December 31, 2024, realized net gains are included in gain on fair value of digital currency, net in the consolidated statement of operations.

The Company's bitcoin holdings are not subject to contractual sale restrictions. As of December 31, 2024, the Company held no other digital currency.

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NOTE 6 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following (in thousands):

	December 31, 2024	December 31, 2023
Miners	$ 192,655	$ 100,531
Construction in process	107,624	24,578
Leasehold improvements	91,614	62,850
Equipment	32,031	15,736
Vehicles	104	104
Deposits on miners	53,913	36,469
	477,941	240,268
Less: accumulated depreciation	(66,072)	(34,984)
	$ 411,869	$ 205,284

The Company capitalizes a portion of the interest on funds borrowed to finance its capital expenditures. Capitalized interest is recorded as part of an asset's cost and is depreciated over the same period as the related asset. Capitalized interest costs were $0, $2.2 million and $5.3 million for the years ended December 31, 2024, 2023 and 2022, respectively.

Depreciation expense was $59.8 million, $28.4 million and $6.7 million for the years ended December 31, 2024, 2023 and 2022, respectively. During the year ended December 31, 2024, the Company recorded accelerated depreciation expense of $5.1 million related to certain miners of which the Company shortened their estimated useful lives based on replacement by April 30, 2024.

During the year ended December 31, 2024, the Company sold or otherwise disposed of 62,970 miners and received proceeds of $23.3 million resulting in a net loss on disposal of property, plant and equipment of $17.8 million in the consolidated statement of operations. During the years ended December 31, 2023 and 2022, the Company recorded a loss on disposal of property, plant and equipment of $1.2 million and $0, respectively. The Company recorded no impairment during the years ended December 31, 2024, 2023 and 2022, respectively, other than impairment of $0.4 million for certain miners that were reclassified as held for sale and subsequently sold during the year ended December 31, 2024 which is included in loss on disposal of property, plant and equipment in the consolidated statement of operations.

During the year ended December 31, 2024, the Company entered into a Future Sales and Purchase Agreement and Supplemental Agreement with Bitmain Technologies Delaware Limited ("Bitmain Delaware") which provided the Company the right, but not the obligation, to purchase up to 7,020 PH (approximately 30,000 miners) of S21 Pro miners for a purchase price of $112.3 million (the "Bitmain Call Option"). During the year ended December 31, 2024, the Company exercised its option pursuant to the Bitmain Call Option to purchase 30,000 S21 Pro units and, as of December 31, 2024, the deposits on miners of $53.9 million reprsented payment to Bitmain Delaware for approximately 14,400 S21 Pro miners purchased under the Bitmain Call Option which are expected to be received in the first quarter of 2025.

NOTE 7 — LEASES

Lessee Accounting

In May 2021, the Company entered into a ground lease (as amended from time to time, the "Ground Lease") related to the Lake Mariner Facility in New York with a counterparty which is a related party due to control by a member of Company management. The Ground Lease included fixed payments and variable payments, including an annual escalation factor as well as the Company's proportionate share of the landlord's cost to own, operate and maintain the premises. The Ground Lease had a term of eight years and a renewal term of five years at the option of the Company, subject to the Company not then being in default, as defined. The Ground Lease, which was classified as an operating lease, was remeasured as of the date of the second amendment in July 2022, utilizing a discount rate of 12.6%, which was an estimate of the Company's incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the

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lease payments at the remeasurement date. In September 2022, the Company issued 8,510,638 shares of Common Stock with a fair value of $11.5 million as compensation to the landlord for entering into the lease amendment.

In October 2024, the Company terminated the Ground Lease and entered into a new ground lease with the same related party counterparty (the "New Ground Lease") related to the Lake Mariner Facility which expanded the acreage of real property as compared to the Ground Lease for the purposes of cryptocurrency mining and HPC co-location data center hosting operations. The New Ground Lease includes fixed and variable payments, including an annual escalation factor as well as the Company's proportionate share of the landlord's cost to own, operate and maintain the premises and has an initial term of 35 years, commencing on October 9, 2024, and will automatically renew for up to nine additional periods of five years each unless the Company provides written notice to terminate the New Ground Lease at least six months prior to the expiration of the initial term or the then-current renewal term. Upon expiration of the New Ground Lease, the buildings and improvements on the premises will revert to the landlord in good order. As consideration for the termination of the Ground Lease and entering into the New Ground Lease, the Company issued 20.0 million shares of Common Stock with a fair value of $68.8 million and paid $12.0 million (the "Cash Lease Prepayment") in cash to the parent company of the counterparty in October 2024. The Company determined that the termination of the Ground Lease and the execution of the New Ground Lease constituted a modification of the Ground Lease under ASC 842. The New Ground Lease contained two lease components: land and building which were classified as operating lease and finance lease, respectively. The building component was classified as a finance lease as the initial lease term of 35 years is for the major part of the remaining economic life of the building component. The Company remeasured the lease liability of the land and building components of the New Ground Lease as of October 9, 2024, utilizing a discount rate of 6.9% which was an estimate of the Company's incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the remeasurement date.

For the years ended December 31, 2024, 2023 and 2022, the Company recorded operating lease expense of $1.7 million, $1.3 million and $0.9 million, respectively, including variable expense of $0.2 million, $0.2 million and $0.3 million, respectively, in operating expenses – related party in the consolidated statements of operations and made cash payments pursuant to the New Ground Lease (and prior to termination, the Ground Lease) of $11.5 million, and $0.9 million and $0.2 million, respectively, in addition to the issuance of the aforementioned Common Stock. For the year ended December 31, 2024, the Company recorded amortization of ROU related to its finance lease of $0.1 million, including no variable expense, in operating expenses – related party in the consolidated statement of operations and made cash payments pursuant to the New Ground Lease of $0.9 million in addition to the issuance of the aforementioned Common Stock. The Company recorded interest expense on finance lease liabilities of $5,000 in interest expense in the consolidated statement of operations for the year ended December 31, 2024. The Company recorded no amortization of ROU and interest expense on finance lease liabilities or made payments for finance leases during the years ended December 31, 2023 and 2022.

The remaining operating and finance lease terms based on the terms of the New Ground Lease were 34.8 years as of December 31, 2024. The following is a maturity analysis of the annual undiscounted cash flows of the estimated operating and finance lease liabilities as of December 31, 2024 (in thousands):

Year ending December 31:	Operating Lease Liability	Finance Lease Liability
2025	$ 259	$ 22
2026	259	22
2027	259	22
2028	259	22
2029	259	22
Thereafter	7,722	658
	$ 9,017	$ 768

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A reconciliation of the undiscounted cash flows to the operating lease liabilities recognized in the consolidated balance sheet as of December 31, 2024 follows (in thousands):

	Operating Lease Liability	Finance Lease Liability
Undiscounted cash flows of the operating lease	$ 9,017	$ 768
Unamortized discount	5,565	474
Total operating lease liability	3,452	294
Current portion of operating lease liability	25	2
Operating lease liability, net of current portion	$ 3,427	$ 292

Lessor Accounting

In December 2024, the Company entered into HPC Leases to lease specified data center infrastructure at the Lake Mariner Facility to the customer to support the customer's HPC operations. The Company determined these arrangements contain a lease at contract inception and identified lease components for the right to use data center space, currently under construction, and nonlease components for power delivery, physical security, and maintenance services. As of December 31, 2024, none of the HPC Leases had commenced and all are expected to commence at various dates in 2025, each having an initial term of ten years and granting the customer two five-year renewal options as well as a provision for expanding near-term HPC hosting capacity.

NOTE 8 – INCOME TAXES

The components of net loss before income tax for continuing operations (comprised of the total of loss before income tax and equity in net loss of investee and equity in net income (loss) of investee, net of tax) for the years ended December 31, 2024, 2023 and 2022 are as follows (in thousands):

	Year Ended December 31,		
	2024	2023	2022
Domestic	$ (72,417)	$ (73,419)	$ (86,190)
Foreign	—	—	—
Total	$ (72,417)	$ (73,419)	$ (86,190)

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The Company's income tax benefit for continuing operations for the years ended December 31, 2024, 2023 and 2022 are as follows (in thousands):

	Year Ended December 31,		
	2024	2023	2022
Current:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	—	—	—
Total current income tax benefit	—	—	—
Deferred:			
Federal	—	—	(256)
State	—	—	—
Foreign	—	—	—
Total deferred income tax benefit	—	—	(256)
Income tax benefit	$ —	$ —	$ (256)

A reconciliation between income tax benefit and the expected tax benefit at the statutory rate for the years ended December 31, 2024, 2023 and 2022 are as follows:

	Year Ended December 31,		
	2024	2023	2022
Federal statutory rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	4.3 %	0.4 %	3.0 %
Permanent differences	(0.1)%	0.8 %	— %
Non-deductible compensation	(14.6)%	(1.3)%	— %
Change in valuation allowance	(17.6)%	(15.6)%	(24.6)%
Share based liabilities	7.0 %	(4.5)%	— %
Other items	— %	(0.8)%	0.9 %
Effective tax rate	— %	— %	0.3 %

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The significant components of the Company's deferred tax liabilities, net consist of the following at December 31, 2024 and 2023 (in thousands):

	December 31, 2024	December 31, 2023
Deferred tax assets:		
Net operating losses	$ 48,552	$ 37,833
Share based liabilities	—	543
Accruals and reserves	1,082	1,079
Lease liability	892	206
Investment in joint venture	—	2,075
Stock compensation	337	656
Interest expense limitation carryforward	5,665	—
Gross deferred tax assets	56,528	42,392
Valuation allowance	(53,705)	(40,948)
Deferred tax assets, net	2,823	1,444
Deferred tax liabilities:		
Lease right-of-use asset	(880)	(182)
Property, plant and equipment	(1,943)	(1,262)
Gross deferred tax liabilities	(2,823)	(1,444)
Deferred tax liabilities, net	$ —	$ —

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2024 and 2023, the Company estimated a portion of its deferred tax assets will be utilized to offset the Company's deferred tax liabilities. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a valuation allowance as of December 31, 2024 and 2023, for the amount of deferred tax assets that will not be realized. The increase in the December 31, 2024 valuation allowance of $12.8 million is primarily attributable to the current year net loss.

As of December 31, 2024 and, 2023, for federal income tax purposes the Company had total net operating loss carryforwards of approximately $211.1 million and $172.4 million, respectively. As of December 31, 2024, the net operating losses will have an indefinite carryforward as a result of the Tax Cuts and Jobs Act, but may be limited in utilization to 80% of taxable income. For state income tax purposes, as of December 31, 2024 and 2023 the Company had state net operating loss carryforwards of approximately $65.3 million and $30.8 million, respectively, which begin to expire in 2041.

As of December 31, 2024 and 2023, the Company did not have any available federal or state research and development tax credit carryforwards.

Under the provisions of the Internal Revenue Code, the net operating loss carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. The Company has not completed a formal study to conclude whether an annual limitation may exist. Net operating loss carryforwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code, respectively, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on the value of the Company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years.

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The Company follows the provisions of ASC 740 which specifies how tax benefits for uncertain tax positions are to be recognized, measured, and recorded in the consolidated financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the consolidated balance sheet; and provides transition and interim period guidance, among other provisions. As of December 31, 2024 and 2023, the Company had not recorded any long-term liabilities for uncertain tax positions. The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any, in its consolidated statements of operations. For the years ended December 31, 2024 and 2023, no estimated interest or penalties were recognized on uncertain tax positions.

The Company files income tax returns in the U.S. federal tax jurisdiction and various state jurisdictions. Since the Company is in a loss carryforward position, the Company is generally subject to examination by the U.S. federal, state and local income tax authorities for all years in which a loss carryforward is available. The statute of limitations for assessment by federal and state tax jurisdictions in which the Company has business operations is open for the tax year ended December 31, 2024. The tax years subject to examination vary by jurisdiction.

NOTE 9 – DEBT

Long-Term Debt

Long-term debt consists of the following (in thousands):

	December 31, 2024	December 31, 2023
Term loan	$ —	$ 139,401
Debt issuance costs and debt discount	—	(15,970)
Property, plant and equipment finance agreement	—	90
	—	123,521
Less long-term debt due within one year	—	123,465
Total long-term debt, net of portion due within one year	$ —	$ 56

Loan, Guarantee and Security Agreement (the "LGSA")

On December 1, 2021, the Company entered into the LGSA with Wilmington Trust, National Association as administrative agent, which consisted of total Term Loans of $146.0 million (the "Term Loans") with an interest rate of 11.5% and a maturity date of December 1, 2024.

Subsequent to an amendment to the LGSA in March 2023 (the "Fifth Amendment"), the Company was required to pay amounts subject to an excess cash flow sweep, as defined, on a quarterly basis which automatically extended to the maturity of the Term Loans in the event the Company repaid at least $40.0 million of the principal balance of the Term Loans by April 1, 2024, which the Company did in February 2024. Interest payments were due quarterly in arrears prior to the Fifth Amendment and were due monthly in arrears subsequent to the Fifth Amendment. The Company had the option to prepay all or any portion of the Term Loans in increments of at least $5.0 million subject to certain prepayment fees equal to an amount of 2.0% of the prepaid principal, applicable to approximately 85% of the outstanding principal. Certain events, as described in the LGSA, required mandatory prepayment.

During the year ended December 31, 2023, the Company repaid $6.6 million of the principal balance in accordance with the excess cash flow sweep. As of December 31, 2023, certain of the investors in the Term Loans were related parties due to cumulative voting control by members of the Company's management and a member of the Company's board of directors. The outstanding principal amounts under the Term Loans held by related party entities were $12.9 million of outstanding principal amounts under the Term Loans were held by related party entities controlled by certain members of Company management and an individual who was then a member of the Company's board of directors.

During the year ended December 31, 2024, the Company repaid $139.4 million of the principal balance of the Term Loans, including voluntary prepayments of $74.5 million. In connection with the voluntary prepayments, the Company recorded a loss on extinguishment of debt of $6.3 million which is included in the consolidated statement of operations, consisting of

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$1.3 million of prepayment fees and the immediate write-off of $5.0 million of unamortized debt discount associated with the principal repaid. The Company had fully repaid the principal balance of the Term Loans as of December 31, 2024.

In connection with the Term Loans under the LGSA, the Company issued to the holders of the Term Loans certain shares of Common Stock, warrants to purchase shares of Common Stock and incurred issuance costs and up front fees, which included $29.8 million in December 2021 in connection with the original issuance, $3.5 million in July 2022 in connection with the First Amendment, $2.9 million in October 2022 in connection with the Third Amendment, and $16.0 million in March 2023 in connection with the Fifth Amendment. These amounts represented debt issuance costs and debt discount which were being amortized as an adjustment of interest expense over the term of the LGSA.

LGSA Warrants

In 2022, in connection with the First and Third Amendments to the LGSA, the Company issued warrants to the lenders to purchase 8,455,410 shares of Common Stock at $0.01 per share. During the years ended December 31, 2023 and 2022, 2,740,587 and 5,714,823 warrants, respectively, issued in connection with the LGSA were exercised for issuance of the same number of shares of Common Stock for aggregate proceeds to the Company of $27,000 and $58,000, respectively.

In March 2023, in connection with the Fifth Amendment to the LGSA the Company entered into a warrant agreement (the "Warrant Agreement") to issue the following warrants to the lenders: (i) 27,759,265 warrants to purchase an aggregate number of shares of the Company's Common Stock equal to 10.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $0.01 per share of the Company's Common Stock (the "Penny Warrants") and (ii) 13,879,630 warrants to purchase an aggregate number of shares of the Company's Common Stock equal to 5.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $1.00 per share of the Company's Common Stock (the "Dollar Warrants"). The Penny Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2025, and the Dollar Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2026. In March 2023, in connection with the issuance of the warrants pursuant to the Warrant Agreement, the Company entered into a registration rights agreement pursuant to which the Company has agreed to provide customary shelf and piggyback registration rights to the LGSA lenders with respect to the Common Stock issuable upon exercise of the warrants described above.

During the year ended December 31, 2024, 31,534,861 warrants issued in connection with the LGSA were exercised for issuance of the same number of shares of Common Stock, comprising 27,617,539 Penny Warrants and 3,917,322 Dollar Warrants, for aggregate proceeds to the Company of $4.2 million.

All warrants granted by the Company as a component of debt transactions are classified as equity in the consolidated balance sheets as of December 31, 2024 and December 31, 2023.

Convertible Notes

Convertible notes consists of the following (in thousands):

	December 31, 2024	December 31, 2023
Convertible notes	$ 500,000	$ —
Debt issuance costs	(12,498)	—
	487,502	—
Convertible notes due within one year	—	—
Total convertible notes, net of portion due within one year	$ 487,502	$ —

In October 2024, the Company completed a private offering of 2.75% convertible senior notes due 2030 (the "2030 Convertible Notes"). The 2030 Convertible Notes, which are unsecured, were sold under a purchase agreement entered into by and between the Company and Cantor Fitzgerald & Co. ("Cantor") as representative of the initial purchasers named therein (the "Initial Purchasers"), for resale to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The aggregate principal amount of notes sold in the offering was $500.0 million, which included $75.0 million aggregate principal amount of notes issued pursuant

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to an option to purchase additional notes granted to the Initial Purchasers under the purchase agreement, which the Initial Purchasers exercised in full. The notes were issued at a price equal to 100% of their principal amount. The net proceeds from the sale of the notes were approximately $487.1 million after deducting the Initial Purchasers' commissions and estimated offering expenses of $12.9 million in total, which represented debt issuance costs and are being accreted into the convertible notes balance over the term of the 2030 Convertible Notes at an effective interest rate of 0.50%. Interest of 2.75% is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2025.

The 2030 Convertible Notes will mature on February 1, 2030 (the "2030 Convertible Notes Maturity Date"), unless earlier converted by the noteholders or redeemed or repurchased by the Company. The initial conversion rate of the 2030 Convertible Notes was 117.9245 shares of Common Stock per $1,000 principal amount of 2030 Convertible Notes, which is equal to an initial conversion price of approximately $8.48 per share. The conversion rate is subject to adjustment upon the occurrence of events specified in the indenture to the 2030 Convertible Notes but will not be adjusted for accrued and unpaid interest on any 2030 Convertible Notes being converted. In addition, upon the occurrence of a make-whole fundamental change (as defined) during the make-whole fundamental change period (as defined), the Company will, in certain circumstances, increase the conversion rate by the number of additional shares described in the indenture to the 2030 Convertible Notes for a holder that elects to convert such holders' 2030 Convertible Notes in connection with such make-whole fundamental change. As of December 31, 2024, there have been no changes to the initial conversion rate.

Before November 1, 2029, noteholders will have the right to convert their 2030 Convertible Notes only upon the occurrence of the following events:

- during any calendar quarter (and only during such calendar quarter) commencing after March 31, 2025, if the last reported sale price per share of Common Stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any ten consecutive trading day period (the "Measurement Period") in which the trading price, as defined, per $1,000 principal amount of notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price per share of Common Stock and the conversion rate on such trading day;
- if the Company calls any or all of the 2030 Convertible Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the 2030 Convertible Notes called (or deemed called) for redemption; or
- upon the occurrence of certain specified corporate events as set forth in the indenture governing the 2030 Convertible Notes.

Upon conversion of the 2030 Convertible Notes, the Company will pay or deliver, as the case may be, cash or a combination of cash and shares of Common Stock, at the Company's election. The 2030 Convertible Notes will be redeemable, in whole or in part (subject to certain limitations), for cash at the Company's option at any time, and from time to time, on or after November 6, 2027, but only if the last reported sale price per share of the Company's Common Stock exceeds 130% of the conversion price for a specified period of time (as set forth in the Indenture to the 2030 Convertible Notes). The redemption price will be equal to the principal amount of the 2030 Convertible Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

On or after November 1, 2029, noteholders may convert all or any portion of their 2030 Convertible Notes at any time at their option until the close of business on the second scheduled trading day immediately before the 2030 Convertible Notes Maturity Date.

If certain corporate events that constitute a "Fundamental Change" (as defined in the indenture governing the 2030 Convertible Notes) occur, then noteholders may require the Company to repurchase for cash all or any portion of their 2030 Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2030 Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company's Common Stock.

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In connection with the offering of the 2030 Convertible Notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the "Capped Calls"). The Capped Calls, which terminate on February 1, 2030 (the Capped Calls Termination Date"), each have an initial strike price of $8.48 per share, subject to certain adjustments, which correspond to the initial conversion price of the Convertible Notes. The Capped Calls have an initial cap price of $12.80 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, the aggregate number of shares of Common Stock that initially underlie the 2030 Convertible Notes, and are expected generally to reduce potential dilution to the Company's Common Stock upon any conversion of 2030 Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2030 Convertible Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the Capped Calls. The conditions that cause adjustments to the initial strike price of the Capped Calls mirror the conditions that result in corresponding adjustments for the 2030 Convertible Notes. The Capped Calls automatically exercise in daily ratable amounts between December 5, 2029 and the Capped Calls Termination Date. Additionally, upon the repurchase, redemption or conversion of a quantity of 2030 Convertible Notes, the Company may, but is not required to, effect an early termination of the number of Capped Call options in proportion to such 2030 Convertible Notes repurchased, redeemed or converted. The Company may elect cash settlement or combination settlement, which includes a combination of cash and shares of Common Stock. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the 2030 Convertible Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of $60.0 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid in capital in the consolidated balance sheet as of December 31, 2024.

The indenture governing the 2030 Convertible Notes contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the trustee, as defined, or the holders of at least 25% in principal amount of the outstanding 2030 Convertible Notes may declare 100% of the principal of, and accrued and unpaid additional interest, if any, on all the 2030 Convertible Notes to be due and payable.

During the year ended December 31, 2024, the Company amortized total debt issuance costs and debt discount of $11.4 million which was recorded as interest expense in the consolidated statement of operations. During the year ended December 31, 2023, the Company amortized total debt issuance costs and debt discount of $21.2 million, of which $19.5 million was recorded as interest expense in the consolidated statements of operations, $1.2 million was capitalized interest in property, plant and equipment, net in the consolidated balance sheet, and $0.5 million was capitalized interest in equity in net assets of investee in the consolidated balance sheet. During the year ended December 31, 2022, the Company amortized total debt issuance costs and debt discount of $14.2 million, of which $9.3 million was recorded as interest expense in the consolidated statements of operations, $2.6 million was capitalized interest in property, plant and equipment, net in the consolidated balance sheet, and $2.3 million was capitalized interest in equity in net assets of investee in the consolidated balance sheet.

Principal maturities of outstanding debt as of December 31, 2024 are as follows (in thousands):

Year ending December 31:	
2025	$ —
2026	—
2027	—
2028	—
2029	—
Thereafter	500,000
Total principal maturities	$ 500,000

NOTE 10 – CONVERTIBLE PROMISSORY NOTES

Yorkville Convertible Promissory Note

In June 2022, the Company issued a convertible promissory note with a principal amount of $15.0 million (the "Promissory Note") to YA II PN, Ltd. ("Yorkville"), which was issued with a 2.0% original issue discount, for proceeds of $14.7 million and an original maturity date of November 25, 2022 and the Company was required to pay the outstanding

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principal balance in five monthly $3.0 million payments commencing July 27, 2022. Upon reasonable advance notice, the Company had the right to defer 50% of a monthly payment amount due on two such monthly payments to later dates to be mutually agreed by the Company and Yorkville. In July 2022, $1.5 million of the $3.0 million July monthly payment amount was deferred until the October 2022 monthly payment due date. In August 2022, $1.5 million of the $3.0 million August monthly payment amount was deferred until the November 2022 monthly payment due date. The Promissory Note, which bore an interest rate of 4.0% and had an initial conversion price of $3.75 per share of Common Stock, may have been repaid with the proceeds of a sale of Common Stock to Yorkville or repaid in cash and, if repaid in cash, together with a cash payment premium originally of 6.0%, provided that if the Company's Common Stock market price, as defined, was less than $2.25 per share, the cash payment premium would have been 4.0%.

In October and November 2022, the Company amended and restated the Promissory Note to, among other things, change the then-existing repayment schedule, change the cash payment premium to 12.0% and change the conversion price (the "First A&R Promissory Note" and "Second A&R Promissory Note," respectively). The Company determined that extinguishment of debt accounting applied to the First A&R Promissory Note in October 2022 because the change in the fair value of the embedded conversion feature was greater than 10% of the carrying value of the Promissory Note immediately prior to the modification. The Company recorded a loss on debt extinguishment of $2.1 million in the consolidated statement of operations for the year ended December 31, 2022. This extinguishment loss was primarily related to the change in the fair value of the embedded conversion feature of $1.6 million and the excess of the fair value of the amended and restated Promissory Note of $9.4 million over the carrying value of the Promissory Note immediately prior to the modification. The Company determined that debt modification accounting applied to the Second A&R Promissory Note in November 2022 because the change in the fair value of the embedded conversion feature was not greater than 10% of the carrying value of the First A&R Promissory Note immediately prior to the modification. The $20,000 change in the fair value of the embedded conversion feature was accounted for as a debt discount and amortized as an adjustment of interest expense over the remaining term of the Second A&R Promissory Note at an effective rate of 3.1%. No portion of the Second A&R Promissory Note was converted into shares of Common Stock and the Second A&R Promissory Note was paid in full in December 2022.

Convertible Promissory Notes

In November 2022, the Company issued convertible promissory notes (the "Convertible Promissory Notes") in an aggregate principal amount of approximately $3.4 million to certain accredited investors, including to members of Company management in the amount of $1.7 million. The Convertible Promissory Notes were issued in privately negotiated transactions as part of a private placement exempt from registration under the Securities Act. In December 2022, the Company amended the Convertible Promissory Notes to (a) change the conversion date to March 1, 2023 and (b) allow for the conversion price to be reduced if an additional Qualified Financing were to occur prior to the conversion date at a price lower than the then existing Convertible Promissory Notes conversion price. As a result of a private placement which was a Qualified Financing, the conversion price was $0.40 per share of Common Stock. In January 2023, the Convertible Promissory Notes were amended to change the conversion date to the third business day following the Shareholder Approval Date (as defined in Note 15). In March 2023, the Convertible Promissory Notes and accrued but unpaid interest were converted into 8,628,024 shares of Common Stock.

In January 2023, the Company entered into a convertible promissory note (the "January Convertible Promissory Note") to an accredited investor in a privately negotiated transaction as part of a private placement exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act in an aggregate principal amount of $1.3 million. The January Convertible Promissory Note had a maturity date of April 1, 2025 and accrued annual interest at a rate of 4.0%. The January Convertible Promissory Note was automatically convertible into Common Stock on the third business day following a shareholder meeting ultimately held in February 2023 at a conversion price equal to the lowest price per share paid by investors purchasing equity securities in any sale of equity securities by the Company between November 25, 2022 and the date of the shareholder meeting held in February 2023 with an aggregate gross sales price of not less than $5.0 million, subject to certain exclusions set forth in the January Convertible Promissory Note. The conversion price was $0.40 per share of Common Stock upon issuance. In March 2023, the January Convertible Promissory Note and accrued but unpaid interest were converted into 3,134,932 shares of Common Stock.

NOTE 11 – JOINT VENTURE

In May 2021, the Company and a subsidiary of Talen Energy Corporation ("Talen") (each a "Member" and collectively the "Members") entered into the Nautilus Joint Venture to develop, construct and operate up to 300 MW of zero-carbon bitcoin

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mining in Pennsylvania which was subsequently amended in August 2022 (the "A&R Nautilus Agreement") and March 2023 (the "Second A&R Nautilus Agreement"). In connection with the Joint Venture, Nautilus simultaneously entered into (i) a ground lease (the "Nautilus Ground Lease"), which included an electricity supply component, with a related party of Talen, (ii) a Facility Operations Agreement (the "FOA") originally with a related party of the Company and subsequently amended with a related party of Talen and (iii) a Corporate Services Agreement (the "CSA") with a related party of Talen. The Company originally held a 50% interest in the Joint Venture which was subsequently reduced to 25% per the Second A&R Nautilus Agreement. The Nautilus Cryptomine Facility initially required 200 MW of electric capacity.

In March 2024, a subsidiary of Talen sold substantially all its assets to an unaffiliated third party, including the land that Nautilus utilizes pursuant to the Nautilus Ground Lease. In connection with the sale, the Nautilus Ground Lease was assigned from Talen to the purchaser of the assets.

The Company capitalized a portion of the interest on funds borrowed to finance its investments in Nautilus prior to Nautilus commencing its principal operations. Capitalized interest costs were $0, $0.9 million and $4.6 million for the years ended December 31, 2024, 2023 and 2022, respectively.

Distributions were made periodically in accordance with each Member's respective hashrate contributions after deducting primarily each Member's share of power and operational costs. The Company received bitcoin distributions from Nautilus with a fair value of $22.8 million, $21.9 million and $0 during the years ended December 31, 2024, 2023 and 2022, respectively.

On October 2, 2024, the Company sold its entire 25% equity interest in Nautilus to the Talen Member (the "Nautilus Sale"). The total consideration transferred was $102.1 million comprised of: (i) $86.1 million paid in cash, including a customary working capital adjustment, (ii) $0.3 million distributed in bitcoin on a pro rata basis for bitcoin mined and held by Nautilus, and (iii) $15.7 million of miners and equipment assigned to the Company by Nautilus, reflecting the fair value of all of Nautilus' miners, including miners contributed by the Talen Member, as well as certain other related equipment owned by Nautilus. The Nautilus Sale included customary representations and warranties and customary covenants, including, among others, that the Talen Member will pay to the Company 25% of the net proceeds received in excess of $300.0 million in the aggregate in any future sale of all or substantially all of the assets, or a majority of the equity interests of Nautilus. In connection with the Nautilus Sale, the Company derecognized its investment in Nautilus of $79.5 million and recorded a gain on sale of equity interest in investee of $22.6 million in the consolidated statement of operations for the year ended December 31, 2024.

Prior to the Nautilus Sale, Nautilus was a VIE accounted for using the equity method of accounting. In August 2022, due to the change in Member ownership percentage and governance rights under the A&R Nautilus Agreement, Talen determined it controlled the Joint Venture from an accounting perspective and thereby was required to fair value the identifiable assets and liabilities of the Joint Venture for its internal accounting purposes. Under the CSA, Talen was responsible for maintaining the books and records of the Joint Venture and elected to push down the fair value adjustments to Nautilus' books and records. The Company accounted for the Joint Venture as an equity method investment and the change in ownership percentage did not impact the Company's method of accounting or basis. Therefore, there was a basis difference between the books and records of Nautilus and the Company's accounting basis in the Joint Venture.

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The condensed results of operations for the period from January 1, 2024 to October 2, 2024 (the date of the Nautilus Sale) and the years ended December 31, 2023 and 2022 and the condensed financial position as of October 2, 2024 and December 31, 2023 of Nautilus are summarized below (in thousands):

		Year Ended December 31,[1]	
	January 1, 2024 to October 2, 2024[1][2]	2023	2022
Condensed statement of operations information:			
Revenue	$ 90,530	$ 108,001	$ 19
Operating expense	78,461	95,142	10,823
Net income (loss)	$ 12,069	$ 12,859	$ (10,804)

	October 2, 2024[1][2]	December 31, 2023[1]
Condensed balance sheet information:		
Current assets	$ 11,124	$ 12,406
Noncurrent assets	134,217	171,245
Total assets	$ 145,341	$ 183,651
Current liabilities	$ 12,816	$ 13,149
Noncurrent liabilities	29,434	29,493
Equity	103,091	141,009
Total liabilities and equity	$ 145,341	$ 183,651

(1) The condensed statements of operations information for the period from January 1, 2024 to October 2, 2024 (the date of the Nautilus Sale) and the years ended December 31, 2023 and 2022 and the condensed balance sheet information as of October 2, 2024 and December 31, 2023 reflect the impact of the Talen-estimated fair value measurements of Nautilus which, resulting from the application of ASC 805, Business Combinations, have been pushed down to the books and records of Nautilus by Talen, as discussed above. The Company's basis in the assets and liabilities of Nautilus continue to be recorded at historical value on the accompanying consolidated balance sheets.

(2) The condensed results of operations and financial position are presented as of and for the period from January 1, 2024 to October 2, 2024, the date of the Nautilus Sale.

In June 2021, Nautilus entered into two Non-fixed Price Sales and Purchase Agreements for the purchase of bitcoin miners from Bitmain Technologies Limited ("Bitmain") for a total of 30,000 S19j Pro miners, with originally scheduled monthly deliveries of 5,000 miners each between January 2022 and March 2022 under one agreement (the "Q1 2022 Bitmain Agreement') and 5,000 miners each between April 2022 and June 2022 under a second agreement (the "Q2 2022 Bitmain Agreement" and, together, the "Bitmain Purchase Agreements"). During the year ended December 31, 2022, the Company paid Bitmain $22.8 million and was reimbursed by Talen for 50% of that amount. As of December 31, 2022, the Q1 2022 Bitmain Agreement was concluded with all parties performing under the contract. In September 2022, the Q2 2022 Bitmain Agreement was cancelled whereby each Member received a $31.2 million credit with Bitmain to use at the respective Member's discretion (the "Bitmain Credit"). The Company recorded a distribution from the Joint Venture whereby equity in net assets of investee was reduced and property, plant and equipment, net was correspondingly increased by the $31.2 million distributed credit.

The Company's direct payments to Bitmain, among others, on behalf of Nautilus for the year ended December 31, 2022, are included in investments in joint venture, including direct payments made on behalf of joint venture in the consolidated

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statement of cash flows. A reconciliation of amounts included within this footnote to captions in the consolidated statements of cash flows for the years ended December 31, 2024, 2023 and 2022 follows (in thousands):

	Year Ended December 31,		
	2024	2023	2022
Payment of TeraWulf 50% share of Bitmain deposits	$ —	$ —	$ (11,402)
Investments in joint venture related to direct payments made on behalf of joint venture	—	—	(11,402)
Direct investments in joint venture and payments made on plant and equipment contributed to joint venture	—	(2,845)	(34,796)
Investments in joint venture, including direct payments made on behalf of joint venture	$ —	$ (2,845)	$ (46,198)
Payment of Talen 50% share of Bitmain deposits	$ —	$ —	$ (11,402)
Other reimbursable payments	—	—	(339)
Reimbursable payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	$ —	$ —	$ (11,741)
Talen reimbursement of 50% share of Bitmain deposits	$ —	$ —	$ 11,402
Other reimbursable payments	—	—	314
Reimbursement of payments for deposits on plant and equipment made on behalf of a joint venture or joint venture partner	$ —	$ —	$ 11,716

In March 2022, the Company entered into an exchange agreement with Nautilus and the Talen Member whereby the Company purchased 2,469 of Nautilus' Bitmain S19j Pro miners (the "Nautilus Miners") to be received under the Bitmain Purchase Agreements in exchange for an option to either (1) deliver miners that are not less favorable in all material respects to those of the Nautilus Miners (the "Exchange Miners") by July 1, 2022 or (2) incur a pro forma adjustment to Nautilus' distributions such that the Nautilus co-venturer is made whole as though the miners had not been transferred to the Company. If the Exchange Miners were not delivered by September 30, 2022, the Nautilus co-venturer would have been entitled to elect to distribute in-kind a number of miners then in possession of Nautilus comparable to the then-undelivered Exchange Miners. During the year ended December 31, 2022, the Nautilus Miners were received and recorded at fair value to property, plant and equipment, net in the amount of $16.0 million with a corresponding recognition of an exchange miner liability of the same amount. The A&R Nautilus Agreement removed the Company's obligation to deliver the Exchange Miners to the Joint Venture. Accordingly, the Company derecognized the miner exchange liability and recorded a $16.8 million reduction in equity in net assets of investee and recorded a loss on nonmonetary miner exchange of $0.8 million in the consolidated statement of operations for the year ended December 31, 2022.

In September 2022, the Company, as allowed under the A&R Nautilus Agreement and because its Lake Mariner Facility was operational, transferred 2,500 Bitmain S19j Pro miners from Nautilus to its Lake Mariner Facility. Accordingly, the Company recorded the miners at an estimated fair value of $4.8 million, determined based on a contemporaneous observed market price for identical assets, in property, plant and equipment, net and the Company reduced the equity in net assets of investee balance by $16.3 million, the book value of the miners in Nautilus' books and records and recorded a loss of $11.5 million as a component of equity in net loss of investee, net of tax in the consolidated statement of operations for the year ended December 31, 2022.

In February, March and April 2023, the Company, as allowed under the A&R Nautilus Agreement, transferred control of approximately 4,900 MinerVA miners from Nautilus to its Lake Mariner Facility, including certain miners that had yet to be shipped from MinerVA. Accordingly, the Company recorded the miners at an estimated fair value of $6.9 million, determined based on a contemporaneous observed market price for similar assets, in property, plant and equipment, net and the Company reduced the equity in net assets of investee balance by $20.4 million, the book value of the miners in Nautilus' books and records, in the consolidated balance sheet as of December 31, 2023 and recorded a loss of $13.6 million as a component of equity in net loss of investee, net of tax in the consolidated statement of operations for the year ended December 31, 2023. The Company had recorded $0.8 million in deposits on miners related to approximately 600

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miners that had yet to be shipped from MinerVA. As of December 31, 2023, the Company determined it not probable that the miners would be received and, accordingly, recognized a loss on disposal of deposits on miners of $0.8 million, which is included within loss on disposals of property, plant, and equipment in the consolidated statement of operations for the year ended December 31, 2023.

As contemplated in the A&R Nautilus Agreement, members are allowed to make contributions of miners up to the effective electrical capacity of their owned infrastructure percentage. During the years ended December 31, 2023 and 2022, the Company contributed to Nautilus certain miners with a fair value, determined based on miner vendor contracts, of $36.7 million and $11.6 million, respectively. Accordingly, as of December 31, 2023 and 2022, the Company increased the equity in net assets of investee balance by $36.7 million and $11.6 million, respectively, and reduced the property, plant and equipment, net balance by the same amounts in the consolidated balance sheets. The Company made no contributions of miners to Nautilus during the year ended December 31, 2024.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company is not a party to any material legal proceedings and is not aware of any pending or threatened claims. From time to time, the Company may be subject to various legal proceedings, regulatory inquiries and claims that arise in the ordinary course of its business activities.

NOTE 13 – DEFINED CONTRIBUTION PLAN

The TeraWulf Inc. 401(k) Plan is a safe harbor defined contribution plan which qualified under section 401(k) of the Internal Revenue Code. A participant's right to claim a distribution of his or her account balance is dependent on the plan, Employee Retirement and Income Security Act guidelines and Internal Revenue Service regulations. All active participants are fully vested in all contributions to the 401(k) plan. During the years ended December 31, 2024, 2023 and 2022, the Company expensed approximately $0.1 million, $0.2 million, and $0.1 million, respectively, for Company matching contributions.

NOTE 14 – CONVERTIBLE PREFERRED STOCK

TeraWulf Convertible Preferred Stock

In March 2022, TeraWulf entered into Series A Convertible Preferred Stock Subscription Agreements (the "Subscription Agreements") with certain accredited and institutional investors (collectively, the "Holders"). Pursuant to the Subscription Agreements, the Company sold 9,566 shares (of 10,000 shares authorized) of Series A Convertible Preferred Stock, par value $0.001 per share (the "Convertible Preferred Stock") to the Purchasers for an aggregate purchase price of $9.6 million. The Subscription Agreements contain customary representations, warranties, covenants and agreements of the Company. The offer and sale of the Convertible Preferred Stock were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement.

Holders of the Convertible Preferred Stock will accumulate cumulative dividends at an annual rate of 10.0% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share, accumulating on a daily basis and payable, if declared by the Company's Board of Directors, quarterly on March 31st, June 30th, September 30th and December 31st, respectively, in each year and commencing June 30, 2022. Commencing June 30, 2022, unpaid dividends will be accreted to the liquidation preference. The initial liquidation preference is $1,000 per share. Holders of the Convertible Preferred Stock will also be entitled to such dividends paid to holders of the Company's Common Stock, if applicable, as if such Holders of the Convertible Preferred Stock had converted their Preferred Shares into Common Stock (without regard to any limitations on conversions) and had held such shares of the Company's Common Stock on the record date for such dividends and distributions. If applicable, such payments will be made concurrently with the dividend or distribution to the holders of the Company's Common Stock. Upon liquidation, the Convertible Preferred Stock will rank senior to the Company's Common Stock, and will have the right to be paid, out of the assets of the Company legally available for distribution to its stockholders, an amount equal to the Liquidation Preference (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of the Convertible Preferred Stock. Holders of Convertible Preferred Stock will not generally have the right to vote at any meeting of stockholders, except for certain protective voting rights, as defined. The Convertible Preferred Stock does not have a maturity date.

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The Holders of the Convertible Preferred Stock will have a right to effect an optional conversion of all or any whole number of shares of the Convertible Preferred Stock at any time and from time to time. The Company will have a right to effect a mandatory conversion of the Convertible Preferred Stock after the third anniversary of the issuance date if the Last Reported Sale Price (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of Common Stock exceeds 130.0% of the Conversion Price, as defined, on each of at least five (5) trading days (whether or not consecutive) during the fifteen consecutive trading days ending on, and including, the trading day immediately before the mandatory conversion notice date for such mandatory conversion. The number of shares of Common Stock issuable upon conversion will be equal to the liquidation preference, including accumulated and unpaid dividends, divided by the Conversion Price, as defined. The Conversion Price is determined by dividing $1,000 by the Conversion Rate, as defined, which is initially 100 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. The Conversion Rate will be adjusted for certain customary events, including (but not limited to) stock dividends, stock splits or combinations, tender offers or exchange offers and, additionally, for Fundamental Changes, as defined, to include (but are not limited to) a change in control of the Company, disposition of substantially all assets of the Company, the Company's Common Stock holders approve a plan of liquidation or dissolution or the Company's Common Stock cease to be listed on the Nasdaq Capital Market. A Fundamental Change will adjust the Conversion Rate based on the date of the Fundamental Change and the Stock Price, as defined, on such date. The Conversion rate will not exceed 125 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. If any Convertible Preferred Stock is to be converted pursuant to a Holder's optional conversion, the Company will have the option to settle such conversion in cash, as defined.

No dividends were paid during the years ended December 31, 2024, 2023 and 2022. Cumulative dividends of $3.0 million were accumulated and accreted to liquidation preference as of December 31, 2024. As of December 31, 2024, the aggregate liquidation preference of the Convertible Preferred Stock was approximately $12.6 million. If the entire liquidation preference of the Convertible Preferred Stock was converted at the Conversion Price, the Company would issue approximately 1.3 million shares of Common Stock.

NOTE 15 – COMMON STOCK

On April 16, 2024, the Company held its 2024 Annual Meeting of Stockholders (the "2024 Annual Meeting"). As a result of the matters submitted to a stockholder vote at the 2024 Annual Meeting, the Company's stockholders adopted a charter amendment increasing the number of authorized shares of the Company's Common Stock from 400,000,000 to 600,000,000. Consequently, as of December 31, 2024, TeraWulf's Certificate of Incorporation provides for authorized shares of 700,000,000, divided into (i) 600,000,000 shares of Common Stock, with par value of $0.001 per share and (ii) 100,000,000 shares of Preferred Stock, with par value of $0.001 per share. Each holder of a share of Common Stock shall be entitled to one vote of each common share held. Each holder of a share of Preferred Stock shall not be entitled to any voting powers, except as provided in an applicable Certificate of Designations. The board of directors may authorize one or more series of Preferred Stock and may fix the number of shares in such series and the designation, powers, preferences, rights, qualifications, limitations and restrictions in respect of the shares of such series. One series of preferred stock, the Convertible Preferred Stock, was authorized as of December 31, 2024.

In March 2022, the Company concluded a private placement of 271,447 of unregistered Common Stock for proceeds of $2.1 million to an entity controlled by a member of Company management (the "Subscriber"). The Subscriber is entitled to customary registration rights as reasonably agreed between the Subscriber and the Company.

In April 2022, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Cantor Fitzgerald & Co., as underwriter (the "Underwriter"), pursuant to which the Company issued and sold to the Underwriter an aggregate of 2,985,966 shares of Common Stock, par value $0.001 per share (the "April Shares"), for gross proceeds of approximately $20.6 million, before deducting underwriting discounts and commissions and offering expenses payable by the Company. The issuance and sale of the April Shares by the Company under the Underwriting Agreement were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement, including a final prospectus supplement dated April 11, 2022.

In April 2022, the Company concluded a private placement of 634,517 of unregistered Common Stock for proceeds of $5.0 million to an entity controlled by a member of Company management and to certain other significant stockholders.

In April 2022, the Company entered into a sales agreement with Cantor, B. Riley Securities, Inc. ("B. Riley Securities") and D.A. Davidson & Co. ("D.A. Davidson"), pursuant to which the Company may offer and sell, from time to time,

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through or to the agents thereunder, shares of Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million. The April 2022 sales agreement was amended in August 2023 to terminate the agreement with respect to D.A. Davidson and add Northland Securities, Inc. ("Northland") and Compass Point Research & Trading, LLC ("Compass Point") as agents (as so amended, the "Original ATM Sales Agreement"). The Company incurs a commission up to 3.0% of the gross sales price from each sale of shares.

In May 2024, the Company and B. Riley Securities mutually agreed to terminate the Original ATM Sales Agreement with respect to B. Riley Securities and the Company entered into Amendment No. 2 to the Original ATM Sales Agreement with Cantor, Northland, Compass Point ATB Capital Markets USA Inc., Roth Capital Partners, LLC, Stifel Nicolaus Canada Inc. and Virtu Americas LLC (each, individually, an "Agent" and, collectively, the "ATM Agents") pursuant to which the Company may offer and sell, from time to time, through or to the ATM Agents, shares of Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million (the "Amended ATM Sales Agreement," together with the Original ATM Sales Agreement, the "ATM Program"). The Company incurs a commission up to 3.0% of the gross sales price from each sale of shares. The Company is not obligated to sell any shares under the ATM Program. The issuance and sale of the shares of Common Stock by the Company under the ATM Program have been made pursuant to the Company's effective registration statement on Form S-3 (Registration statement No. 333-262226), including final prospectus supplements dated April 26, 2022 and May 23, 2024.

During the years ended December 31, 2024, 2023 and 2022, the Company sold pursuant to the ATM Program 67,368,125, 56,985,498 and 2,910,909 shares of Common Stock, respectively, for net proceeds of $189.4 million, $105.5 million and $9.7 million, respectively. As of December 31, 2024, the remaining capacity of the ATM Program to offer and sell shares of Common Stock is $87.1 million.

In October 2022, the Company entered into unit subscription agreements with certain accredited investors in privately negotiated transactions (collectively, the "October Purchasers") as part of a private placement (the "October Private Placement") exempt from registration under the Securities Act. Pursuant to the agreements, the Company sold 7,481,747 units, each consisting of one share of Common Stock and one warrant (the "October Warrants"), exercisable at a price of $1.93 per Common Share, to the October Purchasers for an aggregate purchase price of approximately $9.4 million. Approximately $3.5 million of the aggregate purchase price related to investments by entities controlled by members of Company management. The Company allocated the proceeds between Common Stock and the October Warrants based on the relative fair values of the financial instruments, with $5.1 million allocated to Common Stock and $4.3 million allocated to the October Warrants. During the year ended December 31, 2024, 319,048 October Warrants were exercised for issuance of the same number of shares of Common Stock for aggregate proceeds to the Company of $0.6 million.As of December 31, 2024, there were 7,162,699 of the October Warrants outstanding.

In December 2022, the Company entered into subscription agreements or unit subscription agreements with certain accredited and institutional investors in privately negotiated transactions (the "December Purchasers") as part of a private placement (the "December Private Placement") exempt from registration under the Securities Act as amended. Pursuant to these agreements, the Company issued for an aggregate purchase price of $6.7 million (i) 16,850,000 shares of Common Stock at a purchase price of $0.40 per share of Common Stock and (ii) 11,250,000 warrants (the "December Warrants") exercisable for 8,750,000 shares of Common Stock, at an exercise price equal to $0.40 per share of Common Stock. The December Warrants became exercisable on January 16, 2023 and expired on January 31, 2023. In connection with the issuance of the December Warrants, the Company and the December Purchasers entered into a Registration Rights Agreement, pursuant to which the Company agreed to provide customary shelf and piggyback registration rights to the December Purchasers with respect to the shares of Common Stock underlying the December Warrants. The Company allocated the proceeds between Common Stock and the December Warrants based on the relative fair values of the financial instruments, with $5.4 million allocated to Common Stock and $1.3 million allocated to the December Warrants. In January 2023, 50% of the December Warrants were exercised for proceeds of $1.8 million while the remaining 50% of the December Warrants expired. In January 2023, the Company entered into additional subscription agreements with certain December Purchasers pursuant to which such December Purchasers purchased from the Company shares of Common Stock, at a purchase price of $0.40 per share of Common Stock, in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $1.8 million (the "January Private Placement"). The January Private Placement effectively replaced the then 50% unexercised December Warrants at the same purchase price of $0.40 per share of Common Stock. The closing of the January Private Placement was subject to certain conditions, including the completion of a $30 million equity capital raise by the Company, which may have been unilaterally waived by the December Purchasers, and the receipt of shareholder approval of an increase to issued and unauthorized shares of Common Stock. Pursuant to these Common Stock subscription agreements,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the Company agreed to provide customary registration rights to the certain December Purchasers. These Common Stock subscription agreements contain customary representations, warranties, covenants and are subject to customary closing conditions and termination rights. The funds pursuant to the additional subscription agreements were received during the three months ended March 31, 2023 and the shares of Common Stock were issued in April 2023.

In January 2023, the Company entered into (a) subscription agreements (the "Warrant Subscription Agreements") with certain accredited investor entities controlled by members of Company management (the "Warrant Investors") pursuant to which such Warrant Investors purchased from the Company 2,380,952 warrants, each exercisable to purchase one share of Common Stock at an exercise price of $0.00001 per share of Common Stock (the "January 2023 Warrants"), in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $2.5 million, based on a price per share of Common Stock of $1.05 for a total of 2,380,952 shares of Common Stock and (b) warrant agreements (the "Warrant Agreements") with such Warrant Investors. The Warrant Agreements governed the terms and conditions of the January 2023 Warrants, which were exercisable beginning on the first business day following the date on which shareholder approval of an increase in the Company's authorized Common Stock was obtained, which occurred in February 2023, and would have expired on December 31, 2023. The Warrant Investors are entitled to customary registration rights with respect to the shares of Common Stock issuable upon exercise of the Warrant Subscription Agreements. The January 2023 Warrants were exercised and 2,380,952 shares of Common Stock were issued in April 2023.

In January 2023, the Company entered into an exchange agreement (the "Exchange Agreement") with an entity controlled by a member of management (the "Exchanging Shareholder"). Pursuant to the Exchange Agreement, the Exchanging Shareholder exchanged a total of 12,000,000 shares of Common Stock for 12,000,000 new warrants issued by the Company (the "New Exchange Warrants") in a private exchange exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act. The reacquired shares of Common Stock were not retired. The New Exchange Warrants were exercisable at a strike price of $0.0001 per share beginning on the first business day following the date on which shareholder approval of an increase in the Company's authorized Common Stock was obtained, which occurred in February 2023, and would have expired on December 31, 2023. The Exchanging Shareholder is entitled to customary registration rights with respect to the shares of Common Stock issuable upon exercise of the New Exchange Warrants. The Exchange Agreement contains customary representations, warranties, covenants and is subject to customary closing conditions and termination rights. The New Exchange Warrants were exercised and 12,000,000 shares of Common Stock were issued in April 2023.

In February 2023, the Company commenced an underwritten public offering of 36,764,706 shares of Common Stock at $0.68 per share (the "Offering"). JonesTrading Institutional Services LLC, as representative of the several underwriters (the "Underwriters") and pursuant to an underwriting agreement (the "Underwriting Agreement"), acted as book-running manager for the Offering. The Underwriting Agreement includes customary representations, warranties and covenants by the Company and customary conditions to closing, obligations of the parties and termination provisions. Additionally, under the terms of the Underwriting Agreement, the Company agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the Underwriters may be required to make in respect of these liabilities. Pursuant to the Underwriting Agreement, the Company granted the Underwriters a 30-day over-allotment option to purchase up to an additional 5,514,705 shares of Common Stock, of which the Underwriters elected to purchase 4,000,000 of the over-allotment prior to the close of the Offering. The Offering closed on March 1, 2023 and the Company issued 40,764,706 shares of Common Stock and received net proceeds under the Offering of $26.6 million. The Common Stock was issued pursuant to the Company's effective Registration Statement on Form S-3 (File No. 333-262226).

In February 2023, the Company entered into subscription agreements with certain accredited investors (the "February Common Stock Investors"), pursuant to which the February Common Stock Investors purchased 1,386,467 shares of Common Stock at a purchase price of $0.68 per share for net proceeds to the Company of $0.9 million. The purchase funds were received during the three months ended March 31, 2023 and the shares of Common Stock were issued in April 2023. The private placement transaction was exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act.

In October 2024, the Company's board of directors approved a share repurchase program authorizing the Company to repurchase up to $200.0 million of the Company's outstanding shares of Common Stock through December 31, 2025. During the year ended December 31, 2024, the Company has repurchased 18,568,750 shares of Common Stock for $118.2 million.

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No dividends were declared during the years ended December 31, 2024, 2023 and 2022.

NOTE 16 – STOCK BASED COMPENSATION

In May 2021, the Company made effective the 2021 Omnibus Incentive Plan (the "Plan") for purpose of attracting and retaining employees, consultants and directors of the Company and its affiliates by providing each the opportunity to acquire an equity interest in the Company or other incentive compensation in order to align the interests of such individuals with those of the Company's stockholders. The Plan provides for a maximum number of shares to be issued, limitations of shares to be delivered for incentive stock options and a maximum compensation amount for any non-employee member of the board of directors, among other provisions. The form of grants under the Plan includes stock options, stock appreciation rights, restricted stock and RSUs. Additionally, the Company issued 138,876 and 415,910 shares of Common Stock to members of the board of directors for payment of quarterly fees in lieu of cash payments during the years ended December 31, 2024 and 2023, respectively. For the years ended December 31, 2024, 2023, and 2022, stock-based compensation expense was $30.9 million, $5.9 million and $1.6 million, respectively.

During the years ended December 31, 2024 and 2023, certain employees, in lieu of paying withholding taxes on the vesting of certain shares of restricted stock and RSU awards, authorized the withholding of an aggregate of 5,057,145 and 1,578,056 shares of Common Stock to satisfy statutory withholding requirements related to such vesting. Shares withheld for the payment of withholding taxes are not deemed issued under the Plan and remain available for issuance.

The following table summarizes the activities for unvested Company restricted stock and RSUs granted to employees and members of the board of directors during the year ended December 31, 2024:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2022	—	$ —
Granted	1,931,187	2.87
Vested	—	—
Forfeited/canceled	—	—
Unvested as of December 31, 2022	1,931,187	2.87
Granted	6,872,358	0.43
Vested	(4,797,854)	0.72
Forfeited/canceled	(52,942)	1.70
Unvested as of December 31, 2023	3,952,749	1.26
Granted	9,671,700	2.94
Vested	(11,010,418)	2.41
Forfeited/canceled	—	—
Unvested as of December 31, 2024	2,614,031	$ 2.57

The requisite service period for RSUs is between one and three years. RSUs granted as set out in the table above include PSUs representing 4,197,000 and 3,900,000 shares with vesting based on market conditions tied to the Company's stock price during the years ended December 31, 2024 and 2023, respectively. The PSUs are subject to performance-based vesting conditions measured over a three-year performance period and vest based on the Company's achievement of certain stock price hurdles by certain determination dates, subject to the respective employee's continued service through the applicable determination date. The stock price hurdle represents the average closing price of Common Stock on Nasdaq during the 45 trading days immediately preceding the applicable determination date. Any unvested PSUs will be forfeited if the performance targets are not achieved within three years of the grant date. Restricted stock are immediately vested on the grant date, but shall not be assigned, sold or transferred by the participant until one year from the grant date.

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As of December 31, 2024, there was $1.9 million of unrecognized compensation cost related to unvested RSUs and PSUs granted to employee and members of the board of directors. The amount is expected to be recognized over a weighted average period of 0.7 years.

The following table summarizes the activities for unvested Company RSUs granted to non-employees, excluding members of the board of directors, during the year ended December 31, 2024:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2022	—	$ —
Granted	134,669	1.41
Vested	—	—
Forfeited/canceled	(52,024)	1.73
Unvested as of December 31, 2022	82,645	1.21
Granted	2,870,564	0.82
Vested	(372,972)	1.15
Forfeited/canceled	(190,845)	0.70
Unvested as of December 31, 2023	2,389,392	0.79
Granted	425,000	2.87
Vested	(1,092,327)	0.98
Forfeited/canceled	(23,332)	0.67
Unvested as of December 31, 2024	1,698,733	$ 1.22

The requisite service period for grants, including derived service periods for RSUs with market conditions, is generally between one and three years. As of December 31, 2024, there was $1.4 million of unrecognized compensation cost related to unvested non-employee, excluding members of the board of directors, RSUs. The amount is expected to be recognized over a weighted average period of 1.0 years.

NOTE 17 – RELATED PARTY TRANSACTIONS

In April 2021, the Company entered into an Administrative and Infrastructure Services Agreement (the "Services Agreement") with Beowulf Electricity & Data Inc. ("Beowulf E&D"), a related party due to control by a member of Company management. Under the Services Agreement, Beowulf E&D will provide, or cause its affiliates to provide, to TeraWulf certain services necessary to construct and operate certain bitcoin mining facilities developed or anticipated to be developed by the Company and support the Company's ongoing business, including, among others, services related to construction, technical and engineering, operations and maintenance, procurement, information technology, finance and accounting, human resources, legal, risk management and external affairs consultation. The Services Agreement has an initial term of five years and provides for certain fixed, passthrough and incentive payments to Beowulf E&D, including issuing to certain designated employees of Beowulf E&D awards with respect to shares of Common Stock upon the consummation of an initial public offering of TeraWulf or the consummation of a merger following which TeraWulf is listed on a nationally recognized securities exchange and, thereafter, upon achievement of certain milestones regarding bitcoin mining capacity deployed at the bitcoin mining facilities.

For the base fee, the Company originally agreed to pay Beowulf E&D in monthly installments an annual fee for the first year in the amount of $7.0 million and, thereafter, an annual fee equal to the greater of $10.0 million or $0.0037 per kilowatt hour of electric load utilized by the bitcoin mining facilities. In March 2023, TeraWulf and Beowulf E&D entered into an Amendment No. 1 to the Services Agreement, pursuant to which TeraWulf agreed to pay Beowulf E&D, effective as of January 1, 2023, a reduced annual base fee equal to $8.5 million payable in monthly installments, until all obligations under the Company's LGSA, as amended and restated from time to time, are either indefeasibly repaid in full or refinanced, at which point the annual base fee will increase to $10.0 million which occurred in July 2024. The Services Agreement also provides for reimbursement of cost and expenses incurred in connection with providing the services. For the years ended December 31, 2024, 2023 and 2022, the Company paid Beowulf E&D $15.8 million, $20.3 million and

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$16.9 million, respectively, under the Services Agreement, including payments related to construction agreements with contractors at the Lake Mariner Facility. For the years ended December 31, 2024, 2023, and 2022, selling, general and administrative expenses – related party in the consolidated statements of operations included $12.7 million, $13.3 million and $12.6 million, respectively, and operating expenses – related party in the consolidated statements of operations includes $2.5 million, $1.5 million and $0.5 million, respectively, in each case related to the base fee and reimbursement of costs and expenses. As of December 31, 2024, $0.8 million is included in prepaid expenses, $1.4 million is included in other amounts due to related parties and, of the costs incurred under the Services Agreement during the year ended December 31, 2024, $0.8 million is included in property, plant and equipment, net in the consolidated balance sheet. As of December 31, 2023, $0.7 million is included in prepaid expenses, $1.0 million is included in other amounts due to related parties and, of the costs incurred under the Services Agreement during the year ended December 31, 2023, $6.6 million is included in property, plant and equipment, net in the consolidated balance sheet.

The Services Agreement also provides for performance related milestones and related incentive compensation. In connection with the listing of its Common Stock on a nationally recognized stock exchange in December 2021, pursuant to the Services Agreement, the Company agreed to issue awards valued at $12.5 million with respect to shares of Common Stock to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. Once the mining facilities have utilized 100 MW of cryptocurrency mining load in the aggregate, and for every incremental 100 MW of cryptocurrency mining load deployed thereafter, the Company agreed to issue additional awards of shares of Common Stock each in the amount of $2.5 million to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. During the year ended December 31, 2022, the Company determined it probable that the first performance milestone of 100 MW of mining load deployed by the mining facilities would be met by April 2023. In September 2023, the Company and Beowulf E&D agreed to settle the then outstanding $15.0 million share based liabilities due to related party by issuing 2,460,513 shares of Common Stock with a fair value of $3.4 million and the Company recorded the remaining reduction to the share based liabilities due to related party of $11.6 million to additional paid-in capital during the year ended December 31, 2023. During the year ended December 31, 2023, the Company considered it probable that the second performance milestone of incremental 100 MW of mining load deployed by the mining facilities would be met by December 2023 and the Company recognized $2.5 million in share based liabilities due to related party in the consolidated balance sheet as of December 31, 2023. During the year ended December 31, 2024, the Company issued 1,083,189 shares of Common Stock with a fair value of $2.5 million to settle the share based liabilities due to related party. The Company recorded performance milestone expense of $0, $2.9 million and $2.1 million during the years ended December 31, 2024, 2023 and 2022, respectively, which is included within selling, general and administrative expense – related party in the consolidated statements of operations. The Company recognized no share based liabilities due to related party in the consolidated balance sheet as of December 31, 2024.

NOTE 18 – SUBSEQUENT EVENTS

The HPC Leases executed in December 2024 provide for certain prepaid rent amounts ("Prepaid Rent") representing the first 12 months base rent under each lease for a total of $90.0 million and shall be applied towards each month's base rent for 24 months commencing on the respective commencement date of each lease until the Prepaid Rent is exhausted. As of February 28, 2025, the Company has received all $90.0 million of Prepaid Rent.

Subsequent to December 31, 2024 and through February 28, 2025, the Company repurchased 5,900,000 shares of Common Stock for $33.3 million.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

As of August 20, 2024, the Company dismissed RSM US LLP ("RSM") as its independent registered public accounting firm, not as a result of any disagreements on any matter of accounting principles or practices, financial statement disclosure, or audit scope or procedure.

During the fiscal years ended December 31, 2023 and 2022, and the subsequent interim period through August 20, 2024, there were no: (i) disagreements with RSM on any matter of accounting principles or practices, financial statement disclosures or audit scope or procedures, which disagreements if not resolved to RSM's satisfaction would have caused RSM to make reference to the subject matter of the disagreement in connection with its report or (ii) reportable events as defined in Item 304(a)(1)(v) of Regulation S-K, except for the material weaknesses in the Company's internal control over financial reporting related to (A) the inadequate design and operation of management's review controls over identification of noncash activity on purchase and deposits on plant and equipment in the preparation of its consolidated statements of cash flows, as described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022; and (B) the inadequate design or operation of management's review controls over classification in the consolidated statements of cash flows of payments made related to business combinations, as described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. In connection with this 2024 Form 10-K, our management evaluated, with the participation of our chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of December 31, 2024, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that our disclosure controls and procedures were effective as of December 31, 2024.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

We periodically review our internal control over financial reporting as part of our efforts to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. In addition, we routinely review our system of internal control over financial reporting to identify potential changes to our processes and systems that may improve controls and increase efficiency, with the goal of establishing and maintaining an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating the activities of business units, migrating certain processes to our shared services organizations, formalizing policies and procedures, improving segregation of duties and increasing monitoring controls.

There were no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of our internal control over financial reporting. The internal control over financial

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

TERAWULF INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2025 AND DECEMBER 31, 2024
(In thousands, except number of shares and par value; unaudited)

	June 30, 2025	December 31, 2024
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 89,993	$ 274,065
Accounts receivable	1,172	475
Digital currency	—	476
Prepaid expenses	2,939	2,493
Other receivables	4,524	3,799
Other current assets	487	123
Total current assets	99,115	281,431
Property, plant and equipment, net	604,760	411,869
Goodwill	55,457	—
Operating lease right-of-use asset	92,735	85,898
Finance lease right-of-use asset	7,114	7,285
Restricted cash	1,425	—
Other assets	8,802	1,028
TOTAL ASSETS	$ 869,408	$ 787,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 38,834	$ 24,382
Accrued construction liabilities	20,929	16,520
Accrued compensation	4,078	4,552
Accrued interest	2,292	2,559
Other accrued liabilities	6,135	2,414
Other amounts due to related parties	15	1,391
Deferred revenue	687	—
Contingent consideration liabilities	30,000	—
Current portion of deferred rent liability	47,716	—
Current portion of operating lease liability	616	25
Current portion of finance lease liability	2	2
Total current liabilities	151,304	51,845
Deferred rent liability, net of current portion	42,284	—
Operating lease liability, net of current portion	11,255	3,427
Finance lease liability, net of current portion	290	292
Convertible notes	488,716	487,502
Other liabilities	1,227	—
TOTAL LIABILITIES	695,076	543,066

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Commitments and Contingencies (See Note 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 100,000,000 authorized at June 30, 2025 and December 31, 2024; 9,566 issued and outstanding at June 30, 2025 and December 31, 2024; aggregate liquidation preference of $13,248 and $12,609 at June 30, 2025 and December 31, 2024, respectively	9,273	9,273
Common stock, $0.001 par value, 600,000,000 authorized at June 30, 2025 and December 31, 2024; 414,599,543 and 404,223,028 issued and outstanding at June 30, 2025 and December 31, 2024, respectively	415	404
Additional paid-in capital	728,217	685,261
Treasury stock at cost, 24,468,750 and 18,568,750 at June 30, 2025 and December 31, 2024, respectively	(151,509)	(118,217)
Accumulated deficit	(412,064)	(332,276)
Total stockholders' equity	174,332	244,445
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 869,408	$ 787,511

See Notes to Condensed Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(In thousands, except number of shares and loss per common share; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Revenue	$ 47,636	$ 35,574	$ 82,041	$ 78,007
Costs and expenses:				
Cost of revenue (exclusive of depreciation shown below)	22,094	13,918	46,647	28,326
Operating expenses	2,039	797	3,183	1,582
Operating expenses – related party	1,475	875	3,223	1,763
Selling, general and administrative expenses	9,996	9,113	56,569	21,402
Selling, general and administrative expenses – related party	4,292	2,803	7,863	5,423
Depreciation	18,786	14,133	34,360	29,221
(Gain) loss on fair value of digital currency, net	(887)	700	(17)	(629)
Change in fair value of contingent consideration	1,600	—	1,600	—
Loss on disposals of property, plant, and equipment	3,831	—	3,831	—
Total costs and expenses	63,226	42,339	157,259	87,088
Operating loss	(15,590)	(6,765)	(75,218)	(9,081)
Interest expense	(4,012)	(5,325)	(8,061)	(16,370)
Loss on extinguishment of debt	—	—	—	(2,027)
Interest income	1,232	447	3,491	947
Loss before income tax and equity in net income of investee	(18,370)	(11,643)	(79,788)	(26,531)
Income tax benefit	—	—	—	—
Equity in net income of investee, net of tax	—	767	—	6,042
Net loss	$ (18,370)	$ (10,876)	$ (79,788)	$ (20,489)
Loss per common share:				
Basic and diluted	$ (0.05)	$ (0.03)	$ (0.21)	$ (0.07)
Weighted average common shares outstanding:				
Basic and diluted	386,895,095	340,662,826	385,032,650	315,714,178

See Notes to Condensed Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(In thousands, except number of shares; unaudited)

	Preferred Stock		Common Stock					
	Number	Amount	Number	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balances as of March 31, 2025	9,566	$ 9,273	408,198,263	$ 408	$ 705,897	$ (151,509)	$ (393,694)	$ 170,375
Common stock issued for share based liabilities due to related party	—	—	798,319	1	2,374	—	—	2,375
Common stock issued as consideration for business acquisition	—	—	5,000,000	5	19,545	—	—	19,550
Stock-based compensation expense and issuance of stock	—	—	860,514	1	1,303	—	—	1,304
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(257,553)	—	(902)	—	—	(902)
Net loss	—	—	—	—	—	—	(18,370)	(18,370)
Balances as of June 30, 2025	9,566	$ 9,273	414,599,543	$ 415	$ 728,217	$ (151,509)	$ (412,064)	$ 174,332

	Preferred Stock		Common Stock					
	Number	Amount	Number	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balances as of December 31, 2024	9,566	$ 9,273	404,223,028	$ 404	$ 685,261	$ (118,217)	$ (332,276)	$ 244,445
Treasury stock repurchased	—	—	—	—	—	(33,292)	—	(33,292)
Common stock issued for share based liabilities due to related party	—	—	798,319	1	2,374	—	—	2,375
Common stock issued as consideration for business acquisition	—	—	5,000,000	5	19,545	—	—	19,550
Stock-based compensation expense and issuance of stock	—	—	8,136,159	5	39,973	—	—	39,978
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(3,557,963)	—	(18,936)	—	—	(18,936)
Net loss	—	—	—	—	—	—	(79,788)	(79,788)
Balances as of June 30, 2025	9,566	$ 9,273	414,599,543	$ 415	$ 728,217	$ (151,509)	$ (412,064)	$ 174,332

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	Preferred Stock		Common Stock					
	Number	Amount	Number	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balances as of March 31, 2024	9,566	$ 9,273	302,921,785	$ 303	$ 532,238	$ —	$ (269,471)	$ 272,343
Warrant exercise	—	—	29,242,661	29	1,872	—	—	1,901
Common stock offering, net of issuance costs	—	—	40,553,489	41	123,003	—	—	123,044
Stock-based compensation expense and issuance of stock	—	—	2,949,636	1	4,841	—	—	4,842
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(1,210,849)	—	(5,013)	—	—	(5,013)
Net loss	—	—	—	—	—	—	(10,876)	(10,876)
Balances as of June 30, 2024	9,566	$ 9,273	374,456,722	$ 374	$ 656,941	$ —	$ (280,347)	$ 386,241

	Preferred Stock		Common Stock					
	Number	Amount	Number	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balances as of December 31, 2023	9,566	$ 9,273	276,733,329	$ 277	$ 472,834	$ —	$ (259,895)	$ 222,489
Cumulative effect of change in accounting principle (See Note 2)	—	—	—	—	—	—	37	37
Warrant exercise			29,242,661	29	1,872			1,901
Common stock offering, net of issuance costs	—	—	63,822,089	64	173,630	—	—	173,694
Common stock issued for share based liabilities due to related party	—	—	1,083,189	1	2,499	—	—	2,500
Stock-based compensation expense and issuance of stock	—	—	5,140,146	3	11,770	—	—	11,773
Tax withholdings related to net share settlements of stock-based compensation awards	—	—	(1,564,692)	—	(5,664)	—	—	(5,664)
Net loss	—	—	—	—	—	—	(20,489)	(20,489)
Balances as of June 30, 2024	9,566	$ 9,273	374,456,722	$ 374	$ 656,941	$ —	$ (280,347)	$ 386,241

See Notes to Condensed Consolidated Financial Statements.

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TERAWULF INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(In thousands; unaudited)

	Six Months Ended June 30,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (79,788)	$ (20,489)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of debt issuance costs, commitment fees and accretion of debt discount	1,215	10,691
Related party expense settled with respect to common stock	2,375	—
Stock-based compensation expense	39,978	11,773
Depreciation	34,360	29,221
Amortization of right-of-use asset	1,435	503
Revenue recognized from digital currency mined and hosting services	(82,041)	(77,477)
Gain on fair value of digital currency, net	(17)	(629)
Proceeds from sale of digital currency	—	97,559
Digital currency paid as consideration for services	—	210
Change in fair value of contingent consideration	1,600	—
Loss on disposals of property, plant, and equipment	3,831	—
Loss on extinguishment of debt	—	2,027
Equity in net income of investee, net of tax	—	(6,042)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(544)	—
(Increase) decrease in prepaid expenses	(3,259)	1,690
Increase in other receivables	(670)	(1,553)
(Increase) decrease in other current assets	(357)	301
(Increase) decrease in other assets	(7,700)	22
Increase (decrease) in accounts payable	355	(6,267)
Increase (decrease) in accrued compensation, accrued interest and other accrued liabilities	1,083	(1,946)
Decrease in other amounts due to related parties	(750)	(344)
Increase in deferred revenue	687	—
Increase in deferred rent liability	90,000	—
Decrease in operating lease liability	(43)	(23)
Decrease in other liabilities	(73)	—
Net cash provided by operating activities	1,677	39,227
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of and deposits on plant and equipment	(213,629)	(93,579)
Proceeds from sales of property, plant and equipment	1,882	—
Acquisition of a business, net of cash acquired	(2,731)	—
Proceeds from sale of digital currency	82,382	—
Net cash used in investing activities	(132,096)	(93,579)
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Principal payments on long-term debt	—	(63,568)
Payments of prepayment fees associated with early extinguishment of long-term debt	—	(314)
Principal payments on insurance premium and property, plant and equipment financing	—	(1,570)
Proceeds from issuance of common stock, net of issuance costs paid of $0 and $615	—	173,237
Proceeds from exercise of warrants	—	1,901
Purchase of treasury stock	(33,292)	—
Payments of tax withholding related to net share settlements of stock-based compensation awards	(18,936)	(5,664)
Net cash (used in) provided by financing activities	(52,228)	104,022
Net change in cash and cash equivalents	(182,647)	49,670
Cash, cash equivalents and restricted cash at beginning of period	274,065	54,439
Cash, cash equivalents and restricted cash at end of period	$ 91,418	$ 104,109
Cash paid during the period for:		
Interest	$ 7,114	$ 6,214
Income taxes	$ —	$ —

See Notes to Condensed Consolidated Financial Statements.

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – ORGANIZATION

TeraWulf Inc. ("TeraWulf" or the "Company") is a vertically integrated owner and operator of next-generation digital infrastructure, primarily powered by zero-carbon energy. The Company develops and operates high-performance data centers optimized for bitcoin mining and high-performance computing ("HPC") workloads, leveraging clean, cost-effective, and reliable energy sources to promote long-term sustainability in digital infrastructure.

TeraWulf generates revenue by providing hash computation services to a mining pool operator, facilitating transaction validation of transactions on the global bitcoin network using the Company's fleet of application-specific integrated circuit ("ASIC") miners. Bitcoin earned as consideration is routinely converted to U.S. dollars. The Company also previously generated revenue by hosting third-party bitcoin miners. While capable of mining other digital currencies, the Company has no current plans to do so.

In 2024, the Company launched WULF Compute, which is focused on development and deployment of scalable digital infrastructure to support a broader HPC strategy. This business aims to diversify revenue by offering HPC hosting and colocation, cloud, and connectivity services for GPU-based workloads (see Note 8). With growing demand for high-density compute, TeraWulf's assets are well-positioned to deliver low-cost, predominantly zero-carbon power to support these workloads.

As of June 30, 2025, TeraWulf owned and operated bitcoin mining activities at the Lake Mariner Facility in upstate New York (the "Lake Mariner Facility"), which began operations in March 2022. Currently, the Company has energized 245 MW of capacity across five buildings and supporting infrastructure at the site.

On May 21, 2025 (the "Acquisition Date"), the Company acquired 100% of the membership interests of each of Beowulf Electricity & Data LLC, Beowulf E&D (MD) LLC, and Beowulf E&D (NY) LLC (collectively, "Beowulf E&D"). The fair value of total consideration for the transaction was approximately $54.6 million, including $3.0 million in cash and 5.0 million shares of the Company's common stock ("Common Stock") issued on the Acquisition Date. The purchase agreement also includes up to $19.0 million in contingent cash payments and up to $13.0 million in additional Common Stock, subject to the achievement of several earnout milestones related to the expansion of the Company's data center business and project financing initiative (see Note 3). As part of the acquisition, 94 employees of Beowulf E&D, including site staff at the Lake Mariner Facility and corporate personnel, were transitioned to TeraWulf. In addition, the existing Administrative and Infrastructure Services Agreement (the "Services Agreement") (see Note 16) with Beowulf E&D was terminated on the Acquisition Date.

The Company previously had bitcoin mining activities at the Nautilus Cryptomine Facility in central Pennsylvania (the "Nautilus Cryptomine Facility"), developed through a joint venture (see Note 11). The Nautilus Cryptomine Facility commenced operations in February 2023 and achieved full energization of TeraWulf's 50 MW share by April 2023. In October 2024, TeraWulf sold its 25% equity interest in the joint venture, reallocating capital to expand its wholly owned infrastructure and advance its HPC strategy at the Lake Mariner Facility.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. In the opinion of the Company, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair statement of such interim results. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform with current period presentation.

The results for the unaudited interim condensed consolidated statements of operations are not necessarily indicative of results to be expected for the year ending December 31, 2025 or for any future interim period. The unaudited interim condensed consolidated financial statements do not include all the information and notes required by U.S. GAAP for complete presentation of annual financial statements. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2024.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for (but are not limited to) such items as the fair values of assets acquired and liabilities assumed in business combinations, establishment of useful lives for property, plant and equipment, the fair value of leased assets, the fair value of equity securities or warrants to purchase the Company's Common Stock issued individually or as a component of a debt or equity offering, the fair value of changes to the conversion terms of embedded conversion features, the fair value and requisite service periods of stock-based compensation, the fair value of assets received in nonmonetary transactions, the establishment of right-of-use assets and lease liabilities that arise from leasing arrangements, the fair value of contingent consideration liabilities, the timing of commencement of capitalization for plant and equipment, impairment of long-lived assets, impairment of goodwill, recoverability of deferred tax assets, amortization of deferred issuance costs and debt discount, and the recording of various accruals. These estimates are made after considering past and current events and assumptions about future events. Actual results could differ from those estimates.

Significant Accounting Policies

Except for the updates noted below, see the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2024 for a detailed discussion of the Company's significant accounting policies.

Revenue Recognition

Mining Pool

The Company has entered into an arrangement with a cryptocurrency mining pool (the "Foundry USA Pool") to perform hash computation (i.e. hashrate) for the mining pool in exchange for consideration. Providing hash computation services to a mining pool is an output of the Company's ordinary activities. The provision of such hash computation services is the sole performance obligation. The mining pool arrangement is terminable at any time without substantial penalty by Foundry USA Pool and may be terminated without substantial penalty by the Company upon providing one Contract Day's, as defined, prior written notice. The Company's enforceable right to compensation only begins when and continues while the Company provides hash computation services to its customer, the mining pool operator. Accordingly, the contract term with Foundry USA Pool is deemed to be less than 24 hours and to continuously renew throughout the day. Additionally, the Company concluded that the mining pool operator's (i.e., the customer's) renewal right is not a material right because the renewal rights do not include any discounts; that is, the terms, conditions, and compensation amounts are at the then-current market rates.

There is no significant financing component in these transactions.

The mining pool applies the Full Pay Per Share ("FPPS") payout model. Under the FPPS model, in exchange for providing hash computation services to the pool, the Company is entitled to pay-per-share base amount and transaction fee reward compensation, calculated on a daily basis, at an amount that approximates the total bitcoin that could have been mined and transaction fees that could have been awarded using the Company's hash computation services, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation, payable in bitcoin, regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

The transaction consideration the Company receives, if any, is noncash consideration and is all variable. Because digital currency is considered noncash consideration, fair value of the digital currency award received would generally be determined using the quoted price of the related digital currency in the Company's principal market at the time of contract inception. The Company has adopted an accounting policy to aggregate individual contracts with individual terms less than 24 hours within each intraday period and apply a consistent valuation point, the start of day Coordinated Universal Time (00:00:00 UTC), to value the related noncash consideration. Revenue is recognized when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, which is the same day that control of the contracted service transfers to the mining pool and is the same day as the contract inception. After every 24-hour contract term, the mining pool transfers the digital currency consideration to the Company's designated digital currency wallets.

Consideration payable to the customer in the form of a pool operator fee, which is incurred only to the extent that the Company has generated FPPS consideration, is deducted from the bitcoin the Company receives and is recorded as contra-revenue, as it does not represent a payment for a distinct good or service.

The Company recorded revenue from mining of $47.6 million and $82.0 million during the three and six months ended June 30, 2025, respectively, and $35.6 million and $77.2 million during the three and six months ended June 30, 2024, respectively.

Bitcoin Miner Hosting

The Company had one bitcoin miner hosting contract which expired in February 2024. At the time of contract inception, the quoted price of bitcoin in the Company's principal market was approximately $38,000. The Company recorded bitcoin miner hosting revenue of $0 and $0.8 million during the three and six months ended June 30, 2024, respectively.

HPC Hosting

In December 2024, the Company entered into long-term data center lease agreements (the "HPC Leases") with a customer for specified data center infrastructure at the Lake Mariner Facility to support the customer's HPC operations. In accordance with ASC 842, *Leases*, the Company determined at contract inception that these agreements contained a lease, comprising lease components related to the right to use data center space and non-lease components for power delivery, physical security, and maintenance services. The HPC Leases are expected to commence at various dates throughout 2025, each with an initial 10-year term. The agreements also provide the customer with two five-year renewal options and a provision for near-term expansion of HPC hosting capacity. While the expansion provision has since expired, the parties remain in active dialogue regarding potential expansion at the site (see Note 8).

Power Curtailment Credits

Proceeds from participation in demand response programs are recorded as a reduction in cost of revenue in the condensed consolidated statements of operations for the period in which the corresponding demand response program occurs. The Company recorded demand response program amounts of approximately $3.1 million and $5.9 million during the three and six months ended June 30, 2025, respectively, and $1.9 million and $3.2 million during the three and six months ended June 30, 2024, respectively.

Cash and Cash Equivalents

Highly liquid instruments with an original maturity of three months or less are classified as cash equivalents. As of June 30, 2025 and December 31, 2024, the Company had cash and cash equivalents of $90.0 million and $274.1 million, respectively.

The Company maintains cash and cash equivalent balances primarily at two financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's accounts at these institutions are insured, up to $250,000, by the FDIC. As of June 30, 2025, the Company's bank balances exceeded the FDIC insurance limit by $6.9 million. To reduce its risk associated with the failure of such financial institutions, the Company evaluates at least annually the rating of the financial institutions in which it holds deposits.

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Restricted Cash

The Company considers cash and marketable securities to be restricted when withdrawal or general use is legally restricted. The Company reports restricted cash in the condensed consolidated balance sheets and determines current or noncurrent classification based on the expected duration of the restriction. The Company had restricted cash of $1.4 million classified as noncurrent assets in the condensed consolidated balance sheet as of June 30, 2025. The Company had no restricted cash as of December 31, 2024.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the condensed consolidated balance sheets that total to the amounts shown in the condensed consolidated statements of cash flows (in thousands):

	June 30, 2025	December 31, 2024
Cash and cash equivalents	$ 89,993	$ 274,065
Restricted cash	1,425	—
Cash, cash equivalents and restricted cash	$ 91,418	$ 274,065

Supplemental Cash Flow Information

The following table shows supplemental cash flow information (in thousands):

	Six Months Ended June 30,	
	2025	2024
Supplemental disclosure of noncash activities:		
Cumulative-effect adjustment due to the adoption of Accounting Standard Update 2023-08	$ —	$ 37
Common stock issuance costs in accounts payable	$ —	$ 48
Purchases of and deposits on plant and equipment in accounts payable, accrued construction liabilities, other accrued liabilities and long-term debt	$ 45,910	$ 6,077
Purchases of and deposits on plant and equipment with digital currency	$ —	$ 316
Common stock issued for share based liabilities due to related party	$ 2,375	$ 2,500
Contingent consideration liabilities for business acquisition	$ 28,400	$ —
Consideration related to transition services agreement for business acquisition	$ 1,300	$ —
Settlement of preexisting relationships in business acquisition	$ 2,315	$ —
Common stock issued as consideration for business acquisition	$ 19,550	$ —
Decrease to investment in joint venture due to bitcoin received as distributions from investee	$ —	$ 19,087

Digital Currency

Digital currency consists of bitcoin earned as noncash consideration for providing hash computation services to a mining pool and for bitcoin miner hosting services, in accordance with the Company's revenue recognition policy. From time to time, the Company also received bitcoin as distributions-in-kind from its joint venture. Digital currency is classified as a current asset in the condensed consolidated balance sheets as it is highly liquid and the Company expects to sell it within the next twelve months to support operations.

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets ("ASU 2023-08"). The new standard requires certain crypto assets to be subsequently measured at fair value, with changes recognized in net income each reporting period.

The Company elected to early adopt ASU 2023-08 effective January 1, 2024, resulting in a cumulative-effect change of $37,000 to increase the digital currency balance and decrease the opening accumulated deficit in the condensed consolidated balance sheet as of January 1, 2024.

Following adoption of ASU 2023-08, the Company measures digital currency at fair value each reporting period in accordance with ASC 820, *Fair Value Measurement* ("ASC 820"). Fair value is determined using Level 1 inputs based on quoted prices from the active trading platform on which the Company regularly transacts, which is considered its principal market for bitcoin. Because bitcoin is continuously traded, the Company uses the midnight UTC price to align with its revenue recognition policy. Gains and losses from remeasurement are included within "(gain) loss on fair value of digital currency, net" in the condensed consolidated statements of operations.

For bitcoin sales, gains and losses are calculated as the difference between cash proceeds and the cost basis, using a first-in, first-out (FIFO) method. These gains and losses are also included within "(gain) loss on fair value of digital currency, net" in the condensed consolidated statements of operations. The Company recorded a net fair value (gain) loss of $(0.9) million and $(17,000) during the three and six months ended June 30, 2025, respectively, and $0.7 million and $(0.6) million during the three and six months ended June 30, 2024, respectively.

Bitcoin earned through mining activities is recorded as a noncash adjustment in reconciliation of net loss to net cash provided by operating activities in the condensed consolidated statements of cash flows. Bitcoin received as distributions-in-kind from equity investees is disclosed as a supplemental noncash investing activity.

Following the repayment of the Term Loans in July 2024 (see Note 10), the Company no longer immediately converts bitcoin into cash immediately. As a result, proceeds from bitcoin sales are reflected as cash flows from investing activities rather than operating activities for the six months ended June 30, 2025.

Concentrations

During 2025 and 2024, the Company primarily contracted with one supplier for the provision of bitcoin miners and one mining pool operator. The Company does not believe that these counterparties represent a significant performance risk. Revenue did not exceed 10% for any one bitcoin miner hosting customer during the three and six months ended June 30, 2025 and 2024. During the three and six months ended June 30, 2025 and 2024, the Company only operated bitcoin mining facilities. While capable of mining other digital currencies, the Company has no current plans to do so. If the market value of bitcoin declines significantly, the consolidated financial condition and results of operations of the Company may be adversely affected.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally 5 years for computer equipment, 4 years for miners and 10 years for furniture and fixtures and equipment). Leasehold improvements and electrical equipment are depreciated over the shorter of their estimated useful lives (25 years) or the lease term. Changes in depreciation and amortization, generally accelerated depreciation and variable amortization, are determined and recorded when estimates of the remaining useful lives or residual values of long-term assets change. Property, plant and equipment includes deposits, amounting to $0 and $53.9 million as of June 30, 2025 and December 31, 2024, respectively, on purchases of such assets, including miners, which would be included in property, plant and equipment upon receipt.

Interest related to construction of assets is capitalized when the financial statement effect of capitalization is material, construction of the asset has begun, and interest is being incurred. Interest capitalization ends at the earlier of the asset being substantially complete and ready for its intended use or when interest costs are no longer being incurred.

Variable Interest Entities

Variable interest entities ("VIE") are legal entities in which equity investors do not have (i) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, or (ii) as a group, the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (iii) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. The Company would consolidate any VIE in which it has a controlling financial interest through being deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both characteristics are met, the Company considers itself to be the primary beneficiary and therefore will consolidate that VIE into its consolidated financial statements.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with a VIE and reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether an entity is a VIE and whether the Company is the primary beneficiary of a VIE is based upon facts and circumstances for the VIE and requires significant judgments such as whether the entity is a VIE, whether the Company's interest in a VIE is a variable interest, the determination of the activities that most significantly impact the economic performance of the entity, whether the Company controls those activities, and whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

Business Combinations

The Company includes the results of operations of the businesses it acquires as of the acquisition date. The Company allocates the purchase price of the acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair values of identifiable assets and liabilities is recorded as goodwill. Contingent consideration is included within the purchase price and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is remeasured to fair value as of each reporting date until the contingency is resolved, and subsequent changes in fair value are recognized in earnings. Contingent consideration is recorded in current liabilities in the Company's condensed consolidated balance sheets.

While the Company uses its best estimates and assumptions to accurately apply preliminary values to assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the condensed consolidated statements of operations. Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for assets acquired, liabilities assumed, and contingent consideration, where applicable. Although the Company believes the assumptions and estimates it has made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. Critical estimates include valuation of the contingent consideration transferred, and assets acquired and liabilities assumed. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Goodwill

The Company evaluates goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. The Company may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying value and if so, it performs a quantitative test.

The Company estimates the fair value of the reporting unit using discounted cash flows. The Company's analyses require significant assumptions and judgments, including assumptions about future economic conditions, revenue growth, and operating margins, among other factors. Events or changes in circumstances considered in the qualitative analysis, many of which are subjective in nature, include: a significant negative trend in the Company's industry or overall economic trends, a significant change in how the Company uses the acquired assets, a significant change in business strategy, a significant decrease in the market value of the asset, and a significant change in regulations or in the industry that could affect the value of the asset. The Company compares the carrying value of each reporting unit to its estimated fair value and if the fair value is determined to be less than the carrying value, the Company would recognize an impairment loss for the difference.

Loss per Share

The Company computes earnings (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between Common Stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic loss per share of Common Stock is calculated by dividing the Company's net loss by the weighted average number of shares of Common Stock outstanding during the period. Convertible preferred stock is considered a participating security because it shares, in a pro rata basis, in any dividends declared on Common Stock. However, since it does not participate in the Company's losses, it is excluded from the computation of basic net loss per share. Diluted loss per share reflects the potential dilution that could occur if other instruments were converted into Common Stock, using the treasury stock method or as-converted method, as applicable. However, for periods in which the Company reports a net loss, all potentially dilutive instruments are excluded from the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Subsequent to June 30, 2024, the Company determined that dividends on its preferred stock would no longer be reflected as a reduction to net loss in the condensed consolidated statements of operations, and, therefore, would be excluded from the computation of basic loss per common share. Previously, the Company had included dividends in this calculation.

As of June 30, 2025 and 2024, the Company's potentially dilutive instruments and participating securities included convertible preferred stock, Common Stock warrants, convertible notes, restricted stock, and restricted stock units ("RSUs") issued for services. If the full liquidation preference of the Convertible Preferred Stock (as defined in Note 13) was converted at its conversion price as of June 30, 2025, approximately 1.3 million shares of Common Stock would be issued. As of June 30, 2025, 17,266,733 Common Stock warrants were outstanding with a weighted average strike price of $1.38, and 4,432,093 RSUs were outstanding.

Segment Reporting

During the three and six months ended June 30, 2025 and 2024, the Company was engaged in digital currency mining by providing hash computation services to a mining pool operator and offering bitcoin miner hosting services to third parties. The Company's operations are evaluated regularly by the chief operating decision maker, or decision–making group ("CODM"), which is composed of the Chief Executive Officer, Chief Technology Officer and Chief Strategy Officer, to assess performance and allocate resources.

The CODM is regularly provided only with consolidated expense data, as presented in the condensed consolidated statements of operations. Accordingly, the Company has determined that these consolidated expenses represent significant segment-level information. Because financial performance and resource allocation decisions are made on a consolidated basis, the Company operates as a single operating and reportable segment.

The CODM manages this segment using consolidated net loss as the primary measure of performance. Consolidated net loss for the three and six months ended June 30, 2025 was $18.4 million and $79.8 million, respectively, and $10.9 million and $20.5 million during the three and six months ended June 30, 2024, respectively. This metric is used by the CODM to evaluate operating results, assess the effectiveness of business strategies, and internally benchmark the Company's performance against its industry peers.

As the Company reports a single segment, total revenue is disclosed in the condensed consolidated statements of operations, segment assets are presented in the condensed consolidated balance sheets, and capital expenditures are reported in the condensed consolidated statements of cash flows.

TERAWULF INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 – BUSINESS COMBINATION

On the Acquisition Date, the Company entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Beowulf E&D Holdings Inc., a related party due to control by a member of the Company's management (the "Seller"), pursuant to which, among other things, the Company acquired 100% of the issued and outstanding membership interests of Beowulf E&D. The Purchase Agreement and the transaction were negotiated and approved by a special independent committee of the Company's Board of Directors comprised entirely of independent directors. The transaction was accounted for as a business combination between entities not under common control, the purpose of which was to acquire a business comprised of 94 employees with deep experience in the development and operation of power generation assets and related electrical infrastructure. Integrating this capability directly into TeraWulf supports the Company's long-term growth strategy, especially as power generation becomes increasingly integral to HPC operations.

Pursuant to the Purchase Agreement, in full consideration of the acquisition of Beowulf E&D, the Company agreed to pay the Seller:

- On the Acquisition Date (i) $3.0 million in cash and (ii) 5.0 million shares of Common Stock.
- Upon the date on which the Company closes the breakers to the busway which energizes the data hall for the CB-1 Project (the "CB-1 Earnout Milestone"), (i) $6.0 million in cash and (ii) Common Stock valued at $6.5 million, calculated on the basis of a 60-day trailing volume weighted average price ("VWAP") as of the date the CB-1 Earnout Milestone is achieved.
- Upon the execution by the Company of definitive documentation for a project financing of the CB-1 Project and the CB-2 Project (the "Project Financing Closing"), Common Stock valued at $6.5 million, calculated on the basis of a 60-day trailing VWAP as of the date the Project Financing Closing is achieved.
- Upon the execution by the Company of a data center lease for the CB-3 Project (the "CB-3 Earnout Milestone"). $13.0 million in cash.

Prior to the transaction, Beowulf E&D also performed certain administrative services to certain affiliates of the Seller. Concurrent with Purchase Agreement, the Company entered into a transition services agreement (the "TSA") through which the Company, along with Beowulf E&D, agreed to provide to certain affiliates of the Seller, who are related parties of the Company due to control by a member of the Company's management, certain transition services including, but not limited to, services related to tax and accounting, human resources and payroll, information technology, legal, and other general services) for a period of two years, unless terminated early in accordance with the provisions of the TSA. In consideration for the services, the Seller affiliates agreed to pay the Company a quarterly fee of $100 as well as reimbursement for third-party expenses incurred in the performance of the services. The Company determined that the TSA is not separate from the business combination and represented additional consideration transferred in the business combination. Accordingly, the Company recorded a liability at fair value at the Acquisition Date of $1.3 million to be amortized over the two-year term of the TSA. The Company had a $1.2 million liability related to the future services to be provided under the TSA included in other liabilities in the condensed consolidated balance sheet as of June 30, 2025.

The following table summarizes the Acquisition Date fair value of the aggregate consideration paid for Beowulf E&D pursuant to the Purchase Agreement (in thousands):

Cash consideration[1]	$	3,000
Equity instruments: 5,000,000 shares of Common stock[2]		19,550
Contingent consideration: CB-1 Earnout Milestone[3]		12,500
Contingent consideration: Project Financing Closing[4]		3,500
Contingent consideration: CB-3 Earnout Milestone[5]		12,400
Consideration related to TSA[6]		1,300
Settlement of preexisting relationships in business acquisition[7]		2,315
	$	54,565

(1) The cash paid at close represents the gross contractual amount paid. Net cash paid, which accounts for the cash acquired of $0.3 million, was $2.7 million and is reflected as an investing activity in the condensed consolidated statement of cash flows for the six months ended June 30, 2025.
(2) The fair value of the Common Stock issued as part of the consideration paid for Beowulf E&D was determined on the basis of the closing market price of the Company's Common Stock on the Acquisition Date.
(3) The fair value of the CB-1 Earnout Milestone was estimated using a Monte Carlo and Geometric Brownian Motion (GBM) simulation in a risk-neutral framework and measured based on significant inputs not observable in the market which ASC 820 refers to as Level 3 inputs. Key assumptions include the expected timing and probability of achieving the CB-1 Earnout Milestone and future stock price volatility.
(4) The fair value of the Project Financing Closing was estimated using a Monte Carlo and Geometric Brownian Motion (GBM) simulation in a risk-neutral framework and measured based on significant inputs not observable in the market which ASC 820 refers to as Level 3 inputs. Key assumptions include the expected timing and probability of achieving the Project Financing Closing and future stock price volatility.
(5) The fair value of the CB-3 Earnout Milestone was estimated using a discounted cash flow method and measured based on significant inputs not observable in the market which ASC 820 refers to as Level 3 inputs. Key assumptions include the expected timing and probability of achieving the CB-3 Earnout Milestone.
(6) The fair value of the TSA liability was estimated using the differential cash flow method, assessing the differential in compensation for the services provided based on contractual TSA rates relative to compensation at "market" rates.
(7) The Company determined the acquisition of Beowulf E&D in effect settled the preexisting relationships between the Company and Beowulf E&D and increased the consideration transferred by $2.3 million reflecting the effective termination of the Services Agreement and the related net receivables due to the Company from Beowulf E&D as of the Acquisition Date. The Services Agreement was determined to be comparable when compared with pricing for current market transactions for the same or similar items.

As of June 30, 2025, the contingent consideration liabilities were remeasured to a fair value of $30.0 million. The change in the fair value of $1.6 million is included in change in fair value of contingent consideration in the condensed consolidated statements of operations for the three and six months ended June 30, 2025.

In July 2025, the CB-1 Earnout Milestone was achieved and the Company paid $6.0 million in cash and issued 1.8 million shares of Common Stock to the Seller valued at $6.5 million, calculated on the basis of a 60-day trailing VWAP as of the date the CB-1 Earnout Milestone was achieved.

The Company recorded the assets acquired and liabilities assumed at their estimated acquisition-date fair values, with the difference between the fair value of the net assets acquired and the purchase consideration reflected in goodwill. The total purchase price of $54.6 million was allocated using information available to the Company at the time of acquisition. The purchase price allocation was based on preliminary valuations and subject to revision as more detailed analyses are completed and additional information about the fair value of assets acquired and liabilities assumed becomes available, including certain tax matters, during the measurement period (up to one year from the Acquisition Date).

In connection with the acquisition, the Company recorded goodwill of $55.5 million, which is primarily a result of the value of Beowulf E&D's specialized assembled workforce acquired and expected synergies of combining operations. The Company determined that all of the goodwill is expected to be deductible for tax purposes.

TERAWULF INC. AND SUBSIDIARIES

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The following table summarizes the preliminary allocation of the purchase price as of the Acquisition Date (in thousands):

Cash and cash equivalents	$	269
Prepaid expenses		117
Other receivables		55
Other current assets		7
Property, plant and equipment, net		1,087
Goodwill		55,457
Operating lease right-of-use asset		8,101
Other assets		74
Accounts payable		(320)
Accrued compensation		(1,384)
Other accrued liabilities		(437)
Current portion of operating lease liability		(580)
Operating lease liability, net of current portion		(7,881)
	$	54,565

The operating lease right-of-use asset includes a $(0.4) million adjustment to reflect unfavorable terms of a lease when compared to market terms.

During the three and six months ended June 30, 2025, there were no measurement period adjustments identified and recorded. As of the date these condensed consolidated financial statements were issued, the purchase accounting related to this acquisition was incomplete as the valuation of certain working capital balances, deferred taxes and contingent consideration were not yet finalized. The Company has reflected the provisional amounts in these condensed consolidated financial statements. As such, the above balances may be adjusted in a future period as the valuation is finalized and these adjustments may be material to the consolidated financial statements.

The Purchase Agreement also includes customary change of control provisions which provide for accelerated vesting of the earnout consideration in the event of a change of control as well as certain governance rights and additional cash payments. The Company further agreed to form an eligible employee trust administered by a third-party trustee for the benefit of certain individuals that were employed by or provided services to the acquired Beowulf E&D companies or its affiliates, and to fund the trust annually with an amount equal to 2% of the Company's annual capital expenditures, calculated in accordance with U.S. GAAP, for the development and build out the Company's HPC data centers, as determined in good faith by the Company's Board of Directors.

The Company determined the eligible employee trust is a VIE and that the Company is the primary beneficiary of the trust as the Company has the power to direct the activities that most significantly impact the economic performance of the trust and the obligation to absorb losses or the right to receive benefits of the trust that could potentially be significant.

The Company incurred acquisition-related costs of $1.5 million which are included in selling, general and administrative expenses in the condensed consolidated statement of operations for the three and six months ended June 30, 2025.

Results of operations of the business acquired have been included in the Company's condensed consolidated financial statements subsequent to the Acquisition Date, which included no revenue, $1.1 million in selling, general and administrative expenses and $0.1 million in selling, general and administrative expenses – related party in the condensed consolidated statements of operations for the three and six months ended June 30, 2025.

During the three and six months ended June 30, 2025 and 2024 and prior to the Acquisition Date, substantially all of Beowulf E&D's revenues were earned pursuant to the services it provided to the Company under the Services Agreement, which would be considered intercompany and eliminate on a pro forma basis. Additionally, the expenses incurred by Beowulf E&D in providing the services to the Company per the Services Agreement prior to the Acquisition Date are reflected in the fees previously paid by the Company, such that Beowulf E&D's pro forma expenses, prior to the Acquisition Date, are included in selling, general and administrative expenses – related party and operating expenses – related party in the condensed consolidated statements of operations for the three and six months ended June 30, 2025 and 2024 (see Note 16).

Accordingly, the Company determined its consolidated financial statements for the three and six months ended June 30, 2025 and 2024, in all material respects, reflect on a pro forma basis what the Company's revenues and earnings would have been if the business acquisition had occurred at the beginning of the prior year.

NOTE 4 – FAIR VALUE MEASUREMENTS

The following table presents the Company's financial instruments measured at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2025 and December 31, 2024 (in thousands):

	Fair Value Measured as of June 30, 2025			
	Carrying Value	Level 1	Level 2	Level 3
Digital currency	$ —	$ —	$ —	$ —
Contingent consideration liabilities	$ 30,000	$ —	$ —	$ 30,000

	Fair Value Measured as of December 31, 2024			
	Carrying Value	Level 1	Level 2	Level 3
Digital currency	$ 476	$ 476	$ —	$ —

The Company has determined the fair value of convertible notes is approximately $426.6 million as of June 30, 2025 (see Note 10) using Level 1 inputs. The carrying values of cash and cash equivalents, accounts receivable, prepaid expenses, other receivables, other current assets, accounts payable, accrued construction liabilities, accrued compensation, accrued interest, deferred revenue, other accrued liabilities and other amounts due to related parties are considered to be representative of their respective fair values principally due to their short-term maturities. There were no additional material non-recurring fair value measurements as of June 30, 2025 and December 31, 2024, except for (i) the calculation of fair value of Common Stock issued in connection with the New Ground Lease (see Note 8), (ii) the calculation of fair value of Common Stock warrants issued in connection with amendments to the Company's long-term debt agreement (see Note 10), in connection with the issuance of Common Stock (see Note 14), in connection with a Common Stock exchange agreement and on a standalone basis, (iii) and the calculation of fair value of nonmonetary assets distributed from the Company's joint venture (see Note 11), (v) the calculation of PSUs granted to employees as stock-based compensation (see Note 15) and (vi) the calculation of the fair value of components of total consideration transferred in the business acquisition of Beowulf E&D, including contingent consideration, and the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed.

The Company utilized a Monte Carlo simulation in a risk-neutral framework to estimate the fair value of the contingent consideration in the business acquisition, incorporating historical and expected annual volatility of approximately 110%, based on both the Company's and peer public companies' data. Key assumptions used in the valuation model also included the risk-free interest rate is derived from U.S. Treasury yields on the Acquisition Date with a maturity corresponding to the expected timing of achieving each contingent milestone. The Company applied a dividend yield of zero, consistent with historical practice and expectations.

The Company utilized a Black-Scholes option pricing model, along with a discount for lack of marketability ("DLOM"), to value its Common Stock warrants issued in connection with the Term Loans (as defined in Note 10). The DLOM reflects contractual restrictions on the exercise of the warrants. The estimated fair value of the warrants is classified as Level 3 measurement due to the use of unobservable inputs.

Key assumptions used in the valuation model include expected share-price volatility, expected term, risk-free interest rate, dividend yield, and DLOM. Expected volatility is based on historic volatility of a peer group of publicly traded companies over the expected term of the warrants, which is assumed to be equal to the contractual term. The risk-free interest rate is derived from U.S. Treasury yields on the grant date with a maturity corresponding to the expected life of the warrants. The Company applies a dividend yield of zero, consistent with historical practice and expectations.

The Company applied a DLOM of 20% to value the warrants issued in connection with the First Amendment to the LGSA and a DLOM of 30% for warrants issued in connection with the Fifth Amendment.

In addition, the Company used a Monte Carlo simulation model to estimate the fair value of PSUs, incorporating historical and expected annual volatility of approximately 120%, based on both the Company's and peer public companies' data. A DLOM of 10% was applied in determining the fair value of the Common Stock issued in connection with the New Ground Lease.

NOTE 5 – BITCOIN

The following table presents information about the Company's bitcoin holdings as of June 30, 2025 and December 31, 2024 (in thousands, except for quantity of bitcoin):

	June 30, 2025	December 31, 2024
Number of bitcoin held	—	5
Carrying basis of bitcoin	$ —	$ 477
Fair value of bitcoin	$ —	$ 476

The Company's bitcoin holdings are not subject to contractual sale restrictions. As of June 30, 2025 and December 31, 2024, the Company held no other digital currency.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following (in thousands):

	June 30, 2025	December 31, 2024
Miners	$ 236,640	$ 192,655
Construction in process	277,946	107,624
Leasehold improvements	136,784	91,614
Equipment	44,194	32,031
Office furniture and fixtures	153	—
Vehicles	151	104
Deposits on miners	—	53,913
Total	695,868	477,941
Less: accumulated depreciation	(91,108)	(66,072)
Property and equipment, net	$ 604,760	$ 411,869

Depreciation expense was $18.8 million and $34.4 million during the three and six months ended June 30, 2025, respectively, and $14.1 million and $29.2 million during the three and six months ended June 30, 2024, respectively. During the three and six months ended June 30, 2024, the Company recorded accelerated depreciation expense of $1.3 million and $5.1 million, respectively, related to certain miners of which the Company shortened their estimated useful lives based on replacement by April 2024. The Company recorded no impairment during the three and six months ended June 30, 2025 and June 30, 2024.

During the three and six months ended June 30, 2025, the Company sold or otherwise disposed of 2,918 miners and received proceeds of $1.9 million resulting in a loss on disposal of property, plant and equipment of $3.8 million in the condensed consolidated statement of operations.

NOTE 7 – GOODWILL

The following table summarizes the change in the carrying amount of goodwill during the six months ended June 30, 2025 (in thousands):

	Gross Carrying Amount	Accumulated Impairment	Goodwill
Balance as of December 31, 2024	$ —	$ —	$ —
Acquisition of Beowulf E&D	55,457	—	55,457
Balance as of June 30, 2025	$ 55,457	$ —	$ 55,457

Goodwill attributed to the acquisition reflects the Company's allocation of purchase consideration in excess of the estimated fair values of net assets acquired. The Company recorded no impairment during the three and six months ended June 30, 2025.

NOTE 8 – LEASES

Lessee Accounting

In May 2021, the Company entered into a ground lease (as amended from time to time, the "Ground Lease"), related to the Lake Mariner Facility in New York with a counterparty which is a related party due to control by a member of Company management (the "Ground Lease Lessor"). The Ground Lease had a term of eight years and was classified as an operating lease remeasured as of the date of the second amendment in July 2022 utilizing a discount rate of 12.6%, which was an estimate of the Company's incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the remeasurement date.

In October 2024, the Company terminated its existing Ground Lease and entered into a new agreement with the same related party counterparty (the "New Ground Lease") for the Lake Mariner Facility. The New Ground lease expanded the acreage of real property covered by the prior lease to support both cryptocurrency mining and HPC co-location data center operations.

The New Ground Lease includes both fixed and variable payments, including an annual escalation factor and the Company's proportionate share of the landlord's cost to own, operate and maintain the premises. It has an initial term of 35 years, commencing on October 9, 2024, and will automatically renew for up to nine additional five-year periods unless the Company provides written notice of termination at least six months prior to the end of the initial or the then-current renewal term. Upon expiration of the New Ground Lease, all buildings and improvements on the premises will revert to the landlord in good condition.

As consideration for terminating the prior lease and entering into the New Ground Lease, the Company issued 20.0 million shares of Common Stock with a fair value of $68.8 million and paid $12.0 million in cash (the "Cash Lease Prepayment") to the parent company of the counterparty in October 2024. The Company determined that this transaction constituted a lease modification under ASC 842.

The New Ground Lease contained two lease components: Land and building. The land component was classified as an operating lease , while the building component was classified as a finance lease, as the 35-year initial term represents a major portion of the building's remaining economic life. As of October 9, 2024, the Company remeasured the lease liabilities for both components using a discount rate of 6.9%, which reflects the estimated incremental borrowing rate for a collateralized loan with a term comparable to the lease payments.

In May 2025 in connection with acquisition of Beowulf E&D, the New Ground Lease was amended and restated (as amended and restated, the "A&R Lease"). While the A&R Lease did not change the parties, term or payments under the lease, A&R Lease grants the Ground Lease Lessor the right to participate in TeraWulf's board of directors meetings as a non-voting observer for the remainder of the A&R Lease term, provided that the Ground Lease Lessor (together with its affiliates) continues to beneficially own at least 15 million shares of Common Stock. The A&R Lease also provides that (a) Beowulf E&D has been, and is currently providing certain services in its capacity as the exclusive operator of the Lake Mariner site, (b) so long as TeraWulf is an affiliate of the Ground Lease Lessor, the lessee may designate TeraWulf or one or more of its wholly owned subsidiaries as operator of the premises (together with Beowulf E&D, each and collectively "TeraWulf Operator"), and (c) as long as TeraWulf Operator is not in material default of its services, TeraWulf Operator may not be replaced or removed as operator without the prior written consent of the Ground Lease Lessor, with such consent not to be unreasonably withheld, conditioned or delayed.

In April 2025, the Company entered into an office lease in New York (the "NY Hudson Lease"). The NY Hudson Lease is expected to commence in the second half of 2025 with an initial term ending March 31, 2033. In connection with the execution of the NY Hudson Lease, the Company issued a letter of credit for $1.4 million as security for the lease which shall remain in effect through the term of the NY Hudson Lease. The Company is required to maintain a balance of $1.4 million in a deposit account as collateral to the letter of credit, which is included in restricted cash in the condensed consolidated balance sheet as of June 30, 2025.

In connection with the acquisition of Beowulf E&D, the Company acquired four office leases of Beowulf E&D, including (i) two leases with remaining lease terms of less than twelve months, for which the Company elected an accounting policy to not recognize these short-term leases on its balance sheet as allowed under ASC 842-20, (ii) an acquired lease for a property in New York with a related party counterparty due to control by members of the Company's management (the "NY Lease"), which was classified as an operating lease with a remaining term of 11.3 years as of the Acquisition Date, and (iii) an acquired lease for office space in Maryland with a related party counterparty due to control by a member of the Company's management (the "MD Lease"), which was classified as an operating lease with a remaining term of 6.1 years as of the Acquisition Date. The Company measured the right-of-use assets and lease liabilities of the NY Lease and the MD Lease as of May 21, 2025 in accordance with ASC 842 using a discount rate of 6.9% and 6.5%, respectively, which reflects the estimated incremental borrowing rates for a collateralized loan with terms comparable to the lease payments.

During the three and six months ended June 30, 2025, the Company recorded operating lease expense of $1.0 million and $1.8 million, respectively, including variable expense of $170,000 and $0.3 million, respectively, in operating expenses – related party in the condensed consolidated statements of operations and made cash lease payments of $0.4 million and $0.8 million, respectively. During the three and six months ended June 30, 2024, the Company recorded operating lease expense of $0.3 million and $0.7 million, respectively, including variable expense of $0.1 million in each period, in operating expenses – related party in the condensed consolidated statements of operations and made cash lease payments pursuant to the Ground Lease of $0.1 million and $0.2 million, respectively.

During the three and six months ended June 30, 2025, the Company recorded amortization of the right-of-use asset related to its finance lease of $0.1 million and $0.2 million, respectively, in operating expenses – related party in the condensed consolidated statement of operations and made cash payments of $6,000 and $11,000, respectively. The Company also recorded interest expense on finance lease liabilities of $5,000 and $10,000, respectively, included in interest expense in the condensed consolidated statements of operations for the three and six months ended June 30, 2025. The Company was not party to any finance leases during the three and six months ended June 30, 2024.

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The remaining operating and finance lease terms were 20.6 years and 34.3 years, respectively, as of June 30, 2025. The following is a maturity analysis of the annual undiscounted cash flows of the estimated operating and finance lease liabilities as of June 30, 2025 (in thousands):

	Operating Lease Liability	Finance Lease Liability
Remainder of 2025	$ 697	$ 11
2026	1,403	22
2027	1,419	22
2028	1,435	22
2029	1,451	22
Thereafter	14,278	657
	$ 20,683	$ 756

A reconciliation of the undiscounted cash flows to the operating lease liabilities recognized in the condensed consolidated balance sheet as of June 30, 2025 follows (in thousands):

	Operating Lease Liability	Finance Lease Liability
Undiscounted cash flows of the operating lease	$ 20,683	$ 756
Unamortized discount	8,812	464
Total operating lease liability	11,871	292
Current portion of operating lease liability	616	2
Operating lease liability, net of current portion	$ 11,255	$ 290

Lessor Accounting

In December 2024, the Company entered into long-term HPC Leases with a customer for specified data center infrastructure at the Lake Mariner Facility to support the customer's HPC operations. The Company determined at contract inception that these arrangements contain a lease, comprising lease components related to the right to use data center space—currently under construction—and non-lease components for power delivery, physical security, and maintenance services.

As of June 30, 2025, none of the HPC Leases had commenced. Each lease is expected to begin at various dates in 2025 and includes an initial 10-year term, two five-year renewal options, and a now-expired provision for near-term capacity expansion. Despite the expiration of this provision, the parties remain in active discussions regarding the customer's potential expansion at the site.

The HPC Leases provide for certain prepaid rent amounts ("Prepaid Rent") representing the first 12 months base rent under each lease for a total of $90.0 million and shall be applied towards 50% of each month's base rent commencing on the respective commencement date of each lease until the Prepaid Rent is exhausted. During the six months ended June 30, 2025, the Company received the $90.0 million of Prepaid Rent from the customer and recorded $47.7 million and $42.3 million in current portion of deferred rent liability and deferred rent liability, net of current portion, respectively, in the condensed consolidated balance sheet as of June 30, 2025.

NOTE 9 – INCOME TAXES

The Company's tax provision or benefit from income taxes for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. The Company has an effective tax rate of 0% for each of the three and six months ended June 30, 2025 and 2024. The Company's effective rate differs from its statutory rate of 21% primarily due to the recording of a valuation allowance against its deferred tax assets.

ASC 740, *Income Taxes* ("ASC 740"), requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of available evidence, it is more likely than not that some or a portion or all the deferred tax assets will not be realized. As of June 30, 2025 and December 31, 2024, the Company estimated a portion of its deferred tax assets will be utilized to offset the Company's deferred tax liabilities. Based upon the level of historical U.S. losses and future projections over the period in which the remaining deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a valuation allowance as of June 30, 2025 and December 31, 2024 for the amount of deferred tax assets that will not be realized.

The Company had no unrecognized tax benefits as of June 30, 2025 and December 31, 2024. The Company's policy is to recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. No accrued interest or penalties were recorded during the three and six months ended June 30, 2025 and 2024.

NOTE 10 – DEBT

Loan, Guarantee and Security Agreement (the "LGSA")

On December 1, 2021, the Company entered into the LGSA with Wilmington Trust, National Association as administrative agent, which consisted of total Term Loans of $146.0 million (the "Term Loans") with an interest rate of 11.5% and a maturity date of December 1, 2024.

Subsequent to an amendment to the LGSA in March 2023 (the "Fifth Amendment"), the Company was required to pay amounts subject to an excess cash flow sweep, as defined, on a quarterly basis which automatically extended to the maturity of the Term Loans in the event the Company repaid at least $40.0 million of the principal balance of the Term Loans by April 1, 2024, which the Company did in February 2024. Interest payments were due quarterly in arrears prior to the Fifth Amendment and were due monthly in arrears subsequent to the Fifth Amendment. The Company had the option to prepay all or any portion of the Term Loans in increments of at least $5.0 million subject to certain prepayment fees equal to an amount of 2.0% of the prepaid principal, applicable to approximately 85% of the outstanding principal. Certain events, as described in the LGSA, required mandatory prepayment.

During the three and six months ended June 30, 2024, the Company repaid $30.2 million and $63.6 million of the principal balance of the Term Loans, respectively, including voluntary prepayments of $18.6 million in February 2024. In connection with the voluntary prepayment, the Company recorded a loss on extinguishment of debt of $2.0 million, which is included in the condensed consolidated statement of operations for the six months ended June 30, 2024, consisting of $0.3 million of prepayment fees and the immediate write-off of $1.7 million of unamortized debt discount associated with the principal repaid. The Company fully repaid the principal balance of the Term Loans ahead of maturity in July 2024.

In connection with the Term Loans under the LGSA, the Company issued certain shares of Common Stock and warrants to purchase Common Stock to the Term Loan holders, and incurred related issuance costs and up-front fees. These included $29.8 million in December 2021 in connection with the original issuance, $3.5 million in July 2022 related to the First Amendment, $2.9 million in October 2022 related to the Third Amendment, and $16.0 million in March 2023 related to the Fifth Amendment. These amounts were recorded as debt issuance costs and debt discount and were either amortized to interest expense over the term of the LGSA or recognized as part of the loss on extinguishment of debt, as applicable.

LGSA Warrants

In March 2023, in connection with the Fifth Amendment to the LGSA the Company entered into a warrant agreement (the "Warrant Agreement") to issue the following warrants to the lenders: (i) 27,759,265 warrants to purchase an aggregate number of shares of Common Stock equal to 10.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $0.01 per share of Common Stock (the "Penny Warrants") and (ii) 13,879,630 warrants to purchase an aggregate number of shares of Common Stock equal to 5.0% of the fully diluted equity of the Company as of the Fifth Amendment effective date with an exercise price of $1.00 per share of Common Stock (the "Dollar Warrants"). The Penny Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2025, and the Dollar Warrants are exercisable during the period beginning on April 1, 2024 and ending on December 31, 2026. In March 2023, in connection with the issuance of the warrants pursuant to the Warrant Agreement, the Company entered into a registration rights agreement pursuant to which the Company has agreed to provide customary shelf and piggyback registration rights to the LGSA lenders with respect to the Common Stock issuable upon exercise of the warrants described above.

During the three and six months ended June 30, 2025, no warrants issued in connection with the LGSA were exercised. During the three and six months ended June 30, 2024, 29,242,661 warrants issued in connection with the LGSA were exercised for issuance of the same number of shares of Common Stock, comprised of 27,617,539 Penny Warrants and 1,625,122 Dollar Warrants, for aggregate proceeds to the Company of $1.9 million. All warrants granted by the Company as a component of debt transactions are classified as equity in the condensed consolidated balance sheets as of June 30, 2025 and December 31, 2024. As of June 30, 2025, there were 141,726 of the Penny Warrants and 9,962,308 of the Dollar Warrants outstanding.

Convertible Notes

Convertible notes consist of the following (in thousands):

	June 30, 2025	December 31, 2024
Convertible notes	$ 500,000	$ 500,000
Debt issuance costs	(11,284)	(12,498)
Total convertible notes outstanding	488,716	487,502
Convertible notes due within one year	—	—
Total convertible notes, net of portion due within one year	$ 488,716	$ 487,502

In October 2024, the Company completed a private offering of 2.75% Convertible Senior Notes due 2030 (the "2030 Convertible Notes"). The unsecured notes were sold pursuant to a purchase agreement between the Company and Cantor Fitzgerald & Co. ("Cantor"), as representative of the initial purchasers (the "Initial Purchasers"), for resale to qualified institutional buyers under Rule 144A under the Securities Act of 1933, as amended (the "Securities Act").

The total aggregate principal amount of the offering was $500.0 million, including $75.0 million issued pursuant to the Initial Purchasers' full exercise of their option to purchase additional notes. The notes were issued at par, and net proceeds totaled approximately $487.1 million after deducting $12.9 million in purchasers' commissions and estimated offering expenses. These issuance costs were recorded as debt issuance costs and are being amortized over the term of the notes using an effective interest rate of 0.5%. Interest of 2.75% is payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2025.

The 2030 Convertible Notes mature on February 1, 2030 (the "2030 Convertible Notes Maturity Date"), unless earlier converted redeemed or repurchased. The initial conversion rate is 117.9245 shares of Common Stock per $1,000 principal amount, equivalent to a conversion price of approximately $8.48 per share, subject to customary anti-dilution adjustments outlined in the indenture. The conversion rate will not be adjusted for accrued but unpaid interest

In the event of a make-whole fundamental change (as defined in the indenture), the Company may be required to increase the conversion rate for holders that elect to convert their notes during the designated make-whole fundamental change period. As of December 31, 2024, there were no changes to the initial conversion rate.

Prior to November 1, 2029, holders may convert their notes only upon the occurrence of specific conditions, including:

- If, during any calendar quarter commencing after March 31, 2025, the last reported sale price per share of Common Stock is at least 130% of the conversion price for at least 20 out of the last 30 consecutive trading days of the preceding quarter;
- During the five business days following any 10 consecutive trading-day measurement period in which the trading price of the notes was less than 98% of the product of the Common Stock price and the conversion rate on each trading day;
- If the Company calls any or all of the notes for redemption prior to the scheduled redemption date; or
- Upon the occurrence of certain specified corporate events, as defined in the indenture

Upon conversion, the Company may settle the notes in cash, shares of Common Stock, or a combination of both, at its election. Beginning November 6, 2027, the Company may redeem the notes, in whole or in part, for cash, provided the Common Stock trades above 130% of the conversion price for a specified period, as outlined in the indenture. The redemption price will equal the principal amount plus accrued and unpaid interest, if any, up to but excluding the redemption date.

On or after November 1, 2029, holders may convert their notes at any time until the second scheduled trading day immediately preceding the Maturity Date.

If a "Fundamental Change" occurs, as defined in the indenture—including certain business combinations or delisting events—holders may require the Company to repurchase all or part of their notes at 100% of principal plus accrued and unpaid interest.

In connection with the offering, the Company entered into privately negotiated capped call transactions (the "Capped Calls") with certain counterparties. The Capped Calls have a strike price of $8.48 per share and an initial cap price of $12.80 per share, each subject to adjustment. They cover the same number of shares initially underlying the notes and are intended to reduce potential dilution and/or offset any cash payments the Company may be required to make above the principal amount upon conversion.

The Capped Calls are scheduled to expire on February 1, 2030, and will automatically settle in daily ratable amounts between December 5, 2029, and the termination date. In the event of a repurchase, redemption, or conversion of the notes, the Company may—but is not obligated to—terminate a corresponding portion of the Capped Call options. Settlement may be made in cash or a combination of cash and Common Stock, at the Company's discretion. The Capped Calls are accounted for as separate equity transactions and not as derivatives. The $60.0 million cost of the Capped Calls was recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheet.

The indenture includes customary covenants and events of default. If an event of default occurs and is continuing, the trustee or holders of at least 25% of the outstanding principal amount may declare the notes immediately due and payable.

The Company amortized $0.6 million and $1.2 million of debt issuance costs related to the 2030 Convertible Notes during the three and six months ended June 30, 2025, respectively, included within interest expense in the condensed consolidated statements of operations. The Company amortized $3.1 million and $10.7 million of debt issuance costs and debt discount related to the Term Loans during the three and six months ended June 30, 2024, respectively, included within interest expense in the condensed consolidated statements of operations.

As of June 30, 2025, scheduled principal maturities of outstanding debt are as follows (in thousands):

Remainder of 2025	$ —
2026	—
2027	—
2028	—
2029	—
Thereafter	500,000
Total principal maturities	$ 500,000

NOTE 11 – JOINT VENTURE

In May 2021, the Company and a subsidiary of Talen Energy Corporation ("Talen") (each a "Member" and collectively the "Members") entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), to develop, construct and operate up to 300 MW of zero-carbon bitcoin mining in Pennsylvania (the "Joint Venture") which was subsequently amended in August 2022 (the "A&R Nautilus Agreement") and March 2023 (the "Second A&R Nautilus Agreement"). In connection with the Joint Venture, Nautilus simultaneously entered into (i) a ground lease (the "Nautilus Ground Lease"), which included an electricity supply component, with a related party of Talen, (ii) a Facility Operations Agreement, subsequently transferred to a related party of Talen and (iii) a Corporate Services Agreement (the "CSA") with a related party of Talen. The Company originally held a 50% interest in the Joint Venture which was subsequently reduced to 25% per the Second A&R Nautilus Agreement. The Nautilus Cryptomine Facility initially required 200 MW of electric capacity.

In March 2024, a subsidiary of Talen sold substantially all its assets to an unaffiliated third party, including the land that Nautilus utilizes pursuant to the Nautilus Ground Lease. In connection with the sale, the Nautilus Ground Lease was assigned from Talen to the purchaser of the assets.

On October 2, 2024, the Company sold its entire 25% equity interest in Nautilus to the Talen Member (the "Nautilus Sale"). The total consideration transferred was $102.1 million comprised of: (i) $86.1 million paid in cash, including a customary working capital adjustment, (ii) $0.3 million distributed in bitcoin on a pro rata basis for bitcoin mined and held by Nautilus, and (iii) $15.7 million of miners and equipment assigned to the Company by Nautilus, reflecting the fair value of all of Nautilus' miners, including miners contributed by the Talen Member, as well as certain other related equipment owned by Nautilus. The Nautilus Sale included customary representations and warranties and customary covenants, including, among others, that the Talen Member will pay to the Company 25% of the net proceeds received in excess of $300.0 million in the aggregate in any future sale of all or substantially all of the assets, or a majority of the equity interests of Nautilus. In connection with the Nautilus Sale, the Company derecognized its investment in Nautilus of $79.5 million.

Prior to the Nautilus Sale, Nautilus was a variable interest entity accounted for using the equity method of accounting. In August 2022, due to the change in Member ownership percentage and governance rights under the A&R Nautilus Agreement, Talen determined it controlled the Joint Venture from an accounting perspective and thereby was required to fair value the identifiable assets and liabilities of the Joint Venture for its internal accounting purposes. Under the CSA, Talen was responsible for maintaining the books and records of the Joint Venture and elected to push down the fair value adjustments to Nautilus' books and records. The Company accounted for the Joint Venture as an equity method investment and the change in ownership percentage did not impact the Company's method of accounting or basis. Therefore, there was a basis difference between the books and records of Nautilus and the Company's accounting basis in the Joint Venture.

Distributions were made periodically in accordance with each Member's respective hashrate contributions after deducting primarily each Member's share of power and operational costs. The Company received bitcoin distributions from Nautilus with a fair value of $19.1 million during the six months ended June 30, 2024.

The condensed results of operations for the three and six months ended June 30, 2024 and the condensed financial position as of October 2, 2024 (the date of the Nautilus Sale) are summarized below (in thousands):

	Three Months Ended June 30, 2024[1]	Six Months Ended June 30, 2024[1]
Condensed statement of operations information:		
Revenue	$ 29,469	$ 71,209
Operating expense	26,429	52,751
Net income (loss)	$ 3,040	$ 18,458

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	October 2, 2024[1]
Condensed balance sheet information:	
Current assets	$ 11,124
Noncurrent assets	134,217
Total assets	$ 145,341
Current liabilities	$ 12,816
Noncurrent liabilities	29,434
Equity	103,091
Total liabilities and equity	$ 145,341

[1] The condensed statements of operations information for the three and six months ended June 30, 2024 and the condensed balance sheet information as of October 2, 2024 reflect the impact of the Talen-estimated fair value measurements of Nautilus which, resulting from the application of ASC 805 have been pushed down to the books and records of Nautilus by Talen, as discussed above.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Company is not a party to any material legal proceedings and is not aware of any pending or threatened claims. From time to time, the Company may be subject to various legal proceedings, regulatory inquiries and claims that arise in the ordinary course of its business activities.

NOTE 13 – CONVERTIBLE PREFERRED STOCK

In March 2022, TeraWulf entered into Series A Convertible Preferred Stock Subscription Agreements (the "Subscription Agreements") with certain accredited and institutional investors (collectively, the "Holders"). Pursuant to the Subscription Agreements, the Company sold 9,566 shares (of 10,000 shares authorized) of Series A Convertible Preferred Stock, par value $0.001 per share (the "Convertible Preferred Stock") to the Purchasers for an aggregate purchase price of $9.6 million. The Subscription Agreements contain customary representations, warranties, covenants and agreements of the Company. The offer and sale of the Convertible Preferred Stock were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement.

Holders of the Convertible Preferred Stock will accumulate dividends at an annual rate of 10.0% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share, accumulating on a daily basis and payable, if declared by the Company's Board of Directors, quarterly on March 31st, June 30th, September 30th and December 31st, respectively, in each year and commencing June 30, 2022. Commencing June 30, 2022, unpaid dividends will be accreted to the liquidation preference. The initial liquidation preference is $1,000 per share. Holders of the Convertible Preferred Stock will also be entitled to such dividends paid to holders of Common Stock, if applicable, as if such Holders of the Convertible Preferred Stock had converted their Preferred Shares into Common Stock (without regard to any limitations on conversions) and had held such shares of Common Stock on the record date for such dividends and distributions. If applicable, such payments will be made concurrently with the dividend or distribution to the holders of Common Stock. Upon liquidation, the Convertible Preferred Stock will rank senior to Common Stock, and will have the right to be paid, out of the assets of the Company legally available for distribution to its stockholders, an amount equal to the Liquidation Preference (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of the Convertible Preferred Stock. Holders of Convertible Preferred Stock will not generally have the right to vote at any meeting of stockholders, except for certain protective voting rights, as defined. The Convertible Preferred Stock does not have a maturity date.

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The Holders of the Convertible Preferred Stock will have a right to effect an optional conversion of all or any whole number of shares of the Convertible Preferred Stock at any time and from time to time. The Company will have a right to effect a mandatory conversion of the Convertible Preferred Stock after the third anniversary of the issuance date if the Last Reported Sale Price (as defined in the Company's Series A Convertible Preferred Certificate of Designations) per share of Common Stock exceeds 130% of the Conversion Price, as defined, on each of at least five (5) trading days (whether or not consecutive) during the fifteen consecutive trading days ending on, and including, the trading day immediately before the mandatory conversion notice date for such mandatory conversion. The number of shares of Common Stock issuable upon conversion will be equal to the liquidation preference, including accumulated and unpaid dividends, divided by the Conversion Price, as defined. The Conversion Price is determined by dividing $1,000 by the Conversion Rate, as defined, which is initially 100 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. The Conversion Rate will be adjusted for certain customary events, including (but not limited to) stock dividends, stock splits or combinations, tender offers or exchange offers and, additionally, for Fundamental Changes, as defined, to include (but are not limited to) a change in control of the Company, disposition of substantially all assets of the Company, the Company's common stockholders approve a plan of liquidation or dissolution or Common Stock cease to be listed on the Nasdaq Capital Market. A Fundamental Change will adjust the Conversion Rate based on the date of the Fundamental Change and the Stock Price, as defined, on such date. The Conversion rate will not exceed 125 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. If any Convertible Preferred Stock is to be converted pursuant to a Holder's optional conversion, the Company will have the option to settle such conversion in cash, as defined.

No dividends were paid during the six months ended June 30, 2025 and 2024. Cumulative dividends of $3.7 million were accumulated and accreted to liquidation preference as of June 30, 2025. As of June 30, 2025, the aggregate liquidation preference of the Convertible Preferred Stock was approximately $13.2 million. If the entire liquidation preference of the Convertible Preferred Stock was converted at the Conversion Price, the Company would issue approximately 1.3 million shares of Common Stock.

NOTE 14 – COMMON STOCK

On April 16, 2024, the Company held its 2024 Annual Meeting of Stockholders (the "2024 Annual Meeting"). As a result of the matters submitted to a stockholder vote at the 2024 Annual Meeting, the Company's stockholders adopted a charter amendment increasing the number of authorized shares of Common Stock from 400,000,000 to 600,000,000. Consequently, as of June 30, 2025, TeraWulf's Certificate of Incorporation provides for authorized shares of 700,000,000, divided into (a) 600,000,000 shares of Common Stock, with par value of $0.001 per share and (b) 100,000,000 shares of Preferred Stock, with par value of $0.001 per share. Each holder of a share of Common Stock shall be entitled to one vote of each common share held. Each holder of a share of Preferred Stock shall not be entitled to any voting powers, except as provided in an applicable Certificate of Designations. The board of directors may authorize one or more series of Preferred Stock and may fix the number of shares in such series and the designation, powers, preferences, rights, qualifications, limitations and restrictions in respect of the shares of such series. One series of preferred stock, the Convertible Preferred Stock, was authorized as of June 30, 2025.

In April 2022, the Company entered into a sales agreement with Cantor Fitzgerald & Co. ("Cantor"), B. Riley Securities, Inc. ("B. Riley Securities") and D.A. Davidson & Co. ("D.A. Davidson"), pursuant to which the Company may offer and sell, from time to time, through or to the agents thereunder, shares of Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million. The April 2022 sales agreement was amended in August 2023 to terminate the agreement with respect to D.A. Davidson and add Northland Securities, Inc. ("Northland") and Compass Point Research & Trading, LLC ("Compass Point") as agents (as so amended, the "Original ATM Sales Agreement"). The Company incurred a commission up to 3.0% of the gross sales price from each sale of shares. In May 2024, the Company and B. Riley Securities mutually agreed to terminate the Original ATM Sales Agreement with respect to B. Riley Securities and the Company entered into Amendment No. 2 to the Original ATM Sales Agreement with Cantor, Northland, Compass Point ATB Capital Markets USA Inc. ("ATB Capital Markets"), Roth Capital Partners, LLC ("Roth Capital Partners"), Stifel Nicolaus Canada Inc. ("Stifel Canada") and Virtu Americas LLC (each, individually, an "Agent" and, collectively, the "ATM Agents") pursuant to which the Company may offer and sell, from time to time, through or to the ATM Agents, shares of Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million (the "Amended ATM Sales Agreement," together with the Original ATM Sales Agreement, the "ATM Program"). The Company incurs a commission up to 3.0% of the gross sales price from each sale of shares. The Company is not obligated to sell any shares under the ATM Program. The issuance and sale of the shares by the Company under the ATM Program have been made pursuant to the Company's effective registration statement on Form S-3 (Registration statement No. 333-262226), including final prospectus supplements dated April 26, 2022 and May 23, 2024.

During the three and six months ended June 30, 2025, the Company sold pursuant to the ATM Program no shares of Common Stock. During the three and six months ended June 30, 2024, the Company sold pursuant to the ATM Program 40,553,489 and 63,822,089 shares of Common Stock, respectively, for net proceeds of $123.1 million and $173.9 million, respectively. In May 2025, the Board of Directors authorized an increase of $112.9 million shares of Common Stock under the ATM Program. As of June 30, 2025, the remaining capacity of the ATM Program to offer and sell shares of Common Stock is $200.0 million.

In October 2022, the Company entered into unit subscription agreements with certain accredited investors in privately negotiated transactions (collectively, the "October Purchasers") as part of a private placement (the "October Private Placement") exempt from registration under the Securities Act. Pursuant to the agreements, the Company sold 7,481,747 units, each consisting of one share of Common Stock and one warrant (the "October Warrants"), exercisable at a price of $1.93 per Common Share, to the October Purchasers for an aggregate purchase price of approximately $9.4 million. Approximately $3.5 million of the aggregate purchase price related to investments by entities controlled by members of Company management. The Company allocated the proceeds between Common Stock and the October Warrants based on the relative fair values of the financial instruments, with $5.1 million allocated to the Common Stock and $4.3 million allocated to the October Warrants. As of June 30, 2025, there were 7,162,699 of the October Warrants outstanding. All warrants granted by the Company to date are classified as equity.

In October 2024, the Company's board of directors approved a share repurchase program (the "Share Repurchase Program") authorizing the Company to repurchase up to $200.0 million of the Company's outstanding shares of Common Stock through December 31, 2025. In May 2025, the Board of Directors authorized an increase of $151.4 million shares of Common Stock under the Share Repurchase Program. During the three and six months ended June 30, 2025, the Company repurchased 0 and 5,900,000 shares of Common Stock, respectively, for $0 and $33.3 million, respectively. As of June 30, 2025, the Company has the capacity to repurchase $200.0 million of outstanding shares of Common Stock under the Share Repurchase Program.

No dividends were declared during the six months ended June 30, 2025 and 2024.

NOTE 15 – STOCK-BASED COMPENSATION

In May 2021, the Company made effective the 2021 Omnibus Incentive Plan (the "Plan") for purpose of attracting and retaining employees, consultants and directors of the Company and its affiliates by providing each the opportunity to acquire an equity interest in the Company or other incentive compensation in order to align the interests of such individuals with those of the Company's stockholders. The Plan provides for a maximum number of shares to be issued, limitations of shares to be delivered for incentive stock options and a maximum compensation amount for any non-employee member of the board of directors, among other provisions. The form of grants under the Plan includes stock options, stock appreciation rights, restricted stock and RSUs. As of June 30, 2025, the Company had not issued stock options.

The Company recorded stock-based compensation expense of $1.3 million and $40.0 million during the three and six months ended June 30, 2025, respectively, and $4.8 million and $11.8 million during the three and six months ended June 30, 2024, respectively.

Certain employees, in lieu of paying withholding taxes on the vesting of certain shares of restricted stock and RSU awards, authorized the withholding of an aggregate of 257,553 and 3,557,963 shares of Common Stock to satisfy statutory withholding requirements related to such vesting during the three and six months ended June 30, 2025, respectively, and withholdings of an aggregate 1,210,849 and 1,564,692 shares of Common Stock during the three and six months ended June 30, 2024, respectively. Shares withheld for the payment of withholding taxes are not deemed issued under the Plan and remain available for issuance. Additionally, the Company issued 0 and 21,869 shares of Common Stock to members of the board of directors for payment of quarterly fees in lieu of cash payments during the three and six months ended June 30, 2025, respectively, and 45,553 and 84,617 shares of Common Stock to members of the board of directors for payment of quarterly fees in lieu of cash payments during the three and six months ended June 30, 2024, respectively.

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	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2024	2,614,031	$ 2.57
Unvested awards of employees acquired in business acquisition	1,498,079	$ 2.89
Granted	7,548,141	$ 5.31
Vested	(7,391,180)	$ 4.54
Forfeited/canceled	(46,189)	$ 4.30
Unvested as of June 30, 2025	4,222,882	$ 4.10

RSUs granted as set out in the table above include RSUs representing 1,800,000 shares with vesting based on market conditions tied to the Company's stock price (the "PSUs"). The PSUs are subject to performance-based vesting conditions measured over a three-year performance period and vest based on the Company's achievement of certain stock price hurdles by certain determination dates, subject to the respective employee's continued service through the applicable determination date. The stock price hurdle represents the average closing price of the Common Stock on Nasdaq during the 45 trading days immediately preceding the applicable determination date. Any unvested PSUs will be forfeited if the performance targets are not achieved within three years of the grant date. Restricted stock are immediately vested on the grant date, but shall not be assigned, sold or transferred by the participant until one year from the grant date. The requisite service period for RSUs is between one and three years. As of June 30, 2025, there was $6.4 million of unrecognized compensation cost related to unvested RSUs granted to employees and members of the board of directors. The amount is expected to be recognized over a weighted average period of 1.1 years.

The following table summarizes the activities for unvested RSUs granted to non-employees, excluding members of the board of directors, during the six months ended June 30, 2025:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2024	1,698,733	$ 1.22
Unvested awards of employees acquired in business acquisition	(1,498,079)	$ 2.89
Granted	765,000	$ 4.57
Vested	(723,110)	$ 0.95
Forfeited/canceled	(33,333)	$ 0.65
Unvested as of June 30, 2025	209,211	$ 2.53

The requisite service period for grants, including derived service periods for RSUs with market conditions, is generally between one and three years. As of June 30, 2025, there was $0.4 million of unrecognized compensation cost related to unvested non-employee, excluding members of the board of directors, RSUs. The amount is expected to be recognized over a weighted average period of 1.2 years.

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NOTE 16 – RELATED PARTY TRANSACTIONS

In April 2021, the Company entered into a Services Agreement with Beowulf Electricity & Data LLC, formerly Beowulf Electricity & Data Inc., ("Beowulf E&D"), a related party due to control by a member of Company management. Under the Services Agreement, Beowulf E&D will provide, or cause its affiliates to provide, to TeraWulf certain services necessary to construct and operate certain bitcoin mining facilities developed or anticipated to be developed by the Company and support the Company's ongoing business, including, among others, services related to construction, technical and engineering, operations and maintenance, procurement, information technology, finance and accounting, human resources, legal, risk management and external affairs consultation. The Services Agreement had an initial term of five years and provides for certain fixed, passthrough and incentive payments to Beowulf E&D, including issuing to certain designated employees of Beowulf E&D awards with respect to shares of Common Stock upon the consummation of an initial public offering of TeraWulf or the consummation of a merger following which TeraWulf is listed on a nationally recognized securities exchange and, thereafter, upon achievement of certain milestones regarding bitcoin mining capacity deployed at the bitcoin mining facilities.

For the base fee, the Company originally agreed to pay Beowulf E&D in monthly installments an annual fee for the first year in the amount of $7.0 million and, thereafter, an annual fee equal to the greater of $10.0 million or $0.0037 per kilowatt hour of electric load utilized by the bitcoin mining facilities. In March 2023, TeraWulf and Beowulf E&D entered into an Amendment No. 1 to the Services Agreement, pursuant to which TeraWulf agreed to pay Beowulf E&D, effective as of January 1, 2023, a reduced annual base fee equal to $8.5 million payable in monthly installments, until all obligations under the Company's LGSA, as amended and restated from time to time, are either indefeasibly repaid in full or refinanced, at which point the annual base fee will increase to $10.0 million, which occurred in July 2024. The Services Agreement also provides for reimbursement of cost and expenses incurred in connection with providing the services. For the six months ended June 30, 2025 and 2024, the Company paid Beowulf E&D $15.3 million and $7.2 million, respectively, under the Services Agreement, including payments related to construction services and agreements with contractors at the Lake Mariner Facility which were passed through at cost. For the three and six months ended June 30, 2025, selling, general and administrative expenses – related party in the condensed consolidated statements of operations included $4.3 million and $7.9 million, respectively, and operating expenses – related party in the condensed consolidated statements of operations included $0.6 million and $1.4 million, respectively, in each case related to the base fee and reimbursement of costs and expenses. For the three and six months ended June 30, 2024, selling, general and administrative expenses – related party in the condensed consolidated statement of operations included $2.8 million and $5.4 million and operating expenses – related party in the condensed consolidated statement of operations included $0.5 million and $1.1 million, in each case related to the base fee and reimbursement of costs and expenses.

On May 21, 2025, the Company acquired Beowulf E&D which terminated the Services Agreement between the Company and Beowulf E&D. Accordingly, no amounts are due between the Company and Beowulf E&D are included in the condensed consolidated balance sheet as of June 30, 2025. Of the costs incurred under the Services Agreement during the six months ended June 30, 2025, $5.7 million is included in property, plant and equipment, net in the condensed consolidated balance sheet. As of December 31, 2024, $0.8 million is included in prepaid expenses, $1.4 million is included in amounts due to related parties and, of the costs incurred under the Services Agreement during the six months ended June 30, 2024, $0.3 million is included in property, plant and equipment, net in the condensed consolidated balance sheet.

The Services Agreement also provided for performance-related milestones and related incentive compensation pursuant to which, once the mining facilities have utilized 100 MW of cryptocurrency mining load in the aggregate and for every incremental 100 MW of cryptocurrency mining load deployed thereafter, the Company agreed to issue awards of shares of Common Stock each in the amount of $2.5 million to certain designated employees of Beowulf E&D in accordance with TeraWulf's then effective Plan. During the six months ended June 30, 2024, the Company issued 1,083,189 shares of Common Stock with a fair value of $2.5 million to settle the share-based liabilities due to related party. During the three and six months ended June 30, 2025, due to the change in the Company's strategy to focus on development and deployment of infrastructure to support HPC workloads, the Company agreed to settle the final 100 MW performance-related milestone on a pro-rata basis for the 95 MW of cryptocurrency mining load deployed and recognized $2.4 million of performance milestone expense included in selling, general and administrative expenses – related party in the condensed consolidated statements of operations for the three and six months ended June 30, 2025. During the three and six months ended June 30, 2025, the Company issued 798,319 shares of Common Stock with a fair value of $2.4 million to settle the share-based liabilities due to related party. The Company recorded no performance milestone expense for the three and six months ended June 30, 2024.

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to TeraWulf, and references to "we", "us" and "our" shall be construed accordingly.

The following management discussion and analysis of the results of TeraWulf is extracted from the annual reports of TeraWulf for the years ended 31 December 2022, 2023 and 2024 and the quarterly report of TeraWulf for the six months ended 30 June 2025. It should be read in conjunction with the financial information of TeraWulf for the years ended 31 December 2022, 2023 and 2024 and the six months ended 30 June 2025 set forth in Appendix II to this circular. The management discussion and analysis of the results of TeraWulf was issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Group has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Annual Report and with the accompanying consolidated financial statements and notes thereto included elsewhere in this report. All figures presented below represent results from continuing operations, unless otherwise specified. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations may be deemed forward-looking statements. See "Forward-Looking Statements."

General

TeraWulf is a vertically-integrated owner and operator of environmentally clean bitcoin mining facilities in the United States. Founded and led by an experienced group of energy & power entrepreneurs, the Company is actively operating and constructing, consistent with its sustainable energy mandate, two bitcoin mining facilities, the Lake Mariner Facility and the Nautilus Cryptomine Facility, in the States of New York and Pennsylvania, respectively. TeraWulf will own and operate its bitcoin mining facility sites and expects to consume over 91% zero-carbon energy, with a target of achieving 100%. In connection with the planned buildout, TeraWulf entered into a power purchase agreement at the Nautilus Cryptomine Facility and will receive power at approximately 2.0 cents/kWh. Moreover, the Lake Mariner Facility is located a mere 40 miles from the Robert Moses Niagara Power Plant, an approximate 2,600MW hydroelectric generating facility, the largest generating facility in New York State, and one of the largest in the country, with 24/7 access to low-cost carbon-free electricity. With the Nautilus Cryptomine Facility power purchase agreement, and the strategic location of the Lake Mariner Facility addition, TeraWulf expects to achieve an average long-term cost of electricity of approximately 3.5 cents/kWh, competitively positioning the Company to be a leading, low-cost and zero-carbon bitcoin mining operator in the United States.

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Lake Mariner Facility

Located at a site adjacent to the decommissioned coal-fired Somerset Generating Station in Barker, New York, the Lake Mariner Facility has secured an initial 90 MW of energy to support its bitcoin mining capacity through an agreement with NYPA with the potential to expand into an additional 410 MW of energy supply. TeraWulf began mining bitcoin at the Lake Mariner Facility in March 2022 with 10 MW of mining capacity located on the turbine deck of the former coal-fired power plant and energized its first dedicated mining building ("Building 1"), housing approximately 50 MW of mining capacity, during the third quarter of 2022. During the third quarter of 2022, and in conjunction with Nautilus JV amendment discussed below, the Company expanded its self-mining capacity in Building 1 by transferring miners previously purchased for use at the Nautilus facility in order to accelerate revenue growth. Construction is largely complete at the Company's second dedicated mining building ("Building 2"), which is also scheduled to house approximately 50MW of mining capacity and is targeted for completion in the second quarter of 2023.

Nautilus Cryptomine Facility

The Nautilus Cryptomine Facility is a joint venture between TeraWulf and Talen. The Nautilus Cryptomine Facility, located in Salem Township, Luzerne County, Pennsylvania, is adjacent to the 2.5 GW nuclear-powered Susquehanna Station, 2.3 GW of which are owned and operated by Talen. The Nautilus Cryptomine Facility has secured as its power supply zero-carbon nuclear energy received directly from a substation connected to the Susquehanna Station's electrical generators over a five-year term with two successive three-year renewal options. The Nautilus Cryptomine Facility is located "behind the meter" and not connected to the electrical distribution grid, therefore avoiding transmission and distribution charges typically paid by other large power consumers. At the time of this Annual Report, the Nautilus Cryptomine Facility has access to up to 300 MW of bitcoin mining capacity from the Susquehanna Station and is expected to be the first bitcoin mining facility site that is powered by 100% "behind the meter" zero-carbon nuclear energy. TeraWulf began installation of miners at the Nautilus Cryptomine Facility in the fourth quarter of 2022, and began mining bitcoin in the first quarter of 2023. In August 2022, the Company and Talen amended their joint venture agreement thereby reducing TeraWulf's stake in the facility to 25% and right-sizing TeraWulf's miners and infrastructure to enable maximum utilization of 50 MW of power at approximately 2.0 cents/kWh for five years.

TeraWulf expects to generate revenues primarily by sustainably mining bitcoin at its bitcoin mining facility sites. Incremental revenues may be generated through the hedging and sale of mined bitcoin and the commercial optimization of TeraWulf's power supply. The Company will also leverage its available digital infrastructure to provide miner hosting services to third parties whereby the Company targets holding an option to purchase the hosted miners in the future.

We believe TeraWulf is an important and low-cost player in the bitcoin network due to our vertical integration, ramp of large-scale operations, market-leading zero-carbon power supply arrangements and a seasoned, dedicated senior management team.

Recent Developments

February 2023 Equity Offering

On February 6, 2023, TeraWulf completed an underwritten public offering of 36,764,706 shares of common stock (the "Equity Offering") at a public offering price of $0.68 per share, with JonesTrading Institutional Services LLC ("JonesTrading") acting as sole book-running manager (the "Underwriter") for the Equity Offering. The Company granted the Underwriter a 30-day over-allotment option to purchase up to an additional 5,514,705 shares of its common stock. On February 8, 2023, the Underwriter exercised its over-allotment option and purchased an additional 3,000,000 shares of common stock from the Company at the public offering price of $0.68 per share (the "February 8, 2023 Overallotment Exercise"). On February 28, 2023, the Underwriter further exercised its over-allotment option and purchased an additional 1,000,000 shares of Common Stock from the Company at the public offering price of $0.68 per share (the "February 28, 2023 Overallotment Exercise" and together with the February 8, 2023 Overallotment Exercise, the "Overallotment Exercise"). The Overallotment Exercise resulted in additional net proceeds to the Company of approximately $2.56 million, or approximately $26.56 million in aggregate net proceeds from the Offering, after deducting underwriting discounts and commissions and estimated offering expenses.

Special Meeting of Shareholders

On February 13, 2023, the Company filed a definitive proxy statement to hold a special meeting (the "Special Meeting") of its shareholders to amend the Company's charter to (i) increase the maximum number of authorized shares of common stock, with the par value of $0.001 per share, from 200,000,000 to 400,000,000 and the maximum number of authorized shares of preferred stock,

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with the par value of $0.001 per share, from 25,000,000 to 100,000,000 (collectively, the "Share Increase Amendment") and (ii) remove the restriction on stockholder action by written consent (the "Written Consent Amendment" and, together with the Share Increase Amendment, the "Charter Amendments"). The Company's shareholders of record as of the close of business on January 27, 2023 were entitled to vote their shares at the Special Meeting. On February 23, 2023, the Charter Amendments were approved by the Company's shareholders at the Special Meeting.

Voting and Support Agreement

As an inducement for the Exchanging Shareholder (as defined below) to enter into the Exchange Agreement (as defined below), the Company entered into a Voting and Support Agreement, dated January 30, 2023, with certain of the Company's shareholders (the "Voting and Support Agreement"). Pursuant to the Voting and Support Agreement, such shareholders voted in support of the Charter Amendments at the Special Meeting.

The Voting and Support Agreement contains customary representations, warranties, covenants and termination rights.

Exchange Agreement

For the purpose of increasing the number of shares available for issuance under the charter prior to the receipt of shareholder approval of the Charter Amendments, on January 30, 2023, the Company entered into an exchange agreement (the "Exchange Agreement") with an entity controlled by Paul Prager (the "Exchanging Shareholder"). Pursuant to the Exchange Agreement, the Exchanging Shareholder exchanged a total of 12,000,000 shares of common stock for 12,000,000 new warrants issued by the Company (the "New Exchange Warrants") in a private exchange exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act. The New Exchange Warrants became immediately exercisable at a strike price of $0.00001 per share on February 24, 2023 and will expire on December 31, 2023. The terms and conditions of the New Exchange Warrants are governed by a certain Warrant Agreement between the Company and the Exchanging Shareholder. The Exchanging Shareholder is entitled to customary registration rights with respect to the shares of common stock issuable upon exercise of the New Exchange Warrants.

The Exchange Agreement contains customary representations, warranties, covenants and termination rights.

Entry into Binding Term Sheet for Fifth Amendment to LGSA & Entry into Fifth Amendment to LGSA

On January 27, 2023, the Company entered into a binding term sheet with its lenders (the "Term Sheet") pursuant to which the parties agreed to make certain amendments to the LGSA via a fifth amendment (the "Fifth Amendment"). The Term Sheet provided for the elimination of mandatory amortization of the term loan through April 8, 2024, subject to certain conditions, including the completion of one or more equity capital raises with aggregate net proceeds of at least $33.5 million by March 15, 2023 (such aggregate capital raise, the "Qualified Equity Capital Raise"). The Company satisfied the Qualified Equity Capital Raise condition on March 9, 2023. The Term Sheet also provided for an excess cash flow sweep in place of scheduled principal payments, which will automatically extend to the maturity of the term loan on December 1, 2024 in the event the Company repays at least $40 million of the term loan by April 1, 2024. The modifications to the term loan's amortization schedule are also contingent on the Company complying with certain corporate governance provisions, and that no default or event of default has occurred or is occurring under the term loan.

On March 1, 2023 (the "Fifth Amendment Effective Date"), the conditions precedent to the effectiveness of the Fifth Amendment were satisfied and the Company entered into the Fifth Amendment. Also, on March 1, 2023, in connection with the execution of the Fifth Amendment, the Company entered into a Warrant Agreement (the "Fifth Amendment Warrant Agreement") to issue the following warrants to the lenders: (i) 26,666,669 warrants to purchase an aggregate number of shares of the Company's common stock equal to 10.0% of the fully diluted equity of the Company as of the Fifth Amendment Effective Date with an exercise price of $0.01 per share of the Company's common stock (the "Lender Penny Warrants") and (ii) 13,333,333 warrants to purchase an aggregate number of shares of the Company's common stock equal to 5.0% of the fully diluted equity of the Company as of the Fifth Amendment Effective Date with an exercise price of $1.00 per share of the Company's common stock (the "Lender Dollar Warrants"). Both the Lender Penny Warrants and the Lender Dollar Warrants are subject to anti-dilution protection for any additional capital raising transaction by the Company of up to $5.0 million following the completion of the Qualified Equity Capital Raise. The Lender Penny Warrants are exercisable during the period beginning on April 1, 2024 and ending at 5:00 p.m., New York City time, on December 31, 2025, and the Lender Dollar Warrants are exercisable during the period beginning on April 1, 2024 and ending at 5:00 p.m., New York City time, on December 31, 2026. Also, on March 1, 2023, the Company entered into a registration rights agreement in respect of the Lender Penny Warrants and the Lender Dollar Warrants which provides the lenders with customary shelf and

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piggyback registration rights. The Lender Penny Warrants and the Lender Dollar Warrants were issued in a private placement transaction exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act.

Additional 2023 Private Placements Warrants

On January 30, 2023, the Company entered into (a) subscription agreements (the "Warrant Subscription Agreements") with certain accredited investors (the "Warrant Investors") pursuant to which such Warrant Investors purchased from the Company warrants, each exercisable to purchase one share of the Company's common stock, at an exercise price of $0.00001 per share of Common Stock (the "Warrants"), in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D of the Securities Act for an aggregate purchase price of $2.5 million, based on a price per share of common stock of $1.05 for a total of 2,380,952 shares of Common Stock and (b) warrant agreements (the "Warrant Agreements") with such Warrant Investors. The Warrant Agreements govern the terms and conditions of the Warrants, which became exercisable beginning on February 24, 2023 and expire on December 31, 2023.

Pursuant to the Warrant Subscription Agreements, the Company agreed to provide customary registration rights to the Warrant Investors with respect to the common stock issuable upon conversion of the Warrants. The Warrant Subscription Agreements contain customary representations, warranties, covenants and termination rights.

February Private Placement

On February 1, 2023, the Company entered into additional subscription agreements (the "February Subscription Agreements") with certain accredited investors, investors (the "February Common Stock Investors") purchased from the Company shares of the Company's common stock, at a purchase price of $0.68 per share of common stock, in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $0.94 million (the "February Private Placement"). The February Private Placement closed on February 2, 2023.

Pursuant to the February Subscription Agreements, the Company agreed to provide customary registration rights to the Common Stock Investors. The February Subscription Agreements contain customary representations, warranties, covenants and termination rights.

Convertible Promissory Notes

Amendment to Existing Convertible Promissory Notes

On January 30, 2023, the Company entered into amendments to its previously disclosed convertible promissory notes (the "Existing Convertible Promissory Notes"), originally issued to certain accredited investors on November 25, 2022 and further amended on December 12, 2022, in privately negotiated transactions as part of a private placement exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act in an aggregate principal amount of approximately $3.4 million. The Existing Convertible Promissory Notes converted into shares of common stock on February 28, 2023 at a price of $0.40.

Entry into New Convertible Promissory Note

On January 30, 2023, the Company entered into a new convertible promissory note (the "New Convertible Promissory Note") to an accredited investor in a privately negotiated transaction as part of a private placement exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act in an aggregate principal amount of $1.25 million. The New Convertible Promissory Note has a maturity date of April 1, 2025 and accrues annual interest at a rate of 4%. The New Convertible Promissory Note converted into shares of common stock on February 28, 2023 at a price of $0.40.

Registered Direct Offering, December Private Placement and January Private Placement

On December 12, 2022, the Company entered into (a) subscription agreements (the "December Subscription Agreements") with certain accredited investors (the "December Investors") pursuant to which the Company issued (i) to the December Investors, 16,850,000 shares of common stock (the "Registered Common Stock") as part of a registered direct offering (the "Registered Direct Offering"), at a purchase price of $.40 per share of Registered Common Stock, for an aggregate purchase price of $6.74 million before deducting any fees and other expenses and (ii) to certain of the December Investors, the December Private Placement Warrants exercisable at an exercise price equal to $0.40 per share of common stock for December Private Placement Warrant Shares in a private

placement transaction exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act and (b) a warrant agreement (the "December Private Placement Warrant Agreement) with such December Investors. The December Private Placement Warrant Agreement governs the terms and conditions of the December Private Placement Warrants. The December Private Placement Warrants became exercisable on January 16, 2023 and expired on January 31, 2023.

In connection with the signing of the December Private Placement Warrant Agreement, the Company and certain of the December Investors entered into a Registration Rights Agreement, dated as of December 12, 2022, pursuant to which the Company agreed to provide customary registration rights to such December Investors with respect to the December Private Placement Warrant Shares.

On January 30, 2023, the Company entered into additional subscription agreements with the December Investors pursuant to which such December Investors purchased from the Company shares of the Company's common stock, at a purchase price of $0.40 per share of common stock (the "January Common Shares"), in private placement transactions exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act for an aggregate purchase price of $1.75 million (the "January Private Placement"). The January Private Placement effectively replaced 50% of the unexercised December Private Placement Warrants at the same purchase price of $0.40 per share of common stock. The January Private Placement closed on March 9, 2023.

October 2022 Private Placement

On October 6, 2022, the Company entered into (a) subscription agreements (the "October Subscription Agreements") with certain accredited investors (the "October Investors") pursuant to which such October Investors purchased from the Company units (the "October Units") consisting of: (i) 7,481,747 shares of common stock (the "October Shares") and (2) warrants (the "October Private Placement Warrants") exercisable for 7,481,747 shares of common stock (such shares, the "October Private Placement Warrant Shares") in a private placement transaction exempt from registration under Section 4(a)(2) and/or Regulation D under the Securities Act and (b) a warrant agreement (the "October Private Placement Warrant Agreement) with the October Investors. The October Private Placement Warrant Agreement governs the terms and conditions of the October Private Placement Warrants. Upon closing of the private placement transaction on October 6, 2022, the October Units separated into the October Shares and the October Private Placement Warrants. On January 30, 2023, certain of the October Investors agreed to amend the terms of their warrants such that their warrants would become exercisable only after February 23, 2023, the date of approval of the Charter Amendments described elsewhere in this 2022 Form 10-K.

In connection with the signing of the October Subscription Agreements, the Company and the October Investors entered into a Registration Rights Agreement, dated as of October 6, 2022, pursuant to which the Company agreed to provide customary registration rights to the October Investors.

Other Developments

Amendment and Restatement of Lender Warrant Agreement

On October 7, 2022, the Company entered into an amendment and restatement of that certain warrant agreement, dated July 1, 2022, by and among the Company and the holders party thereto (such amended agreement, the "Amended and Restated Warrant Agreement") pursuant to which the Company issued to its lenders under the LGSA warrants exercisable for 2,667,678 shares of common stock in a private placement transaction exempt from registration under Section 4(a)(2) and/or Regulation D. The Amended and Restated Warrant Agreement provided for the immediate exercisability of the lender warrants.

Loss of Controlled Company Status

After giving effect to the issuance of the Registered Common Stock in the December 2022 Registered Direct Offering, Paul Prager, founder and Chief Executive Officer of the Company, no longer controlled a majority of the Company's outstanding shares, and certain proxies granted in favor of Stammtisch Investments LLC, an entity owned and controlled by Mr. Prager, terminated in accordance with their terms. As a result, the Company is no longer considered a "controlled company" under applicable Nasdaq rules. The Company is currently in compliance with the applicable Nasdaq corporate governance requirements during the permitted phase-in periods, and expects to be fully in compliance by the requisite deadlines.

Amendment No. 1 to Administrative and Infrastructure Services Agreement

On March 29, 2023, TeraWulf and Beowulf E&D entered into Amendment No. 1 to the administrative and infrastructure services agreement, pursuant to which TeraWulf agreed to pay Beowulf E&D, effective as of January 1, 2023, a reduced annual base fee equal to $8.46 million payable in monthly installments, until all obligations under the Company's LGSA are either indefeasibly repaid in full or refinanced.

Amendment to Talen Joint Venture

On March 23, 2023, TeraWulf (Thales) entered into a second amended and restated limited liability company agreement (the "Second A&R Talen Joint Venture Agreement") with Cumulus Coin. Under the Second A&R Talen Joint Venture Agreement, TeraWulf (Thales) will hold a 25% equity interest in Nautilus and Cumulus Coin will hold a 75% equity interest in Nautilus, each subject to adjustment based on relative capital contributions. Bitcoin distributions will be made every two weeks in accordance with each member's respective hash rate contributions after deducting each member's share of power and operational costs and cash reserves, as established by the board of managers, to fund, among other things, one month of estimated power costs and two months of budgeted expenditures.

Under the Second A&R Talen Joint Venture Agreement, each member will be entitled to make contributions to Nautilus of certain miners up to a maximum determined in accordance with each member's ownership percentage, by delivering or causing to be delivered and installed or deemed installed on behalf of Nautilus at the Nautilus Cryptomine facility or at Nautilus' storage facility, such miners. Pursuant to the Second A&R Talen Joint Venture Agreement, certain MinerVa miners that TeraWulf (Thales) contributed to Nautilus will be removed and provided to TeraWulf (Thales), which TeraWulf (Thales) has the right to replace in its discretion. Likewise, Cumulus Coin may elect to remove certain MinerVa miners that Cumulus Coin contributed to Nautilus, which Cumulus Coin has the right to replace in its discretion.

Nautilus will be governed by a board of managers comprised of one manager appointed by TeraWulf (Thales) and four managers appointed by Cumulus Coin. Under the Second A&R Talen Joint Venture Agreement, the board of managers generally acts upon a majority vote at a duly called meeting at which the manager appointed by TeraWulf (Thales) is present, except that, for certain specified matters ("Special Consent Matters"), the board of managers acts upon a unanimous vote, subject to deadlock procedures. Any member owning less than 20% of Nautilus has no right to vote on Special Consent Matters. Generally, neither TeraWulf (Thales) nor Cumulus Coin may directly transfer any of its interests in Nautilus to any third parties without the majority consent of the board of managers, except that TeraWulf (Thales) is entitled to transfer its interests in Nautilus if certain conditions are met.

Pursuant to the terms of the Second A&R Talen Joint Venture Agreement, the Nautilus Cryptomine facility will initially require 200 MW of electric capacity, and the Cumulus Coin may elect to expand the energy requirement by up to 100 MW, funded solely by the Cumulus Coin, prior to May 13, 2024, for a total capacity of 300 MW. Upon such election, Nautilus will call additional capital for expansion and enter into an additional energy supply agreement with Cumulus Coin or its affiliate for the additional capacity, subject to any regulatory approvals and third-party consents.

On August 26, 2022, Nautilus and Beowulf E&D entered into an amended and restated facility operations agreement with an early termination right for Nautilus, pursuant to which Beowulf E&D provides, or arranges for the provision to Nautilus of, certain infrastructure, construction, operations and maintenance and administrative services necessary to build out and operate the Nautilus Cryptomine facility and support Nautilus's ongoing business at the Nautilus Cryptomine facility. Nautilus terminated the amended and restated facility operations agreement effective December 26, 2022. On December 26, 2022, Nautilus and Talen Energy Supply LLC entered into a replacement facility operations agreement pursuant to which Talen Energy Supply LLC provides, or arranges for the provision to Nautilus of, certain infrastructure, construction, operations and maintenance and administrative services necessary to build out and operate the Nautilus Cryptomine facility and support Nautilus's ongoing business at the Nautilus Cryptomine Facility. Also on December 26, 2022, Beowulf E&D and Nautilus entered into a transition services agreement to facilitate the prompt transition of the services provided by Beowulf E&D to Nautilus under the amended and restated facility operations agreement to Talen Energy Supply LLC. Pursuant to the transition services agreement, Beowulf E&D shall provide such transition services to Nautilus until June 30, 2023 in exchange for payment by Nautilus of $339,200 and reimbursement of out of pocket expenses.

The Business Combination

TeraWulf completed its business combination with IKONICS on December 13, 2021 (the "Closing Date") pursuant to which, among other things, TeraCub Inc. ("TeraCub," formerly known as TeraWulf Inc.) would effectively acquire IKONICS and become a publicly traded company on the Nasdaq, which was the primary purpose of the business combination. For financial accounting

purposes, the business combination was treated as a reverse merger whereby the accounting acquirer was TeraCub due to TeraCub's historic shareholders having the majority voting control in the Company, the board of directors members being associated with TeraCub and the senior management of TeraCub becoming the senior management of TeraWulf. Pursuant to business combination accounting, the Company applied the acquisition method, which requires the assets acquired and liabilities assumed be recorded at fair value, with limited exceptions. The Company's consolidated financial statements include the operating results of IKONICS beginning on the Closing Date.

Under the terms of the Merger Agreement, each share of IKONICS common stock issued and outstanding immediately prior to the Closing Date was automatically converted into and exchanged for (i) one validly issued, fully paid and nonassessable share of Common Stock of TeraWulf, (ii) one CVR pursuant to the CVR Agreement, and (iii) the right to receive $5.00 in cash, without interest. TeraCub common stock issued and outstanding immediately prior to the Closing Date was automatically converted into the right to receive a number of validly issued, fully paid and nonassessable shares of TeraWulf such that the TeraCub common stockholders prior to conversion would effectively control 98% of the total outstanding shares of TeraWulf immediately subsequent to the Closing Date.

Pursuant to the CVR Agreement, each shareholder of IKONICS as of immediately prior to the Closing Date, received one CVR for each outstanding share of common stock of IKONICS then held. The holders of the CVRs are entitled to receive 95% of the Net Proceeds (as defined in the CVR Agreement), if any, from the sale, transfer, disposition, spin-off, or license of all or any part of the pre-merger business of IKONICS completed within 18 months following the date of the merger, subject to a reserve of up to 10% of the Gross Proceeds (as defined in the CVR Agreement) from such transaction and such other amount to be retained to satisfy Retained Liabilities, as defined. The CVRs do not confer to their holders any voting or equity or ownership interest in IKONICS or TeraWulf and are not transferable, except in limited circumstances, and are not listed on any quotation system or traded on any securities exchange. The CVR Agreement will terminate after all payment obligations to the holders thereof have been satisfied. Holders of CVRs will not be eligible to receive payment for dispositions, if any, of any part of the pre-merger business of IKONICS after the eighteen-month anniversary of the Closing Date. The fair value of the aggregate consideration paid for IKONICS was $66.3 million, which includes (i) cash consideration of $13.7 million ($10.3 million net of cash acquired), (ii) equity consideration of $40.6 million and (iii) contingent consideration (related to the CVRs) of $12.0 million. As of December 31, 2022, the CVR liability included in the Company's consolidated balance sheet is $10.9 million. During the year ended December 31, 2022, the Company completed sales of all IKONICS net assets held for sale for net proceeds of $13.3 million, of which $7.0 million remained in escrow under provisions of an asset purchase agreement as of December 3, 2022. In February 2023, all escrowed funds were released to the Company. Subsequent to the asset sales, IKONICS' name was changed to RM 101 Inc. ("RM 101") and the entity has no remaining operations or employees.

Upon the consummation of the business combination, RM 101 common stock ceased trading on the Nasdaq and TeraWulf Common Stock began trading on the Nasdaq on December 14, 2021 under the ticker symbol "WULF."

COVID-19

The Company's results of operations could be adversely affected by general conditions in the economy and in the global financial markets, including conditions that are outside of the Company's control, such as the outbreak and global spread of the novel coronavirus disease ("COVID-19"). The COVID-19 pandemic that was declared on March 11, 2020 has caused significant economic dislocation in the United States and globally as governments across the world, including the United States, introduced measures aimed at preventing the spread of COVID-19. The spread of COVID-19 and the imposition of related public health measures resulted in increased volatility and uncertainty in the cryptocurrency space.

The Company may experience disruptions to its business operations resulting from COVID-19-related supply interruptions (including miner delivery interruptions), quarantines, self-isolations, or other movement and restrictions on the ability of its employees or its counterparties to perform their jobs and provide services. The Company may also experience COVID-19-related delays in construction and obtaining necessary equipment in a timely fashion. To date, the Company has experienced certain, but minimal, delays due to COVID-19 among its employees, suppliers and contractors.

Change in Fiscal Year

Upon the closing of its business combination with IKONICS on December 13, 2021, the Company assumed the fiscal year end of December 31. Previously, the Company's fiscal year ended on March 31. The historical financial statements for the period

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from February 8, 2021 (date of inception) and for the nine-month period ended December 31, 2021 have been recast to conform with the Company's adopted fiscal year.

Restatement of Previously Issued Financial Statements

As part of the Company's financial statement close process and preparation of its Annual Report on Form 10-K (the "2022 Form 10-K"), the Company identified errors in its historical interim unaudited consolidated financial statements. The misstatements relate solely to incorrectly calculating the impact of noncash activity on purchase and deposits on plant and equipment, resulting in an understatement of net cash used in investing activities and a corresponding overstatement of net cash used in operating activities as originally included in the respective interim unaudited consolidated statements of cash flows. The Company determined that its interim unaudited consolidated financial statements for the quarterly periods ended March 31, 2022, June 30, 2022 and September 30, 2022 (the "Relevant Periods") were materially misstated and needed to be restated. The restatements are set forth in detail in Note 18 to the Consolidated Financial Statements.

Results of Operations

Since the Company's inception on February 8, 2021, the Company's primary activities have been focused on capital acquisition, merger negotiation and consummation, joint venture negotiation and participation, miner procurement, electricity procurement, construction commencement and management, commencement of mining operations, ongoing mining operations, public company readiness and general corporate activities. The Company's plan of operation for the next twelve months is to continue to increase the mining capacity at its operating mining facilities and complete the construction of its other bitcoin mining facilities, both wholly owned and owned through the Nautilus Joint Venture.

Continuing Operations

All items included in loss from continuing operations in the consolidated statements of operations for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021 relate to its wholly-owned operations of its sole business segment, digital currency mining, due to the Company presenting the RM 101 business as discontinued operations for the year ended December 31, 2022 the period February 8, 2021 (date of inception) to December 31,2021.

Revenue and Cost of Revenue

Revenue increased to $15.0 million during the year ended December 31, 2022, respectively, as compared to $0 during the period February 8, 2021 (date of inception) to December 31, 2021 due primarily to the commencement of mining activities at the Lake Mariner Facility in March 2022, the accelerated ramp of mining operations during the year ended December 31, 2022 and the commencement of miner hosting arrangements at the Lake Mariner Facility in May 2022. During the year ended December 31, 2022, revenue from mining was $10.5 million and revenue from hosting was $4.5 million.

Cost of revenue increased to $11.1 million during the year ended December 31, 2022, respectively, as compared to $0 during the period February 8, 2021 (date of inception) to December 31, 2021 due primarily to the commencement of mining activities at the Lake Mariner Facility in March 2022, the accelerated ramp of mining operations during the year ended December 31, 2022 and the commencement of miner hosting arrangements at the Lake Mariner Facility in May 2022. Cost of revenues is comprised primarily of power expense and, to a lesser degree, the cost of services provided under our miner hosting agreements. While the cost of power has moderated subsequent to December 31, 2022, certain periods in calendar year 2022 experienced elevated power prices in the New York power market, the primary power market for the Lake Mariner Facility. The Company records payments received for demand response programs as a reduction in cost of revenue; the amount of aggregate payments received were not significant during the year ended December 31, 2022. The Company is expanding its enrollment in such available programs.

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Costs and Expenses

The following table presents operating expenses (in thousands):

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Operating expenses	$ 2,038	$ 104
Operating expenses - related party	1,248	960
	$ 3,286	$ 1,064

Operating expenses (including related party expenses) were $3.3 million and $1.1 million for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively, which represents an increase of $2.2 million. Operating expenses are comprised primarily of lease expense, operations labor and various site maintenance costs. The increase is attributable primarily to the commencement of mining activities at the Lake Mariner Facility in March 2022 and the commencement of miner hosting arrangements at the Lake Mariner Facility in May 2022. This increase is tempered by the period February 8, 2021 (date of inception) to December 31, 2021 including certain development expenses, including services and third-party costs for transmission consulting, engineering consulting, transmission impact study, electricity procurement and site development.

The following table presents selling, general and administrative expenses (in thousands):

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Selling, general and administrative expenses	$ 22,770	$ 23,759
Selling, general and administrative expenses - related party	13,280	18,576
	$ 36,050	$ 42,335

Selling, general and administrative expenses (including related party expenses) were $36.1 million and $42.3 million for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively, which represents a decrease of $6.3 million. The decrease is primarily a result of the period February 8, 2021 (date of inception) to December 31, 2021 including $27.7 million of incremental expense related to the RM 101 business combination, consisting of $15.2 million of financial and legal advisor fees and other merger-related costs and a one-time $12.5 million performance expense to be settled in shares of Common Stock included in selling, general and administrative expenses – related party. The decrease is somewhat offset by the year ended December 31, 2022 having increased costs, including insurance, professional fees and payroll, as it was a public company with a growing business throughout the year. Selling, general and administrative expenses are comprised primarily of professional fees, legal fees, employee compensation and benefits, insurance and general corporate expenses. Professional fees for the year ended December 31, 2022 include fixed and passthrough expenses under the administrative and infrastructure services agreement amounting to $13.3 million, inclusive of $2.1 million of expense to be settled in shares of Common Stock. Professional fees for the period February 8, 2021 (date of inception) to December 31, 2021 include fixed and passthrough expenses under the administrative and infrastructure services agreement amounting to $18.6 million, inclusive of the aforementioned $12.5 million of share-based expense. The Company has undertaken cost reduction initiatives targeted at reducing its overall operating expense that is expected to benefit its operating profitability going forward.

Depreciation for the year ended December 31, 2022 was $6.7 million and for the period February 8, 2021 (date of inception) to December 31, 2021 was $0. The increase is due primarily to the Lake Mariner Facility commencing operations in March 2022 and ramping operations through the balance of the year ended December 31, 2022.

Impairment of digital currency for the year ended December 31, 2022 was $1.5 million and for the period February 8, 2021 (date of inception) to December 31, 2021 was $0. Impairment of digital currency represents the decline in bitcoin prices during the Company's holding period of its bitcoin. Bitcoin impairment is not reversed during its holding period but instead a gain, if any, is

recognized upon its liquidation. Realized gain on sale of digital currency, representing such gains on bitcoin liquidation, for the year ended December 31, 2022 was $0.6 million and for the period February 8, 2021 (date of inception) to December 31, 2021 was $0.

Interest expense for the year ended December 31, 2022 was $24.7 million and for the period February 8, 2021 (date of inception) to December 31, 2021 was $2.3 million, an increase of $22.4 million. Interest expense relates primarily to the Company's term loan financing in the principal amount of $146.0 million, which was closed on December 1, 2021 with a principal balance of $123.5 million and was amended in July and October 2022 to include an additional aggregate $22.5 million drawn under a delayed draw term loan facility (together, the "Term Loan"). The Term Loan bears an interest rate of 11.5%, which interest payments are due quarterly in arrears. For the year ended December 31, 2022 and for the period February 8, 2021 (date of inception) to December 31, 2021, interest expense also includes $9.3 million and $1.0 million, respectively, of amortization of debt issuance costs and debt discount related to debt issuance costs, an upfront fee, and the fair value of equity and common stock warrants issued to the Term Loan investors in conjunction with the Term Loan. During the year ended December 31, 2022 and for the period February 8, 2021 (date of inception) to December 31, 2021, the Company capitalized $5.3 million and $0.1 million, respectively, of interest costs to property, plant and equipment, net and $4.6 million and $0.1 million, respectively, of interest to equity in net assts of investee in the consolidated balance sheet as of December 31, 2022 and 2021. For the year ended December 31, 2022, the Company incurred $3.1 million in interest expense related to amortization of a commitment fee for the delayed draw term loan facility comprised primarily of the fair value of common stock warrants issued to the Term Loan lenders. The delayed draw term loan facility expired on December 31, 2022. Additionally, on June 2, 2022, the Company entered into a convertible promissory note (the "Promissory Note") with a principal balance of $15.0 million. The Promissory Note bore an interest rate of 4.0%. Interest payments were due monthly in conjunction with scheduled principal payments. The Promissory Note could have been repaid with the issuance of Common Stock or with cash and, if repaid in cash, together with a cash payment premium of between 4% and 12%. Of the $24.7 million of interest expense reported in the statement of operations for the year ended December 31, 2022, approximately $1.5 million of the interest relates to the Promissory Note, including $0.4 million of expense related to amortization of debt issuance costs and debt discount related to an upfront fee. The Promissory Note was repaid as of December 31, 2022.

Loss on extinguishment of debt was $2.1 million $0 for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively. The loss on extinguishment of debt for the year ended December 31, 2022 relates to an October 2022 amendment to the Promissory Note which is considered an extinguishment of debt under U.S. GAAP due the change in fair value of the embedded conversion feature. This extinguishment loss was primarily related to the change in the fair value of the embedded conversion feature of $1.6 million and the excess of the fair value of the amended Promissory Note of $9.4 million over the carrying value of the Promissory Note immediately prior to the modification.

Income tax benefit was $0.3 million $0.6 million for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a valuation allowance of $29.5 million for the total, net deferred tax assets as of December 31, 2022.

Equity in net loss of investee, net of tax

Equity in net loss of investee, net of tax was $15.7 million for the year ended December 31, 2022 and was $1.5 million for the period February 8, 2021 (date of inception) to December 31, 2021. For the year ended December 31, 2022, the amount includes an impairment loss of $11.4 million on the distribution of miners from Nautilus to the Company whereby the miners were marked to fair value from book value on the date distributed. The impairment loss was the result of decreasing prices for miners between initial purchase and distribution. In each case, the remaining amounts represent TeraWulf's proportional share of losses of Nautilus, which had not commenced principal operations as of December 31, 2022.

Loss from discontinued operations, net of tax

Loss from discontinued operations, net of tax was $4.9 million for the year ended December 31, 2022 and was $49.1 million, for the period February 8, 2021 (date of inception) to December 31, 2021. In conjunction with the RM 101 business classification as held for sale upon acquisition on December 13, 2021, the Company has reported the RM 101 business as discontinued operations in the consolidated financial statements. For the year ended December 31, 2022, the total loss from discontinued operations reported is comprised primarily of an impairment loss on discontinued operations of $4.5 million to write down the related carrying amounts of IKONICS to their fair values less estimated cost to sell, offset by a remeasurement gain of $1.1 million on the CVRs, which represents the contingent consideration purchase price component of the RM 101 acquisition. For the period February 8, 2021 (date of inception)

to December 31, 2021, the loss from discontinued operations, net of tax is comprised primarily of a loss on discontinued operations of $48.9 million to write down the related carrying amount so RM 101 to their fair values less estimated costs to sell. All RM 101 net assets held for sale have been sold as of December 31, 2022.

Liquidity and Capital Resources

As of December 31, 2022, the Company had balances of cash and cash equivalents and restricted cash of $8.3 million, a working capital deficiency of $111.9 million, total stockholders' equity of $117.8 million and an accumulated deficit of $186.5 million. The Company incurred a net loss attributable to common stockholders of $91.6 million for the year ended December 31, 2022, including a net impairment charge (net of a contingent consideration remeasurement gain) of $4.9 million included in loss from discontinued operations, net of tax related to the acquired RM 101 business. The Company has commenced mining activities at the Lake Mariner Facility, however not yet to the scale required to support its principal operations. The Company has relied primarily on proceeds from its issuances of debt and equity and sale of bitcoin mined to fund its principal operations. The principal uses of cash are for deposits on miners, the buildout of mining facilities, debt service, general corporate activities and investments in Nautilus joint venture related to the miner deposits, mining facility buildout and general corporate activities. Cash flow information is as follows (in thousands):

	Year Ended December 31, 2022	Period February 8, 2021 (date of inception) to December 31, 2021
Cash provided by (used in):		
Operating activities:		
Continuing operations	$ (32,262)	$ (21,141)
Discontinued operations	(1,804)	(2,958)
Total operating activities	(34,066)	(24,099)
Investing activities	(94,047)	(201,413)
Financing activities	89,981	271,967
Net change in cash and cash equivalents and restricted cash	$ (38,132)	$ 46,455

Cash used in operating activities for continuing operations was $32.3 million and $21.1 million for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 3, 2021, respectively. For the year ended December 31, 2022, cash used in operations results from a net loss of $90.8 million less non-cash expenses, net of $35.3 million, adjusted for changes in certain asset and liability balances and increased by proceeds from sale of bitcoin of $9.7 million. The non-cash expenses were primarily comprised of (i) $4.9 million of loss from discontinued operations, net of tax related to RM 101's business, the assets of which were substantially sold as of December 31, 2022, (ii) $15.7 million related to the Company's equity in net loss, net of tax of Nautilus, (iii) $11.7 million related to amortization of debt issuance cost and accretion of debt discount, (iv) impairment of digital currency and realized gain on sale of digital currency of $0.9 million on a net basis, (v) stock-based compensation of $1.6 million, (vi) depreciation of $6.7 million, (vii) amortization of right-of-use asset of $0.3 million, (viii) a loss on nonmonetary miner exchange of $0.8 million, (ix) loss on extinguishment of debt of $2.1 million and (x) related party expense to be settled with respect to common stock of $2.1 million. The changes in certain assets and liabilities were primarily comprised of a net increase in current liabilities (which primarily includes accounts payable, other accrued liabilities, other amounts due to related parties) of $16.8 million, a net increase in current assets (which primarily includes prepaid expenses, amounts due from related parties and other current assets) of $2.8 million, an increase in other assets of $1.0 million and an increase in other liabilities of $0.2 million.

Cash used in investing activities for continuing operations was $94.0 million and $201.4 for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively. For the year ended December 31, 2022, the Company (i) invested $61.1 million in the buildout of mining facilities, (ii) invested $46.20 million (including reimbursable payments made on behalf of the joint venture of joint venture partner offset by reimbursement from joint venture or joint venture partner of less than $0.1 million net cash used) in Nautilus related primarily to the joint venture's miner deposits and mining facility buildout and (iii) received net proceeds from the sale of IKONICS' net assets held for sale of $13.5 million.. See "Contractual Obligations and Other Commitments" for additional discussion on miner and Nautilus commitments.

Cash provided by financing activities for continuing operations was $90.0 million and $272.0 for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively. For the year ended December 31,

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2022, the Company received proceeds from the issuance of Common Stock, net of issuance costs, of $47.3, proceeds from the issuance of warrants of $5.7 million, proceeds from the issuance of convertible preferred stock of $9.6 million and net proceeds from the issuance and repayment of convertible promissory notes of $2.8 million. In addition, for the year ended December 31, 2022, the Company received proceeds related to an amendment to its long-term debt of $22.5 million and received proceeds, net of principal payments, of notes payable for insurance premium financing of $2.1 million, net of repayments.

Contractual Obligations and Other Commitments

The Company is counterparty to five miner purchase agreements with Bitmain Technologies Limited. The Company has satisfied all contractual financial commitments under these contracts as of December 31, 2022.

The Company is counterparty to an amended and restated Talen joint venture agreement dated August 27, 2022. Under this joint venture agreement, the Company has invested $116.0 million on a net basis and has right-sized its equity ownership interest to 25% of the joint venture. The Company does not expect any additional material capital contributions to be required.

Financial Condition

There is limited historical financial information about the Company upon which to base an evaluation of its performance. The Company has commenced mining activities, however not yet to the scale required to support its principal operations. The Company has relied primarily on proceeds from its issuances of debt and equity and sale of bitcoin mined to fund its principal operations. Until TeraWulf is able to generate positive cash flows from operations, TeraWulf expects to fund its business operations and infrastructure buildout through the issuance of debt or equity securities, the sale of mined bitcoin or through the provision miner hosting services.

Prior to December 31, 2022, the Company's fundraising activities resulted in net cash provided by financing activities of $90.0 million and $272.0 million for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively. Financing activities during the year ended December 31 2022 include the following:

ATM Offering. On February 11, 2022, in order to facilitate additional capital acquisition, the Company entered into an At Market Issuance Sales Agreement (the "Sales Agreement") with B. Riley Securities, Inc. and D.A. Davidson & Co. (each, individually, an "Agent" and, collectively, the "Agents"), pursuant to which the Company may offer and sell, from time to time, through or to the agents, acting as agent or principal, shares of the Company's Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million (the "Shares"). The Company is not obligated to sell any Shares under the Sales Agreement. In April 2022, the Company entered into a replacement sales agreement (the "April ATM Sales Agreement") with Cantor Fitzgerald & Co., B. Riley Securities, Inc. and D.A. Davidson & Co. (together the "April ATM Agents"), pursuant to which the Company may offer and sell, from time to time, through or to the April ATM Agents, shares of the Company's Common Stock, par value $0.001 per share, having an aggregate offering price of up to $200.0 million. The April ATM Sales Agreement replaced the Sales Agreement. The Company is not obligated to sell any shares under the April ATM Sales Agreement. Subject to the terms and conditions of the April ATM Sales Agreement, the Agents will use commercially reasonable efforts, consistent with its normal trading and sales practices, to sell Shares from time to time based upon the Company's instructions, including any price, time or size limits or other customary parameters or conditions specified by the Company. The Company will pay the Agents a commission equal to 3.0% of the gross sales price from each sale of Shares and provide the Agents with customary indemnification and contribution rights. The April ATM Sales Agreement may be terminated by the Agents or the Company at any time upon five (5) days' notice to the other party. The issuance and sale of the April Shares by the Company under the April ATM Sales Agreement are made pursuant to the prospectus and prospectus supplement forming a part of the Company's shelf registration statement on Form S-3 (Registration Statement No. 333-262226), which was declared effective on February 4, 2022 ("the 2022 Registration Statement"), including a final prospectus supplement dated April 26, 2022. The 2022 Registration Statement provides that the Company may offer and sell from time to time shares of its Common Stock, shares of its preferred stock, debt securities, depositary shares, warrants, rights, purchase contracts or units, or any combination thereof, in one or more offerings in amounts, at prices and on terms that it determines at the time of the offering, with an aggregate initial offering price of up to $500.0 million (or its equivalent in foreign currencies, currency units or composite currencies). As of March 30, 2023, the Company sold 2,910,909 shares of Common Stock for net proceeds of approximately $9.7 million under the ATM Offering.

Common Stock and Common Stock Warrants. At various times through the year ended December 31, 2022, the Company concluded private placements and offerings pursuant to underwriting agreements, to offer Common Stock or units consisting of Common Stock and Common Stock warrants to investors, including members of Company management. Certain Common Stock warrants were also exercised. In the aggregate for these transactions, the Company issues 33,938,500 shares of Common Stock for net proceeds of $53.0 million.

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Convertible Preferred Stock. In March 2022, TeraWulf entered into Series A Convertible Preferred Stock Subscription Agreements (the "Subscription Agreements") with certain accredited and institutional investors (collectively, the "Holders"). Pursuant to the Subscription Agreements, the Company sold 9,566 shares (of 10,000 shares authorized) of Series A Convertible Preferred Stock, par value $0.001 per share (the "Convertible Preferred Stock") to the Purchasers for an aggregate purchase price of $9.6 million. The Subscription Agreements contain customary representations, warranties, covenants and agreements of the Company. The offer and sale of the Convertible Preferred Stock were made pursuant to the prospectus and prospectus supplement forming a part of the 2022 Registration Statement. Holders of the Convertible Preferred Stock will accumulate cumulative dividends at an annual rate of 10.0% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share, accumulating on a daily basis and payable quarterly on March 31st, June 30th, September 30th and December 31st, respectively, in each year and commencing June 30, 2022. Commencing June 30, 2022, unpaid dividends will be accreted to, and increase, the liquidation preference of the Convertible Preferred Stock. The initial liquidation preference is $1,000 per share. The Conversion Price is determined by dividing $1,000 by the Conversion Rate, as defined, which is initially 100 shares of Common Stock per $1,000 liquidation preference of Convertible Preferred Stock. Cumulative dividends of $0.8 million were accumulated and accreted to liquidation preference as of December 31, 2022. As of December 31, 2022, the aggregate liquidation preference of the Convertible Preferred Stock was approximately $10.3 million.

Long-term Debt Amendments. In July 2022, the Company entered into an amendment to is Loan, Guaranty and Security Agreement (the "LGSA"). This amendment provides for an additional $50.0 million term loan facility (the "New Term Facility"). The New Term Facility has a maturity date of December 1, 2024, consistent with the existing term loans under the LGSA. The interest rate with respect to the New Term Facility is consistent with the existing term loans under the LGSA, but is subject to increase upon the occurrence of certain conditions. Pursuant to the New Term Facility, funds can be drawn in three tranches. The $15.0 million first tranche was drawn at closing in July 2022, and the subsequent tranches of up to $35 million may be drawn at Company's option, subject to certain conditions, including the raising of matching junior capital, as defined. The amortization with respect to the first tranche of the New Term Facility is consistent with existing term loans under the LGSA. The loans under the subsequent tranches of the New Term Facility are repayable in quarterly installments on (i) April 5, 2024 and July 8, 2024, equal to 12.50% of the original principal amount advanced under such tranches under the LGSA and (ii) October 7, 2024, equal to 37.5% of the original principal amount advanced under such tranches of the LGSA. The New Term Facility required the Company to extend the initial term of the Ground Lease from five years to eight years. In connection with the New Term Facility, the Company issued warrants to the lenders under the New Term Facility to purchase 5,787,732 shares of Common Stock at $0.01 per share, an aggregate number of shares of the Company's Common Stock equal to 5.0% of the fully diluted equity of the Company. If the Company draws subsequent tranches, it is required to issue warrants to the lenders to purchase shares of the Company's Common Stock equal to dilution of 3.75% and 4.25% of the then fully diluted equity of the Company, respectively. A certain portion of the Warrants issued under the Warrant Agreement were subject to cancellation, upon the occurrence of certain conditions.; however, the time period for potential warrant cancellation has expired and no warrants were cancelled. In October 2022, the Company entered into a third amendment (the "Third Amendment") to the LGSA. The Third Amendment divides the initial funding of up to $15,000,000 of the delayed draw term loan commitment under the LGSA into two tranches of up to $7,500,000 each. The first tranche of $7,500,000 was borrowed upon the effectiveness of the Third Amendment on October 7, 2022. In connection with the Third Amendment described above, the Company entered into an amendment and restatement of the warrant agreement related to the New Term Facility. The amended and restated warrant agreement provides that holders party thereto are entitled to additional warrants to purchase an aggregate number of shares of Common Stock equal to an incremental 3.75%, to be divided into two separate increments of 1.875% each, of the fully diluted equity of the Company, determined on the date of the funding of the two separate sub-tranches of $7,500,000 each pursuant to the Third Amendment. On October 7, 2022. the Company issued warrants to purchase 2,667,678 shares of Common Stock at $0.01 per share.

Convertible Promissory Notes. In November 2022, the Company issued convertible promissory notes (the "Convertible Notes") in an aggregate principal amount of approximately $3.4 million to certain accredited investors, including to members of Company management in the amount of $1.7 million. The Convertible Notes were issued in privately negotiated transactions as part of a private placement exempt from registration under the Securities Act of 1933, as amended. The Convertible Notes, which contain usual and customary antidilution provisions, have a maturity date of April 1, 2025 and accrue annual interest at a rate of 4%, which increases to 15% upon the occurrence of an event of default, as defined. The Convertible Notes are automatically convertible into shares of equity securities of the Company upon the closing of a Qualified Financing, as defined in the Convertible Notes as the issuance and sale of equity securities with an aggregate gross sales price of not less than $5.0 million, with certain sales of equity securities excluded, at a conversion price equal to the price per share paid by the investors purchasing such equity securities in such Qualified Financing. On December 12, 2022, the Company entered into a private placement which met the definition of a Qualified Financing and contemporaneously amended the Convertible Notes to (a) change the conversion date to March 1, 2023 and (b) allow for the conversion price to be reduced if an additional Qualified Financing were to occur prior to the conversion date at a price lower than the then existing Convertible Note conversion price. As of December 31, 2022, the conversion price was $0.40 per share of Common Stock.

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SEPA. On June 2, 2022, in order to facilitate additional capital acquisition, the Company entered into the Standby Equity Purchase Agreement ("SEPA") with YA II PN, Ltd. ("Yorkville"). Pursuant to the SEPA, the Company shall have the right, but not the obligation, to sell to Yorkville up to $50.0 million of its shares of Common Stock, at the Company's request any time during the commitment period commencing on June 2, 2022 and terminating on the earliest of (i) the first day of the month following the 36-month anniversary of the SEPA and (ii) the date on which Yorkville shall have made payment of any advances requested pursuant to the SEPA for shares of the Common Stock equal to the commitment amount of $50.0 million. In addition to the Company's right to request Advances, subject to certain conditions precedent, the Company had the option to, but was not obligated to, effect a pre-advance loan with a principal amount of $15.0 million through the issuance and sale to Yorkville of a convertible promissory note (the "Promissory Note"). The Company elected to issue and sell the Promissory Note to Yorkville on June 2, 2022. As of December 31, 2022, the Company sold 91,405 shares of Common Stock for net proceeds of $250,000. The Company fully repaid the Promissory Note, substantially in cash, and the SEPA has been cancelled as of December 31, 2022.

The Company has invested $61.1 million and $109.1 million in the buildout of mining facilities for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively, and $46.2 million and $82.1 million in the Nautilus joint venture for the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively. The Lake Mariner facility commenced operations in March 2022 and the Nautilus Cryptomine Facility commenced operations in February 2023. These facilities are expected to reach an aggregate 160 MW of net bitcoin mining capacity with a capacity to support 50,000 miners and over 5.5 EH/s of computational power by early in the second quarter of 2023.

Subsequent to December 31, 2022, the Company accomplished several notable steps toward achieving near term positive cash flows from operations, namely: (1) the Company amended its long-term debt agreement to, among other changes, remove the fixed principal amortization through April 7, 2024 and, potentially, beyond, (2) through the issuance of Common Stock, Common Stock warrants and convertible promissory notes, the Company received net proceeds of $34.3 million, which along with cash flow from operations, is expected to be sufficient to satisfy the Company's final capital expenditure requirements, other obligations and operating expenses in the months prior to achieving a free cash flow positive enterprise (3) mining activities have commenced at the Nautilus Facility and the Company deems that it has funded all known and expected capital commitments, (4) the Company received materially all contracted miners from the miner suppliers and has no remaining outstanding financial commitments under the miner purchase agreements, (5) the received miners are sufficient to fully utilize mining capacity both in service and under construction at the Lake Mariner Facility and the Nautilus Cryptomine Facility and (6) the remaining construction activities at the Lake Mariner Facility and the Nautilus Cryptomine Facility are currently ongoing and expected to be complete in the second quarter of 2023. The Company has determined that it is probable that these actions will allow the Company to generate positive cash flows from operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business and, therefore, there is no longer substantial doubt about the Company's ability to continue as a going concern through at least the next twelve months. The consolidated financial statements do not include any adjustments that might result from TeraWulf's possible inability to continue as a going concern.

However, the ability to raise funds , if required, through the sale of equity, debt financings, or the sale of bitcoin to expand and maintain our operations is subject to many risks and uncertainties and, even if we were successful, future equity issuances or convertible debt or preferred stock offerings could result in dilution to our existing stockholders and any future debt or debt securities may contain covenants that limit our operations or ability to enter into certain transactions. Our ability to realize revenue through bitcoin mining and successfully convert bitcoin into cash or fund overhead with bitcoin is subject to a number of risks, including regulatory, financial and business risks, many of which are beyond our control. Additionally, bitcoin has experienced significant historical volatility in its market price and, as such, future prices cannot be predicted. See the discussion of risks affecting the Company's business under Part I, Item 1A. "Risk Factors" of this Annual Report.

Critical Accounting Policies and Estimates

The above discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the Company's consolidated financial statements requires the application of accounting policies and the use of estimates. The accounting policies most important to the preparation of the consolidated financial statements and estimates that require management's most difficult, subjective or complex judgments are described below.

See Note 2 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for a summary of the Company's significant accounting policies.

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Variable Interest Entities

Variable interest entities ("VIE") are legal entities in which equity investors do not have (i) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, or (ii) as a group, the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (iii) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. The Company would consolidate any VIE in which it has a controlling financial interest through being deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both characteristics are met, the Company considers itself to be the primary beneficiary and therefore will consolidate that VIE into its consolidated financial statements.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with a VIE and reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether an entity is a VIE and whether the Company is the primary beneficiary of a VIE is based upon facts and circumstances for the VIE and requires significant judgments such as whether the entity is a VIE, whether the Company's interest in a VIE is a variable interest, the determination of the activities that most significantly impact the economic performance of the entity, whether the Company controls those activities, and whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

In 2021, the Company entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), with an unrelated co-venturer to develop, construct and operate a bitcoin mining facility in Pennsylvania. Due to the initial nature of the joint venture and the continued commitment for additional financing, the Company determined Nautilus is a VIE. While the Company has the ability to exercise significant influence over Nautilus, the Company has determined that it does not have the power to direct the activities that most significantly impact the economic performance of Nautilus. Initially, the power to direct the activities of Nautilus that most significantly impact Nautilus' economic performance were shared equally by both parties within the joint venture due to the requirement for both equity holders to approve many of the key operating decisions and when not equally shared, were predominantly under the control of the co-venturer, including through the co-venturer's majority representation on the board of managers. As such, the Company has determined that it is not the primary beneficiary of Nautilus and, therefore, has accounted for this entity under the equity method of accounting. Risks associated with the Company's involvement with Nautilus include a commitment to potentially fund additional equity investments. During the year ended December 31, 0222, the Company reduced its ownership interest in Nautilus to 25.2%.

Mining Pool

The Company has entered into an arrangement with a cryptocurrency mining pool (the Foundry USA Pool) to provide computing power to the mining pool in exchange for consideration. The arrangement is terminable at any time without substantial penalty by either party and the contract term is deemed to be 24 hours. The Company's enforceable right to compensation only begins when and continues while the Company provides computing power to its customer, the mining pool operator. The mining pool applies the Full Pay Per Share ("FPPS") model. Under the FPPS model, in exchange for providing computing power to the pool, the Company is entitled to pay-per-share base amount and transaction fee reward compensation, calculated on a daily basis, at an amount that approximates the total bitcoin that could have been mined and transaction fees that could have been awarded using the Company's computing power, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

Providing computing power to a mining pool for cryptocurrency transaction verification services is an output of the Company's ordinary activities. The provision of such computing power is the sole performance obligation. The transaction consideration the Company receives, if any, is non-cash consideration and is all variable. Because cryptocurrency is considered non-cash consideration, fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency in the Company's principal market at the time of contract inception, which is deemed daily. Revenue is recognized when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. After every 24-hour contract term, the mining pool transfers the cryptocurrency consideration to our designated cryptocurrency wallet.

There is no significant financing component in these transactions. There may be, however, consideration payable to the customer in the form of a pool operator fee; this fee, if any, is deducted from the proceeds the Company receives and is recorded as contra-revenue, as it does not represent a payment for a distinct good or service.

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Data Center Hosting

The Company's current hosting contracts are service contracts with a single performance obligation. The service the Company provides primarily includes hosting the customers' miners in a physically secure data center with electrical power, internet connectivity, ambient air cooling and available maintenance resources. Hosting revenue is recognized over time as the customer simultaneously receives and consumes the benefits of the Company's performance. The Company recognizes hosting revenue to the extent that a significant reversal of such revenue will not occur. Data center hosting customers are invoiced and payments are due on a monthly basis. While the majority of consideration is paid in cash, certain consideration is payable in cryptocurrency. Because cryptocurrency is considered non-cash consideration, fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency in the Company's principal market at the time of contract inception. The Company has one data center hosting contract with a customer, which expires in December 2023, for which the quoted price of bitcoin in the Company's principal market at the time of contract inception was approximately $38,000. The Company recorded miner hosting revenue of $4.6 million and $0 during the year ended December 31, 2022 and the period February 8, 2021 (date of inception) to December 31, 2021, respectively.

Cryptocurrencies

Cryptocurrencies, including bitcoin, are included in current assets in the consolidated balance sheets due to the Company's ability to sell it in a highly liquid marketplace and its intent to liquidate its cryptocurrencies to support operations when needed. Cryptocurrencies earned by the Company through the provision of computing power to a mining pool and hosting activities are accounted for in connection with the Company's revenue recognition policy disclosed above.

Cryptocurrencies are accounted for as intangible assets with indefinite useful lives. An intangible asset with an indefinite useful life is not amortized but assessed for impairment on a continuous basis through the entirety of its holding period. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the cryptocurrency at the time its fair value is being measured, which is based on the intraday low quoted price of the cryptocurrency reported in the Company's principal market. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted.

Sales of cryptocurrencies by the Company and cryptocurrencies awarded to the Company, including as compensation for data center hosting services, are included within cash flows from operating activities on the consolidated statements of cash flows. The Company will account for its gains or losses in accordance with the first in first out ("FIFO") method of accounting.

Issuance of Debt with Common Stock or Warrants; Debt Modification

On December 1, 2021, TeraCub entered into a the LGSA, which consists of a $123.5 million term loan facility. In connection with the LGSA, the Company issued to the holders of the Term Loan 839,398 shares of Common Stock, which is a quantity of Common Stock representing 1.5% of the outstanding shares of the publicly registered shares of TeraWulf subsequent to the Closing. The allocation of proceeds between the debt instrument and any other components included in the debt issuance, including Common Stock, is generally based on the relative fair value allocation method. In applying the relative fair value allocation method, the determination of the fair value of the Common Stock issued and the fair value of the Term Loan independent of the Common Stock issued requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the Term Loan component would result in a $1.9 million change in the fair value allocated to each of the Term Loan and equity components.

In July 2022, the Company entered into the First Amendment to the LGSA, which included an additional borrowing of $15.0 million and the issuance of warrants to purchase 3,472,640 shares of Common Stock at $0.01 per share. The accounting for debt modifications is complex and requires significant judgment. Potential accounting outcomes include troubled debt restructuring accounting, extinguishment accounting or modification accounting, each with different implications for the consolidated financial statements. The Company has determined that modification accounting is applicable. Additionally, debt modification accounting requires the determination of the fair value of the warrants issued, which requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the warrants would result in a $0.3 million change in the recorded value of the borrowing under the First Amendment.

In October 2022, the Company entered into the Third Amendment to the LGSA, which included an additional borrowing of $7.5 million and the issuance of warrants to purchase 2,667,678 shares of Common Stock at $0.01 per share. The accounting for debt modifications is complex and requires significant judgment. Potential accounting outcomes include troubled debt restructuring

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accounting, extinguishment accounting or modification accounting, each with different implications for the consolidated financial statements. The Company has determined that modification accounting is applicable. Additionally, debt modification accounting requires the determination of the fair value of the warrants issued, which requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the warrants would result in a $0.2 million change in the recorded value of the borrowing under the Third Amendment.

Convertible Instruments

The Company accounts for its issuance of convertible debt and convertible equity instruments in accordance with applicable U.S. GAAP. In connection with that accounting, the Company assesses the various terms and features of the agreement in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 480 "Distinguishing Liabilities from Equity" ("ASC 480") and ASC 815 "Derivatives and Hedging Activities" ("ASC 815"). ASC 480 requires liability accounting for certain financial instruments, including shares that embody an unconditional obligation to transfer a variable number of shares, provided that the monetary value of the obligation is based solely or predominantly on one of the following three characteristics: (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the issuer's equity shares or (3) variations in the fair value of the issuer's equity shares, but the monetary value to the counterparty moves in the opposite direction as the value of the issuer's shares. In accordance with ASC 815, the Company assesses the various terms and features of the agreement to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Income Taxes

The Company accounts for income taxes pursuant to the provision of Accounting Standards Codification ("ASC") 740-10, "*Accounting for Income Taxes*" which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of the ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely that not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the Company's balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The most critical estimate for income taxes is the determination of whether to record a valuation allowance for any net deferred tax asset, including net loss carryforwards, whereby management must estimate whether it is more likely than not that the deferred tax asset would be realized.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the other Items included in this Annual Report and with the accompanying consolidated financial statements and notes thereto included elsewhere in this report. All figures presented below represent results from continuing operations, unless otherwise specified. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Consolidated Financial Statements. Unless the context otherwise requires, references in this Annual Report to the "Company," "TeraWulf," "we," "us" or "our" refers to TeraWulf Inc. and its consolidated subsidiaries. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations may be deemed forward-looking statements. See "Forward-Looking Statements."

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Overview

We are a leading digital asset technology firm that specializes in digital infrastructure and sustainable energy development. Our primary focus is supporting environmentally conscious bitcoin mining operations by developing and operating state-of-the-art facilities within the United States. Our bitcoin mining facilities are powered by clean, affordable, and reliable energy sources, underscoring our commitment to sustainable practices within the cryptocurrency mining industry.

Revenue Structure

Our primary source of revenue stems from the mining of bitcoin conducted at our sustainable mining facility sites. Additionally, we occasionally generate revenue through the provision of miner hosting services to third-party entities. We exclusively engage in bitcoin mining for our own purposes and do not facilitate bitcoin transactions for external parties.

Our industrial-scale bitcoin mining operations are strategically designed to optimize efficiency. This involves continuously expanding our hash rate, which represents the computational power dedicated to supporting the bitcoin blockchain. By doing so, we enhance our chances of successfully solving cryptographic hashes, thereby generating new blocks on the bitcoin blockchain—a process commonly known as "solving a block." Typically, a miner's likelihood of solving a block and earning the block reward is directly linked to the proportion of the bitcoin blockchain's total network hash rate that its hash rate represents.

Block rewards, which are fixed, undergo periodic reductions through halving events. The most recent halving occurred in May 2020, reducing the block reward from 12.5 to 6.25 bitcoin. Another halving, which is expected in April 2024, will further reduce the block reward to 3.125 bitcoin.

In addition to block rewards, bitcoin miners also earn transaction fees for confirming transactions. By validating unconfirmed transactions and incorporating them into new blocks within the blockchain, miners collect these fees. While miners are not obliged to confirm specific transactions, economic incentives drive them to validate legitimate transactions to earn fees. Historically, miners have accepted relatively low transaction fees, but these fees can vary, making future fee predictions challenging.

Presently, we liquidate the bitcoin mined as part of our routine treasury management processes to acquire U.S. dollars for operational, capital, or other corporate expenses. Our bitcoin holdings are securely stored in a cold storage wallet managed by our custodian, NYDIG Trust Company LLC, a duly chartered New York limited liability trust company ("NYDIG").

For our bitcoin mining operations, we utilize a third-party mining pool operated by Foundry Digital LLC ("Foundry"). At the close of each day, the bitcoin we have earned is transferred by Foundry to our custodial wallet address at NYDIG. We abstain from engaging in the direct sale of our bitcoin on any exchange. Instead, we rely on NYDIG to handle the sale of our mined bitcoin in accordance with our execution agreement with NYDIG, as detailed further in the "Risk Factors" section herein. Our bitcoin sales occur on a daily, weekly, and monthly basis.

Bitcoin and Blockchain

Bitcoin, introduced in 2008, fundamentally transformed the landscape of digital currency by providing a decentralized mechanism for exchanging and preserving value. It operates on a consensus-based network, utilizing a public ledger termed as the "blockchain" to meticulously record every bitcoin transaction. TeraWulf's fully integrated bitcoin mining facilities capitalize on zero-carbon energy sources, primarily sourced from baseload nuclear and hydroelectric power.

Bitcoin mining involves validating transactions through a proof-of-work consensus method, where miners solve complex mathematical problems to add transactions to the blockchain. TeraWulf invests in computation networks (mining rigs) equipped with application-specific integrated circuit ("ASIC") chips and secures power to validate transactions and maintain the bitcoin ledger. Factors such as computing capacity, electricity costs, and location play pivotal roles in mining operations.

Our Facilities

TeraWulf currently conducts its bitcoin mining operations at two established data centers: the Lake Mariner facility in upstate New York (the "Lake Mariner Facility") and the jointly owned Nautilus facility located in central

Pennsylvania (the "Nautilus Cryptomine Facility"). As of December 31, 2023, 95% of TeraWulf's mining operations were fueled by zero-carbon energy, reflecting our dedication to sustainability. The Company's ongoing objective is to achieve complete reliance on zero-carbon energy sources.

As of December 31, 2023, these two industrial scale projects had a combined operating capacity of 5.5 EH/s with approximately 48,900 miners deployed, comprised of 33,100 operational miners at the Lake Mariner Facility (including 4,800 hosted miners) and 15,800 self-miners at the Nautilus Cryptomine Facility. As of the date of this Annual Report, the Company has a total operational capacity of 210 megawatts ("MW") and is currently constructing an additional 35 MW at its Lake Mariner Facility, which is expected to be operational in mid-2024.

Lake Mariner Facility

Located at a site adjacent to the now decommissioned coal-fired power plant in Barker, New York, the Lake Mariner Facility began sustainably mining bitcoin in March 2022. As of December 31, 2023, the Lake Mariner Facility was operating approximately 115 megawatt ("MW") of bitcoin mining capacity and as of the date of this Annual Report, the Company has expanded its Lake Mariner Facility infrastructure to 160 MW of bitcoin mining capacity at the site. The Company has an agreement in place with the Power Authority of the State of New York ("NYPA") for 90 MW of high load factor power to support its bitcoin mining operations (the "PPA"). The PPA was executed on February 12, 2022 and has a term of ten years from the date of commencement of NYPA's power delivery. The Lake Mariner Facility is situated on an expansive site on the shores of Lake Ontario and has the ability to scale up to 500 MW of capacity.

As of December 31, 2023, we owned approximately 30,100 miners, exclusive of the 4,800 hosted miners, of which approximately 28,300 are operational at the Lake Mariner Facility with the remainder undergoing maintenance or on standby to replace miners under repair. These miners were comprised as follows:

Vendor and Model	Number of miners
Bitmain S19 Pro	6,700
Bitmain S19 XP	6,300
Bitmain S19j Pro	11,800
MinerVA M7	4,100
Whatsminer M30S+	1,200
	30,100

As of December 31, 2023, our fleet of miners ranged in age from 0.4 to 1.6 years and have an average age of approximately 0.8 years. We do not have scheduled downtime for our miners; however, while we periodically perform unscheduled maintenance on our miners, such downtime has not been significant historically. When performing unscheduled maintenance, depending on the length of estimated repair time, we may replace a miner with a substitute miner to limit overall downtime. Our fleet of miners at the Lake Mariner Facility had a range of energy efficiency from 22.0 to 39.0 joules per terahash ("j/th") and has an average energy efficiency of 28.8 j/th.

Nautilus Cryptomine Facility

Located in Berwick, Pennsylvania, Nautilus Cryptomine LLC ("Nautilus") is a joint venture between TeraWulf and a subsidiary of Talen Energy Corporation ("Talen"). Nautilus currently owns a 200 MW bitcoin mining facility located adjacent to the 2.5 gigawatt nuclear-powered Susquehanna Station. The Nautilus Cryptomine Facility represents the first bitcoin mining facility site that is powered by 100% "behind the meter" zero-carbon nuclear energy, which is contracted at a fixed rate of 2.0 cents per kilowatt-hour for a term of five years with two successive three-year renewal options. Under the Nautilus joint venture agreement, the Company holds a 25% equity interest in Nautilus and Talen holds a 75% equity interest, each subject to adjustment based on relative capital contributions. TeraWulf began mining bitcoin at the Nautilus Cryptomine Facility in the first quarter of 2023 and, as of December 31, 2023, had 50 MW of operational bitcoin mining capacity at the Nautilus Cryptomine Facility. On February 28, 2024, the Company exercised its option to increase its energy requirement at the Nautilus Cryptomine Facility by an incremental 50 MW (for a total of 100 MW attributable to TeraWulf).

As of December 31, 2023, approximately 48,000 miners have been deployed at the Nautilus Cryptomine Facility of which 46,000 are operational with the remainder undergoing maintenance or on standby to replace miners under repair.

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Approximately 15,800 of the deployed miners are attributed to TeraWulf's contributions to Nautilus in order to utilize TeraWulf's allotted 50 MW of bitcoin mining capacity. These miners are comprised as follows:

Vendor and Model	Number of miners
Bitmain S19 Pro	6,300
Bitmain S19 XP	7,100
Bitmain S19j Pro	2,400
	15,800

As of December 31, 2023, these miners ranged in age from 0.7 to 0.8 years and have an average age of approximately 0.8 years. Nautilus does not have scheduled downtime for miners; however, while Nautilus periodically performs unscheduled maintenance on miners, such downtime has not been significant historically. When performing unscheduled maintenance, depending on the length of estimated repair time, Nautilus may replace a miner with a substitute miner to limit overall downtime. These miners have a range of energy efficiency from 22.0 to 30.0 j/th and an average energy efficiency of 25.5 j/th. While the Company holds a 25% equity interest in Nautilus, the distributions of mined bitcoin are determined by each of TeraWulf's and Talen's respective hashrate contributions. Accordingly, the Company has contributed approximately 1.9 EH/s of a total 5.2 EH/s of miners which results in an approximate 35.7% of the hashrate share attributed to the Company.

Combined Facilities

As described above, there are a variety of factors that influence our ability to mine bitcoin profitably, including bitcoin's value in USD, mining difficulty global hashrate, power prices, fleet energy efficiency, data center energy efficiency and other factors. The energy efficiency of a mining fleet drives profitability, because the most significant direct expense for bitcoin mining is power. We believe we operate a highly efficient fleet of miners. The Company uses the following metrics as indicators of operational progress and effectiveness and believes they are useful to investors for the same purposes and to provide comparisons to peer companies.

The table below presents our miner efficiency and computing power as compared to the global computing power as of December 31, 2023.

Combined facilities[1]	As of December 31, 2023
Global hashrate (EH/s)[2]	558.4
Miner efficiency (w/th)[3]	27.6
TeraWulf combined average operating hashrate (EH/s)[4]	5.0
TeraWulf % of Global hashrate	0.9 %

[1] Results reflect hashrate of mining operations at the Lake Mariner Facility and TeraWulf's net share of hashrate produced at the Nautilus Cryptomine Facility.
[2] Total global hashrate obtained from YCHARTS (https://ycharts.com/indicators/bitcoin_network_hash_rate)
[3] Joules of energy required to produce each terahash of processing power
[4] While nameplate inventory for TeraWulf's two facilities is 5.5 EH/s, inclusive of gross total hosted miners, actual monthly hashrate performance depends on a variety of factors, including (but not limited to) performance tuning to increase efficiency and maximize margin, scheduled outages (scopes to improve reliability or performance), unscheduled outages, curtailment due to participation in various cash generating demand response programs, derate of ASICS due to adverse weather and ASIC maintenance and repair.

As of December 31, 2023, our operating hashrate was approximately 0.9% of the total global hashrate, and we received approximately the same percentage of the global blockchain rewards, which as of that date, equaled approximately 10 to 11 bitcoin per day. Ultimately, in order to mine profitably, we work to ensure that these mining rewards cover our direct operating costs.

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The table below presents the average cost of mining each bitcoin, including bitcoin mined at the Lake Mariner Facility and the Company's net share of bitcoin mined at the Nautilus Cryptomine Facility, for the year ended December 31, 2023 and the total energy cost per kWh utilized within the facilities.

Cost of mining - Analysis of costs to mine one bitcoin	**Year Ended December 31, 2023**
Cost of mining - Lake Mariner Facility and net share of the Nautilus Cryptomine Facility	
Cost of energy per bitcoin mined	$ 8,676
Other direct costs of mining - non energy utilities per bitcoin mined	$ 29
Cost to mine one bitcoin	$ 8,705
Value of each bitcoin mined[1]	$ 29,645
Cost to mine one bitcoin as % of value of bitcoin mined	29.4 %
Statistics	
Lake Mariner Facility and net share of the Nautilus Cryptomine Facility	
Total bitcoin mined[2]	3,343
Total value of bitcoin mined[1] *($ in thousands)*	$ 99,105
Total kWhs utilized	910,743,637
Total energy expense, net of expected demand response proceeds[3] *($ in thousands)*	$ 29,006
Cost per kWh	$ 0.032
Energy expense, net as % of value of bitcoin mined	29.3 %
Other direct costs of mining *($ in thousands)*	$ 97

[1] Computed as the weighted-average opening price of bitcoin on each respective day the mined bitcoin is earned. Excludes bitcoin earned from profit sharing associated with a hosting agreement that expired in February 2024 at the Lake Mariner Facility.
[2] Excludes bitcoin earned from profit sharing associated with a hosting agreement that expired in February 2024 at the Lake Mariner Facility of 51 bitcoin for the year ended December 31, 2023, and includes TeraWulf's net share of bitcoin mined at the Nautilus Cryptomine Facility, based on the hashrate share attributed to the Company.
[3] Excludes energy expenses associated with a hosting agreement that expired in February 2024 at the Lake Mariner Facility and includes TeraWulf's net share of energy expense at the Nautilus Cryptomine Facility, based on aggregate nameplate power consumption of deployed miners attributed to TeraWulf's contribution to Nautilus.

Power prices are the most significant cost driver for our bitcoin mining operations, and energy expense represented 29.3% as expressed as a percentage of value of bitcoin mined during the year ended December 31, 2023.

Energy prices can be highly volatile and global events (including the war in Ukraine and the resulting natural gas shortage) have caused power prices to increase nationwide over the past year. Our wholly-owned Lake Mariner Facility in New York is subject to variable prices and market rate fluctuations with respect to wholesale power costs. Such prices are governed by market power prices and said prices can change hour to hour. While this renders energy prices less predictable, it also gives us greater ability and flexibility to actively manage the energy we consume with an eye towards increasing profitability and energy efficiency. Energy prices are also highly sensitive to weather events, such as winter storms and polar vortices, which increase the demand for power regionally. When such events occur, we may curtail our operations to avoid using power at increased rates or we may be curtailed under demand response programs in which we participate. The average aggregate power prices incurred at the Lake Mariner Facility and the Nautilus Cryptomine Facility during the year ended December 31, 2023 was $0.032 per kilowatt hour.

The management team makes real-time determinations on the need and timing during which we should curtail. If not otherwise curtailed under demand response programs, we curtail when power prices exceed the value we would receive for the corresponding fixed bitcoin reward. This means if bitcoin's value decreases or energy prices increase, our curtailment will increase; likewise, when bitcoin's value increases and energy prices decrease, our curtailment will decrease. The management team manages this decision on an hour-by-hour basis.

During the year ended December 31, 2023, the Company curtailed operations at the Lake Mariner Facility due to weather events, energy price spikes, and demand response program participation. The Company records expected payments to be received for demand response programs as a reduction in cost of revenue, which amounted to $3.5 million for the year ended December 31, 2023.

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The Company has purchased all miners with cash and has not used limited recourse equipment financing to complete its miner purchases. The Company has raised capital through both the issuance of equity and corporate level debt. These funds have been utilized to support operations, invest in our joint ventures, purchase miners and other fixed assets. Costs related to such issuances are not included in this analysis. Additionally, miner acquisition costs, or capital expenditures, are not factored into the above cost of mining analysis as capital expenditures do not impact the marginal cost of production of one bitcoin. Miner acquisition costs, or capital expenditures, are recorded at cost in property, plant and equipment in the consolidated balance sheets. Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the equipment: generally 4 years for miners and 5 years for computer equipment. While we currently depreciate our miners over a 4-year period, given our historical low cost of power ($0.032 per kilowatt-hour for the year ended December 31, 2023), it is possible the average actual useful life of our miners may exceed the depreciation period in certain circumstances. Nevertheless, if depreciation of our miner fleet were factored into the above cost of mining analysis, it would add $11,187 per bitcoin mined in the year ended December 31, 2023.

The estimation of asset useful lives requires management judgement, including consideration of historical operating data, which is limited in the industrial-scale bitcoin mining space given the advent of next-generation mining rigs primarily used by the Company's bitcoin mining operations. Depreciation periods can be adjusted periodically if an event, regulatory action, or change in retirement patterns indicates an update is necessary. Additionally, management considers expected future energy market prices and conditions, operating costs, maintenance practices and capital investment requirements in determining the estimated useful lives of our equipment and reassesses the reasonableness of estimated useful lives whenever events or changes in circumstances warrant. When a determination has been made that an asset will be retired or extended before or after the end of its current estimated useful life, depreciation provisions will be accelerated or extended to reflect the shortened or lengthened estimated useful life, which could have a material unfavorable or favorable impact on future results of operations.

The Business Combination

TeraWulf completed its business combination with IKONICS Corporation ("IKONICS") on December 13, 2021 (the "Closing Date") pursuant to which, among other things, TeraCub Inc. ("TeraCub," formerly known as TeraWulf Inc.) would effectively acquire IKONICS and become a publicly traded company on the Nasdaq, which was the primary purpose of the business combination. Under the terms of the Merger Agreement, each share of IKONICS common stock issued and outstanding immediately prior to the Closing Date was automatically converted into and exchanged for (i) one validly issued, fully paid and nonassessable share of Common Stock of TeraWulf, (ii) one contingent value right ("CVR") pursuant to a Contingent Value Rights Agreement between TeraWulf and IKONICS (the "CVR Agreement"), and (iii) the right to receive $5.00 in cash, without interest. TeraCub common stock issued and outstanding immediately prior to the Closing Date was automatically converted into the right to receive a number of validly issued, fully paid and nonassessable shares of TeraWulf such that the TeraCub common stockholders prior to conversion would effectively control 98% of the total outstanding shares of TeraWulf immediately subsequent to the Closing Date.

Pursuant to the CVR Agreement, each shareholder of IKONICS as of immediately prior to the Closing Date, received one CVR for each outstanding share of common stock of IKONICS then held. The holders of the CVRs are entitled to receive 95% of the Net Proceeds (as defined in the CVR Agreement), if any, from the sale, transfer, disposition, spin-off, or license of all or any part of the pre-merger business of IKONICS completed within 18 months following the date of the merger, subject to a reserve of up to 10% of the Gross Proceeds (as defined in the CVR Agreement) from such transaction and such other amount to be retained to satisfy Retained Liabilities, as defined. The CVRs do not confer to their holders any voting or equity or ownership interest in IKONICS or TeraWulf and are not transferable, except in limited circumstances, and are not listed on any quotation system or traded on any securities exchange. The CVR Agreement will terminate after all payment obligations to the holders thereof have been satisfied. Holders of CVRs will not be eligible to receive payment for dispositions, if any, of any part of the pre-merger business of IKONICS after the eighteen-month anniversary of the Closing Date. As of December 31, 2022, the CVR liability included in the Company's consolidated balance sheet was $10.9 million. During the year ended December 31, 2022, the Company completed sales of all IKONICS' net assets held for sale for net proceeds of $13.2 million, of which $7.0 million remained in escrow under provisions of an asset purchase agreement as of December 31, 2022. Subsequent to the asset sales, IKONICS' name was changed to RM 101 Inc. ("RM 101") and the entity has no remaining operations or employees.

In February 2023, all escrowed funds were released to the Company and during the year ended December 31, 2023, the Company made various CVR payments, including (i) a CVR payment of $3.9 million in February 2023 related to the quarterly calculation for the fourth quarter of 2022, (ii) a CVR payment of $5.7 million in May 2023 related to the quarterly calculation for the first quarter of 2023, and (iii) the final CVR payment of $1.4 million in November 2023. In accordance with the CVR Agreement, as of December 31, 2023, all IKONICS' net assets previously held for sale had been

sold and the Company has made all of the aggregate distributions of $11.0 million of proceeds to the CVR Holders such that the CVR Agreement was deemed terminated as of December 31, 2023.

Upon the consummation of the business combination, RM 101 common stock ceased trading on the Nasdaq and TeraWulf Common Stock began trading on the Nasdaq on December 14, 2021 under the ticker symbol "WULF."

Results of Operations

The Company generates revenue in the form of bitcoin by providing hash computation services to a mining pool operator to mine bitcoin and validate transactions on the global Bitcoin Network using application-specific integrated circuit computers owned by the Company. The earned bitcoin are routinely sold for U.S. dollars. The Company also earns revenue by providing miner hosting services to third parties. In 2023, the Company established WULF Compute as its internal innovation center, with a specific focus on the research, development, and deployment of its expansive and scalable digital infrastructure. Subsequent to a successful pilot phase involving a compact graphics processing unit ("GPU") system designed to bolster generative AI and large language model applications, the Company made an initial commitment by allocating a 2 MW power block at the Lake Mariner Facility located in upstate New York (the "Lake Mariner Facility"). This allocation is intended to support a broader high-performance computing ("HPC") initiative, strategically aimed at diversifying the Company's revenue streams. While the Company may choose to mine other digital currencies or pursue other data center services in the future, it has no plans to do so currently. The Company's plan of operation for the next twelve months is to continue to increase the mining capacity at its operating mining facilities and to complete the construction of the fourth building at its Lake Mariner Facility.

Revenue and Cost of Revenue

The following table presents revenue and cost of revenue (exclusive of depreciation) (in thousands):

	Year Ended December 31,	
	2023	2022
Revenue	$ 69,229	$ 15,033
Cost of revenue (exclusive of depreciation)	$ 27,315	$ 11,083

Revenue for the years ended December 31, 2023 and 2022 was $69.2 million and $15.0 million, respectively, an increase of $54.2 million. The increase was due primarily to the increase in mining and hosting capacity due to infrastructure constructed and placed in service in the latter half of the year ended December 31, 2022 and during the year ended December 31, 2023. The Company began mining bitcoin at the Lake Mariner Facility in March 2022 and as of December 31, 2023, the Company had energized two buildings and additional infrastructure comprising 115 MW of capacity. During the years ended December 31, 2023 and 2022, revenue from mining was $61.7 million and $10.5 million, respectively, and revenue from hosting was $7.5 million and $4.6 million, respectively.

Cost of revenue (exclusive of depreciation) for the years ended December 31, 2023 and 2022 was $27.3 million and $11.1 million, respectively, an increase of approximately $16.2 million. The increase was primarily due to the increase in mining and hosting capacity due to infrastructure constructed and placed in service between December 31, 2022 and December 31, 2023 at the Lake Mariner Facility. Cost of revenues is comprised primarily of power expense and, to a lesser degree, the cost of services provided under our miner hosting agreements. The Company records proceeds related to participation in demand response programs as a reduction in cost of revenue in the period corresponding to the underlying demand response program period; the amount of aggregate proceeds received or expected to be received were $3.5 million and $0.1 million for the years ended December 31, 2023 and 2022, respectively. The Company is actively expanding its enrollment in such available programs in New York.

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Costs and Expenses

The following table presents operating expenses (in thousands):

	Year Ended December 31,	
	2023	2022
Operating expenses	$ 2,116	$ 2,038
Operating expenses - related party	2,773	1,248
	$ 4,889	$ 3,286

Operating expenses (including related party expenses) for the years ended December 31, 2023 and 2022 were approximately $4.9 million and $3.3 million, respectively, a net increase of $1.6 million. During the year ended December 31, 2023, operating expenses increased slightly due to increases in repair costs and property insurance offset by lower equipment lease expense as compared to the prior year, while operating expenses – related party, which is paid to a related party which provides services to its Lake Mariner Facility, increased due to increased staffing at the Lake Mariner Facility related to infrastructure constructed and placed in service between December 31, 2022 and 2023 and additionally, to a lesser degree, by an increase in ground lease expense.

The following table presents selling, general and administrative expenses (in thousands):

	Year Ended December 31,	
	2023	2022
Selling, general and administrative expenses	$ 23,693	$ 22,770
Selling, general and administrative expenses - related party	13,325	13,280
	$ 37,018	$ 36,050

Selling, general and administrative expenses (including related party expenses) for the years ended December 31, 2023 and 2022 were $37.0 million and $36.1 million, respectively, a net increase of $1.0 million. Selling, general and administrative expenses are comprised primarily of professional fees, legal fees, employee compensation and benefits, stock-based compensation to employees and consultants, insurance and general corporate expenses. The increases during the year ended December 31, 2023 as compared to the prior year were primarily due to increased expenses of (i) stock-based compensation of $4.3 million, (ii) employee compensation and benefits of $3.3 million, and (iii) related party expense to be settled with respect to common stock of $0.8 million. These increases were partially offset by decreases in legal fees of $3.7 million, insurance expense of $1.9 million, and professional fees of $1.7 million. As previously disclosed, the Company has undertaken cost reduction initiatives targeted at reducing its overall selling, general and administrative expenses that are expected to benefit its operating profitability going forward.

Depreciation for the years ended December 31, 2023 and 2022 was $28.4 million and $6.7 million, respectively. The increase was primarily due to the increase in mining capacity due to infrastructure constructed and placed in service between December 31, 2022 and December 31, 2023 at the Lake Mariner Facility.

Impairment of digital currency for the years ended December 31, 2023 and 2022 was $3.0 million and $1.5 million, respectively. Impairment of digital currency represents the decline in bitcoin prices during the Company's holding period of its bitcoin. Bitcoin impairment is not reversed during its holding period but instead a gain, if any, is recognized upon its liquidation. Realized gain on sale of digital currency, representing such gains on bitcoin liquidation, for the years ended December 31, 2023 and 2022 was $3.2 million and $0.6 million, respectively. In each case, the increase was due to increased bitcoin both earned and sold due to the increase in mining capacity between December 31, 2022 and December 31, 2023.

During the year ended December 31, 2023, the Company recorded a loss on disposal of property, plant and equipment of $1.2 million related to disposals of miners and write-off of deposits on miners. No loss on disposal of property, plant, and equipment was recorded during the year ended December 31, 2022.

During the year ended December 31, 2022, the Company recorded a loss on nonmonetary miner exchange of $0.8 million related to an exchange agreement with Nautilus. No loss on nonmonetary miner exchange was recorded during the year ended December 31, 2023.

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Interest expense for the years ended December 31, 2023 and 2022 was $34.8 million and $24.7 million, respectively, an increase of $10.1 million. Interest expense relates primarily to the Company's term loan financing in the principal amount of $139.4 million as of December 31, 2023 and $146.0 million as of December 31, 2022. The increase in interest expense during the year ended December 31, 2023 as compared to the prior year is primarily due to an increase of approximately $10.2 million of amortization of debt discount related to the term loan financing and an increase in related to the stated interest rate, which remained unchanged, on the term loan financing. The Company's term loan financing has a maturity date of December 1, 2024.

During the year ended December 31, 2022, the Company recorded a loss on extinguishment of debt of $2.1 million related to an October 2022 amendment to a convertible promissory note (the "Promissory Note") which was considered an extinguishment of debt under GAAP due the change in fair value of the embedded conversion feature of $1.6 million and the excess of the fair value of the amended Promissory Note of $9.4 million over the carrying value of the Promissory Note immediately prior to the modification.

Income tax benefit for the years ended December 31, 2023 and 2022 was $0 and $0.3 million, respectively. The decrease was do to, during the year ended December 31, 2022, the Company sold the net assets held for sale of IKONICS, resulting in reversal of existing net deferred tax liabilities and a related tax benefit of $0.3 million recorded in income tax benefit in the consolidated statement of operations. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a full valuation allowance against its gross deferred tax assets as of December 31, 2023 and 2022.

Equity in net loss of investee, net of tax

Equity in net loss of investee, net of tax for the years ended December 31, 2023 and 2022 was $9.3 million and $15.7 million, respectively. The amounts include an impairment loss of $13.6 million and $11.5 million for the years ended December 31, 2023 and 2022, respectively, related to the distribution of miners from Nautilus to the Company whereby the miners were marked to fair value from book value on the date distributed. The impairment loss was the result of decreasing prices for miners between initial purchase and distribution. In each case, the remaining amounts represent TeraWulf's proportional share of income or losses of Nautilus, which commenced principal operations in February 2023.

Loss from discontinued operations, net of tax

All items included in loss from continuing operations in the consolidated statements of operations for the years ended December 31, 2023 and 2022 relate to its wholly-owned operations of its sole business segment, digital currency mining, due to the Company presenting the RM 101 business as discontinued operations for the years ended December 31, 2023 and 2022.

Loss from discontinued operations, net of tax for the years ended December 31, 2023 and 2022 was $0.1 million and $4.9 million, respectively. The decrease was due to, for the year ended December 31, 2022, the loss from discontinued operations reporting being comprised primarily of an impairment loss on discontinued operations of $4.5 million to write down the related carrying amounts of IKONICS' net assets to their fair values less estimated cost to sell, offset by a remeasurement gain of $1.1 million on the CVRs, which represents the contingent consideration purchase price component of the RM 101 acquisition. For the year ended December 31, 2023, all assets of IKONICS had been sold prior to the start of the period and RM 101 had no operations or employees.

Non-GAAP Measure

To provide investors with additional information in connection with our results as determined in accordance with generally accepted accounting principals in the United States ("GAAP"), we disclose Adjusted EBITDA as a non-GAAP measure. This measure is not a financial measure calculated in accordance with GAAP, and it should not be considered as a substitute for net income, operating income, or any other measure calculated in accordance with GAAP, and may not be comparable to similarly titled measures reported by other companies.

We define Adjusted EBITDA as income (loss) from continuing operations adjusted for (i) impacts of interest, taxes, depreciation and amortization; (ii) preferred stock dividends, stock-based compensation expense and related party expense to be settled with respect to common stock, all of which are non-cash items that the Company believes are not reflective of its general business performance, and for which the accounting requires management judgment, and the resulting expenses could vary significantly in comparison to other companies; (iii) equity in net loss of investee, net of tax, related to Nautilus; (iv) costs related to non-routine regulatory activities, which costs management does not believe are

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reflective of the Company's ongoing operating activities; (v) other income which is related to interest income or income for which management believes is not reflective of the Company's ongoing operating activities; and (vi) gains and losses related to discontinued operations that are not be applicable to the Company's future business activities. The Company's Adjusted EBITDA also includes the impact of distributions from investee received in bitcoin related to a return on the Nautilus investment, which management believes, in conjunction with excluding the impact of equity in net loss of investee, net of tax, is reflective of assets available for the Company's use in its ongoing operations as a result of its investment in Nautilus.

Management believes that providing this non-GAAP financial measure allows for meaningful comparisons between the Company's core business operating results and those of other companies, and provides the Company with an important tool for financial and operational decision making and for evaluating its own core business operating results over different periods of time. In addition to management's internal use of non-GAAP Adjusted EBITDA, management believes that Adjusted EBITDA is also useful to investors and analysts in comparing the Company's performance across reporting periods on a consistent basis. Management believes the foregoing to be the case even though some of the excluded items involve cash outlays and some of them recur on a regular basis (although management does not believe any of such items are normal operating expenses necessary to generate the Company's bitcoin related revenues). For example, the Company expects that share-based compensation expense, which is excluded from Adjusted EBITDA, will continue to be a significant recurring expense over the coming years and is an important part of the compensation provided to certain employees, officers, directors and consultants. Additionally, management does not consider any of the excluded items to be expenses necessary to generate the Company's bitcoin related revenue.

The Company's Adjusted EBITDA measure may not be directly comparable to similar measures provided by other companies in the Company's industry, as other companies in the Company's industry may calculate non-GAAP financial results differently. The Company's Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to operating (loss) income or any other measure of performance derived in accordance with GAAP. Although management utilizes internally and presents Adjusted EBITDA, the Company only utilizes that measure supplementally and does not consider it to be a substitute for, or superior to, the information provided by GAAP financial results. Accordingly, Adjusted EBITDA is not meant to be considered in isolation of, and should be read in conjunction with, the information contained in the Company's consolidated financial statements, which have been prepared in accordance with GAAP.

The following table is a reconciliation of the Company's Adjusted EBITDA to its most directly comparable GAAP measure (i.e., net loss attributable to common stockholders) for the periods indicated (in thousands):

	Year Ended December 31,	
	2023	2022
Net loss attributable to common stockholders	$ (74,495)	$ (91,574)
Adjustments to reconcile net loss attributable to common stockholders to non-GAAP adjusted EBITDA:		
Preferred stock dividends	1,074	783
Loss from discontinued operations, net of tax	129	4,857
Equity in net (income) loss of investee, net of tax, related to Nautilus	9,290	15,712
Distributions from investee, related to Nautilus	21,949	—
Income tax expense (benefit)	—	(256)
Interest expense	34,812	24,679
Depreciation	28,350	6,667
Amortization of right-of-use asset	1,001	303
Stock-based compensation expense	5,859	1,568
Related party expense to be settled with respect to common stock	2,917	2,083
Costs related to non-routine regulatory activities	—	996
Other income	(231)	—
Non-GAAP adjusted EBITDA	$ 30,655	$ (34,182)

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Liquidity and Capital Resources

As of December 31, 2023, the Company had balances of cash and cash equivalents of $54.4 million, a working capital deficiency of $92.1 million, total stockholders' equity of $222.5 million and an accumulated deficit of $259.9 million. The Company incurred a net loss attributable to common stockholders of $74.5 million for the year ended December 31, 2023. The Company began mining bitcoin in March 2022 and had 5.5 EH/s of operating capacity across the Lake Mariner Facility and the Nautilus Cryptomine Facility as of December 31, 2023, which increased to 7.9 EH/s upon energization of the third building at the Lake Mariner Facility during the first quarter of 2024. To date, the Company has relied primarily on proceeds from its issuances of debt and equity and sale of bitcoin, both self-mined and distributed from the joint venture which owns the Nautilus Cryptomine Facility (see Note 11), to fund its principal operations. TeraWulf expects to fund its business operations and incremental infrastructure buildout primarily through positive cash flows from operations, including sales of bitcoin, both self-mined and distributed from the joint venture which owns the Nautilus Cryptomine Facility (see Note 11), cash on the balance sheet and the issuance of equity securities.

The principal uses of cash are for the operation and buildout of mining facilities, debt service, and general corporate activities and, to a lesser extent, investments in the Nautilus joint venture related to mining facility buildout and general corporate activities. Cash flow information is as follows (in thousands):

	Year Ended December 31,	
	2023	2022
Cash provided by (used in):		
Operating activities:		
Continuing operations	$ 4,160	$ (32,262)
Discontinued operations	103	(1,804)
Total operating activities	4,263	(34,066)
Investing activities	(78,013)	(94,047)
Financing activities	119,866	89,981
Net change in cash and cash equivalents and restricted cash	$ 46,116	$ (38,132)

Cash provided by (used in) operating activities for continuing operations was $4.2 million and $(32.3) million for the years ended December 31, 2023 and 2022, respectively. For the year ended December 31, 2023, cash provided by operations resulted from a net loss of $73.4 million less (a) $4.3 million noncash expenses, net of $63.9 million increase in digital currency from mining, (b) proceeds from sale of bitcoin of $83.9 million, and (c) changes in certain asset and liability balances. The noncash expenses were primarily comprised of (i) $19.5 million related to amortization of debt issuance cost, commitment fees and accretion of debt discount, (ii) $2.9 million of related party expense to be settled with respect to common stock, (iii) $5.9 million related to stock-based compensation, (iv) $28.4 million of depreciation, (v) $1.0 million of amortization of right-of-use asset, (vi) $0.1 million related to realized gain on sale of digital currency net of impairment of digital currency, and (vii) $9.3 million related to the Company's equity in net loss of investee, net of tax. The changes in certain assets and liabilities were primarily comprised of a net decrease in current liabilities (which includes accounts payable, other accrued liabilities and other amounts due to related parties) of $10.3 million. For the year ended December 31, 2022, cash used in operations results from a net loss of $90.8 million less (a) $35.6 million noncash expenses, net of $10.8 million increase in digital currency from mining, (b) proceeds from sale of bitcoin of $9.7 million, and (c) changes in certain asset and liability balances. The noncash expenses were primarily comprised of (i) $11.7 million related to amortization of debt issuance cost and accretion of debt discount, (ii) $2.1 million of related party expense to be settled with respect to common stock, (iii) $1.6 million related to stock-based compensation, (iv) $6.7 million of depreciation, (v) $0.3 million of amortization of right-of-use asset, (vi) $0.9 million related to impairment of digital currency net of realized gain on sale of digital currency, (vii) $15.7 million related to the Company's equity in net loss, net of tax of Nautilus, (viii) $4.9 million of loss from discontinued operations, net of tax related to RM 101's business, the assets of which were substantially sold as of December 31, 2022, (ix) $0.8 million loss on nonmonetary miner exchange, and (x) $2.1 million of loss on extinguishment of debt. The changes in certain assets and liabilities were primarily comprised of a net increase in liabilities (which primarily includes accounts payable, other accrued liabilities, other amounts due to related parties) of $17.0 million, a net increase in current assets (which primarily includes prepaid expenses, amounts due from related parties and other current assets) of $2.8 million, an increase in other assets of $1.0 million.

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Cash used in investing activities was $78.0 million and 94.0 million for the years ended December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, the Company (i) invested $75.2 million and $61.1 million, respectively, in the buildout of mining facilities and (ii) invested $2.8 million and $46.2 million, respectively, in Nautilus related primarily to the joint venture's miner deposits and mining facility buildout (including reimbursable payments made on behalf of the joint venture of joint venture partner offset by reimbursement from joint venture or joint venture partner of less than $0.1 million net cash used). Additionally, during the year ended December 31, 2022 the Company received net proceeds from the sale of IKONICS' net assets held for sale of $13.3 million. See "Contractual Obligations and Other Commitments" for additional discussion on miner and Nautilus commitments.

Cash provided by financing activities was $119.9 million and $90.0 million for the years ended December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, the Company received proceeds from issuance of (i) Common Stock, net of issuance costs, of $135.9 million and $47.3 million, respectively, (ii) warrants of $2.5 million and 5.7 million, respectively, and (iii) convertible promissory notes of $1.3 million and $14.7 million. During the year ended December 31, 2022, the Company also received (i) $22.5 million of proceeds from issuance of long-term debt, net of issuance costs, (ii) $3.4 million proceeds from issuance of promissory notes to stockholders, (iii) $9.6 million of proceeds from issuance of preferred stock and (iv) $2.1 million related to proceeds from insurance premium and property, plant and equipment financing (net of principal payments made). During the years ended December 31, 2023 and 2022, the Company reported cash outflows from operations of (i) $6.6 million and $0, respectively, related to principal payments on long-term debt (ii) $2.0 million and $0, respectively, related to payments of tax withholding related to net share settlements of stock-based compensation awards, (ii) $0 and $15.3 million, respectively, related to principal payments on convertible promissory notes, and (iii) $11.0 million and $0, respectively, related to payment of CVR liability related to proceeds from sale of IKONICS' net assets held for sale.

Contractual Obligations and Other Commitments

As of December 31, 2023, the Company had one outstanding miner purchase agreement, with Bitmain Technologies Delaware Limited ("Bitmain Delaware") (the "July 2023 Bitmain Agreement"). The July 2023 Bitmain Agreement provides that the Company will receive 15,100 S19j XP miners from Bitmain Delaware, with an option to receive an additional 3,400 miners, pursuant to certain payment timing conditions, for delivery in the fourth quarter of 2023 for a total purchase price of $75.4 million. The Company is entitled to apply coupons equivalent to 30% of the total purchase price, resulting in an estimated effective purchase price of $53.4 million for 18,500 miners. In September 2023, the Company entered into a binding letter of intent with Bitmain Development PTE. Ltd. ("Bitmain PTE"), for the purchase of at least 1,200 PH of Antminer S21 miners, pursuant to which the Company paid a security deposit of $1.2 million. During the year ended December 31, 2023, the Company elected not to purchase the applicable quantity of Antminer S21 miners, as allowed under the letter of intent, and the $1.2 million security deposit was credited to the Company's account with Bitmain PTE and applied to the July 2023 Bitmain Agreement. As of December 31, 2023, the Company had made payments of $36.2 million, including purchase of coupons, representing 67% of the effective purchase price. Subsequent to December 31, 2023, the Company made the remaining $17.7 million payments to Bitmain Delaware and received all miners contracted under the July 2023 Bitmain Agreement.

The Company is counterparty to the amended and restated Joint Venture agreement dated August 27, 2022 ("A&R Nautilus Agreement"). Under this A&R Nautilus Agreement, the Company has invested $125.2 million on a net basis and has right-sized its equity ownership interest to 25.0% of the joint venture. The Company does not expect any additional material capital contributions to be required for existing infrastructure and operations.

Financial Condition

As of December 31, 2023, the Company had balances of cash and cash equivalents of $54.4 million, a working capital deficiency of $92.1 million, total stockholders' equity of $222.5 million and an accumulated deficit of $259.9 million. As of December 31, 2023, the working capital deficiency included the then outstanding $139.4 million principal balance of the Company's Term Loans (See Note 9) which matures on December 1, 2024. To date, the Company has relied primarily on proceeds from its issuances of debt and equity and sale of bitcoin, both self-mined and distributed from the joint venture which owns the Nautilus Cryptomine Facility (see Note 11), to fund its principal operations.

During the year ended December 31, 2023, the Company accomplished several notable steps to achieve positive cash flows from operations and in the aggregate, namely: (1) the Company amended its long-term debt agreement (see Note 9) to, among other changes, remove the fixed principal amortization through April 7, 2024 and, subsequent to December 31, 2023, through maturity on December 1, 2024 (see Note 18), (2) the Company received net proceeds of $135.9 million through the issuance of shares of our common stock, par value $0.001 per share (the "Common Stock"), $2.5 million from warrant issuances in conjunction with equity offerings (see Note 15), and $1.3 million from issuance of a

convertible promissory note (see Note 10), (3) the Company commenced mining activities at the Nautilus Cryptomine Facility, deems that it has funded all known and expected capital commitments at that facility, and received bitcoin distributions of $21.9 million from the joint venture which owns the Nautilus Cryptomine Facility, (4) for the existing operations at the Lake Mariner Facility in buildings one and two and at the Nautilus Cryptomine Facility, the Company received substantially all contracted miners from the miner suppliers and has no remaining outstanding financial commitments under the miner purchase agreements (see Notes 11 and 12), and (5) the construction activities at the Lake Mariner Facility for buildings one, two and three and at the Nautilus Cryptomine Facility are substantially complete as of December 31, 2023, although the Company intends to continue to expand its infrastructure. Additionally, if a business need requires its use, the Company has an active at-the-market sales agreement for sale of shares of Common Stock having an aggregate offering price of up to $200.0 million (the "ATM Sales Agreement"), which had a remaining capacity of $81.2 million and $29.8 million as of December 31, 2023 and March 19, 2024, respectively. The issuance of Common Stock under this agreement would be made pursuant to the Company's effective registration statement on Form S-3 (Registration statement No. 333-262226).

As of December 31, 2023, the Company is required to pay amounts under its long-term debt agreement subject to an excess cash flow sweep, as defined, on a quarterly basis which automatically extends to the maturity of the Term Loans of December 1, 2024, in the event the Company repays at least $40.0 million of the principal balance of the Term Loans by April 1, 2024 (see Note 9). In February 2024, the Company achieved aggregate repayment of $40.0 million of the principal balance of the Term Loans, thereby automatically extending the excess cash flow sweep to December 1, 2024 (see Note 18). As of March 19, 2024, the outstanding principal balance of the Term Loans was $106.0 million. The Company has determined, based on its expected range of forecasted bitcoin prices, network hashrate, and power prices, that it is probable that it will generate positive cash flows from operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, including the Term Loans through maturity without the use of proceeds from equity offerings. Therefore, the Company determined there is not substantial doubt about the Company's ability to continue as a going concern through at least the next twelve months. The Consolidated Financial Statements do not include any adjustments that might result from TeraWulf's possible inability to continue as a going concern.

Critical Accounting Policies and Estimates

The above discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the Company's consolidated financial statements requires the application of accounting policies and the use of estimates. The accounting policies most important to the preparation of the consolidated financial statements and estimates that require management's most difficult, subjective or complex judgments are described below.

See Note 2 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for a summary of the Company's significant accounting policies.

Revenue Recognition

The Company recognizes revenue under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"). The core principle of the 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.

Mining Pool

The Company has entered into an arrangement with a cryptocurrency mining pool (the Foundry USA Pool) to perform hash computations (i.e. hashrate) for the mining pool in exchange for consideration. Providing hash computation services to a mining pool is an output of the Company's ordinary activities. The provision of such hash computation services is the sole performance obligation. The mining pool arrangement is terminable at any time without substantial penalty by Foundry USA Pool and may be terminated without substantial penalty by the Company upon providing one Contract Day's, as defined, prior written notice. The Company's enforceable right to compensation only begins when and continues while the Company provides hash computation services to its customer, the mining pool operator. Accordingly, the contract term with Foundry USA Pool is deemed to be less than 24 hours and to continuously renew throughout the day. Additionally, the Company concluded that the mining pool operator's (i.e., the customer's) renewal right is not a material right because the renewal rights do not include any discounts; that is, the terms, conditions, and compensation amounts are at the then-current market rates.

There is no significant financing component in these transactions.

The mining pool applies the Full Pay Per Share ("FPPS") payout model. Under the FPPS model, in exchange for providing hash computation services to the pool, the Company is entitled to pay-per-share base amount and transaction fee reward compensation, calculated on a daily basis, at an amount that approximates the total bitcoin that could have been mined and transaction fees that could have been awarded using the Company's hash computation services, based upon the then current blockchain difficulty. Under this model, the Company is entitled to compensation, payable in bitcoin, regardless of whether the pool operator successfully records a block to the bitcoin blockchain.

The transaction consideration the Company receives, if any, is noncash consideration and is all variable. Because digital currency is considered noncash consideration, fair value of the digital currency award received would generally be determined using the quoted price of the related digital currency in the Company's principal market at the time of contract inception. The Company has adopted an accounting policy to aggregate individual contracts with individual terms less than 24 hours within each intraday period and apply a consistent valuation point, the start of day Coordinated Universal Time (00:00:00 UTC), to value the related noncash consideration. Revenue is recognized when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, which is the same day that control of the contracted service transfers to the mining pool and is the same day as the contract inception. After every 24-hour contract term, the mining pool transfers the digital currency consideration to the Company's designated digital currency wallets.

Consideration payable to the customer in the form of a pool operator fee, which is incurred only to the extent that the Company has generated FPPS consideration, is deducted from the bitcoin the Company receives and is recorded as contra-revenue, as it does not represent a payment for a distinct good or service.

Data Center Hosting

The Company's current hosting contracts are service contracts with a single performance obligation. The service the Company provides primarily includes hosting the customers' miners in a physically secure data center with electrical power, internet connectivity, ambient air cooling and available maintenance resources. Hosting revenue is recognized over time as the customer simultaneously receives and consumes the benefits of the Company's performance. The Company recognizes hosting revenue to the extent that a significant reversal of such revenue will not occur. Data center hosting customers are invoiced and payments are due on a monthly basis. While the majority of consideration is paid in cash, certain consideration is payable in digital currency. Because digital currency is considered noncash consideration, fair value of the digital currency award received is determined using the quoted price of the related digital currency in the Company's principal market at the time of contract inception. The Company has one data center hosting contract with a customer, which expired in January 2024, for which the quoted price of bitcoin in the Company's principal market at the time of contract inception was approximately $38,000. The Company recorded miner hosting revenue of $7.5 million and $4.6 million during the years ended December 31, 2023 and 2022, respectively.

Digital currency, net

Digital currency, net is comprised of bitcoin earned as noncash consideration in exchange for providing hash computation services to a mining pool as well as in exchange for data center hosting services which are accounted for in connection with the Company's revenue recognition policy disclosed above. From time to time, the Company also receives bitcoin as distributions-in-kind from its joint venture. Digital currency is included in current assets in the consolidated balance sheets due to the Company's ability to sell it in a highly liquid marketplace and because the Company reasonably expects to liquidate its digital currency to support operations within the next twelve months. The Company sells its digital currency on a first-in-first-out basis.

Digital currency is accounted for as intangible assets with indefinite useful lives. An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test.

The Company has elected to bypass the optional qualitative impairment assessment and to track its bitcoin activity daily for impairment assessment purposes. The Company determines the fair value of its bitcoin on a nonrecurring basis in accordance with ASC 820, Fair Value Measurement, based on quoted prices on the active trading platform that the Company normally transacts and has determined is its principal market for bitcoin (Level 1 inputs), based on all

information that is reasonably available. The Company performs an analysis each day to identify whether events or changes in circumstances, principally decreases in the quoted price of bitcoin on the active trading platform, indicate that it is more likely than not that its bitcoin are impaired. For impairment testing purposes, the lowest intraday trading price of bitcoin is identified at the single bitcoin level (one bitcoin). The excess, if any, of the carrying amount of bitcoin and the lowest daily trading price of bitcoin represents a recognized impairment loss. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of previously recorded impairment losses is prohibited. The Company recognized impairment of digital currency of $3.0 million and $1.5 million during the years ended December 31, 2023 and 2022, respectively.

Digital currency awarded to the Company through its mining activities are included as an adjustment to reconcile net loss to cash used in operating activities on the consolidated statements of cash flows. Proceeds from sales of digital currency are included within cash flows from operating activities on the consolidated statements of cash flows and any realized gains or losses from such sales are included in costs and operating expenses on the consolidated statements of operations. The receipt of digital currency as distributions-in-kind from equity investees are included within supplemental disclosure of noncash investing activities.

Variable Interest Entities

Variable interest entities ("VIE") are legal entities in which equity investors do not have (i) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, or (ii) as a group, the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (iii) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. The Company would consolidate any VIE in which it has a controlling financial interest through being deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both characteristics are met, the Company considers itself to be the primary beneficiary and therefore will consolidate that VIE into its consolidated financial statements.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with a VIE and reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether an entity is a VIE and whether the Company is the primary beneficiary of a VIE is based upon facts and circumstances for the VIE and requires significant judgments such as whether the entity is a VIE, whether the Company's interest in a VIE is a variable interest, the determination of the activities that most significantly impact the economic performance of the entity, whether the Company controls those activities, and whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

In 2021, the Company entered into a joint venture, Nautilus Cryptomine LLC ("Nautilus"), with an unrelated co-venturer to develop, construct and operate up to 300 MW of zero-carbon bitcoin mining in Pennsylvania (the "Joint Venture"). Due to the initial nature of the Joint Venture and the continued commitment for additional financing, the Company determined Nautilus is a VIE. While the Company has the ability to exercise significant influence over Nautilus, the Company has determined that it does not have the power to direct the activities that most significantly impact the economic performance of Nautilus. Initially, the power to direct the activities of Nautilus that most significantly impact Nautilus' economic performance were shared equally by both parties within the Joint Venture due to the requirement for both equity holders to approve many of the key operating decisions and when not equally shared, were predominantly under the control of the co-venturer, including through the co-venturer's majority representation on the board of managers. As such, the Company has determined that it is not the primary beneficiary of Nautilus and, therefore, has accounted for this entity under the equity method of accounting. Risks associated with the Company's involvement with Nautilus include a commitment to potentially fund additional equity investments. See Note 11 for additional information, including a decrease in the Company's ownership interest in Nautilus during the year ended December 31, 2022.

Impairment of Long-lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or asset group, may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. Any impairment loss recorded is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. During the years ended December 31, 2023 and 2022, the Company recorded no impairment charges for long-lived assets.

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Issuance of Debt with Common Stock or Warrants; Debt Modification

On December 1, 2021, the Company entered into the LGSA, which consists of an original term loan facility of $123.5 million (the "Original Term Loan"). In connection with the Original Term Loan, the Company issued to the holders of the Original Term Loan 839,398 shares of Common Stock, which is a quantity of Common Stock representing 1.5% of the outstanding shares of the publicly registered shares of TeraWulf subsequent to the closing of the Original Term Loan. The allocation of proceeds between the debt instrument and any other components included in the debt issuance, including Common Stock, is generally based on the relative fair value allocation method. In applying the relative fair value allocation method, the determination of the fair value of the Common Stock issued and the fair value of the Original Term Loan independent of the Common Stock issued requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the Original Term Loan component would result in a $1.9 million change in the fair value allocated to each of the Original Term Loan and equity components.

In July 2022, the Company entered into the First Amendment to the LGSA, which included an additional borrowing of $15.0 million and the issuance of warrants to purchase 5,787,732 shares of Common Stock at $0.01 per share. The accounting for debt modifications is complex and requires significant judgment. Potential accounting outcomes include troubled debt restructuring accounting, extinguishment accounting or modification accounting, each with different implications for the consolidated financial statements. The Company has determined that modification accounting is applicable. Additionally, debt modification accounting requires the determination of the fair value of the warrants issued, which requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the warrants would result in a $0.3 million change in the recorded value of the borrowing under the First Amendment.

In October 2022, the Company entered into the Third Amendment to the LGSA, which included an additional borrowing of $7.5 million and the issuance of warrants to purchase 2,667,678 shares of Common Stock at $0.01 per share. The accounting for debt modifications is complex and requires significant judgment. Potential accounting outcomes include troubled debt restructuring accounting, extinguishment accounting or modification accounting, each with different implications for the consolidated financial statements. The Company has determined that modification accounting is applicable. Additionally, debt modification accounting requires the determination of the fair value of the warrants issued, which requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the warrants would result in a $0.2 million change in the recorded value of the borrowing under the Third Amendment.

In March 2023, the Company entered into the Fifth Amendment to the LGSA, which included the issuance of warrants to purchase 27,759,265 shares of Common Stock at $0.01 per share and 13,879,630 shares of Common Stock at $1.00 per share. The accounting for debt modifications is complex and requires significant judgment. Potential accounting outcomes include troubled debt restructuring accounting, extinguishment accounting or modification accounting, each with different implications for the consolidated financial statements. The Company has determined that modification accounting is applicable. Additionally, debt modification accounting requires the determination of the fair value of the warrants issued, which requires significant judgment. As a measure of sensitivity, a 10% change in the estimated fair value of the warrants would result in a $1.6 million change in the recorded value of the borrowing under the Fifth Amendment.

Convertible Instruments

The Company accounts for its issuance of convertible debt and convertible equity instruments in accordance with applicable U.S. GAAP. In connection with that accounting, the Company assesses the various terms and features of the agreement in accordance with ASC 480, Distinguishing Liabilities from Equity ("ASC 480"), and ASC 815, Derivatives and Hedging Activities ("ASC 815"). ASC 480 requires liability accounting for certain financial instruments, including shares that embody an unconditional obligation to transfer a variable number of shares, provided that the monetary value of the obligation is based solely or predominantly on one of the following three characteristics: (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the issuer's equity shares or (3) variations in the fair value of the issuer's equity shares, but the monetary value to the counterparty moves in the opposite direction as the value of the issuer's shares. In accordance with ASC 815, the Company assesses the various terms and features of the agreement to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in the current period's operating results. The Company did not have any liabilities required to be revalued in accordance with ASC 480 or ASC 815 as of December 31, 2023.

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Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740, Accounting for Income Taxes ("ASC 740"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of ASC 740 related to accounting for uncertain income tax positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The most critical estimate for income taxes is the determination of whether to record a valuation allowance for any net deferred tax asset, including net loss carryforwards, whereby management must estimate whether it is more likely than not that the deferred tax asset would be realized.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the other Items included in this Annual Report on Form 10-K (the "Annual Report") and with the accompanying consolidated financial statements and notes thereto included elsewhere in this report. All figures presented below represent results from continuing operations, unless otherwise specified. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Consolidated Financial Statements. Unless the context otherwise requires, references in this Annual Report to the "Company," "TeraWulf," "we," "us" or "our" refers to TeraWulf Inc. and its consolidated subsidiaries. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations may be deemed forward-looking statements. See "Forward-Looking Statements."

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This MD&A generally discusses 2024 and 2023 items and year-to-year comparisons between 2024 and 2023. Discussions of 2022 items and year-to-year comparisons between 2023 and 2022 are not included, and can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Overview

We are a vertically integrated owner and operator of next-generation digital infrastructure, purpose-built to support bitcoin mining and HPC workloads. With a strong commitment to sustainability, our operations are powered predominantly by zero-carbon energy, reinforcing our focus on environmentally responsible data center operations in the United States. By leveraging clean, cost-effective, and reliable energy sources, we aim to drive long-term efficiency and resilience within the digital infrastructure sector.

Our primary operations are centered at the Lake Mariner Facility, strategically located on the shores of Lake Ontario. Developed on the site of a decommissioned coal-fired power plant, this expansive facility is designed for scalable growth, with the ability to expand up to 500 MW in the near term and up to 750 MW with targeted transmission upgrades. Purpose-built to support both bitcoin mining and GPU-driven HPC workloads, the Lake Mariner Facility is well-positioned to meet the rising demand for compute-intensive applications. This dual-purpose strategy enhances operational efficiency, diversifies revenue streams, and strengthens our position in the evolving digital economy.

Bitcoin and Blockchain

Bitcoin, introduced in 2008, revolutionized digital finance by enabling a decentralized system for exchanging and storing value without reliance on traditional financial institutions. It operates on a public ledger known as the "blockchain," which records every transaction transparently and securely. This decentralized structure eliminates the need for intermediaries, enhancing transaction efficiency while making the network resilient to censorship and fraud. Unlike fiat currencies, bitcoin is not controlled by any government or central bank, reinforcing its role as a scarce, independent store of value.

Bitcoin mining is the process of validating transactions and securing the network through proof-of-work consensus, where miners solve complex cryptographic puzzles to add new blocks to the blockchain. The network is maintained by a global pool of distributed nodes, ensuring transaction integrity and preventing double-spending. Key factors influencing mining economics include computing power, energy costs, and network difficulty, with miners competing to maximize their share of the total computational power (hashrate) deployed on the bitcoin network. As more miners participate, the network difficulty adjusts dynamically every 2,016 blocks (approximately every two weeks) to maintain a consistent block creation rate.

Bitcoin Reward Halving

Bitcoin's supply issuance follows a predefined halving schedule, reducing the block reward by 50% approximately every four years. This mechanism enforces a controlled supply of bitcoin, contributing to its scarcity and long-term value proposition. The total bitcoin supply is capped at 21 million coins, and halvings will continue until this limit is reached.

The most recent halving occurred on April 19, 2024, reducing the block reward from 6.25 to 3.125 bitcoin per block. While the halving decreases the direct mining subsidy, transaction fees remain an additional source of miner revenue. This built-in supply constraint influences mining economics and often plays a role in bitcoin's long-term price dynamics.

Business Strategy

Our strategy is centered on leveraging our owned and scalable digital infrastructure to drive revenue and profitability through both bitcoin mining and HPC hosting. As a vertically integrated operator, we own and control our infrastructure, allowing us to optimize efficiency, reduce costs, and maintain a highly competitive cost structure.

While bitcoin mining remains a core focus, we are strategically transitioning an increasing portion of the Lake Mariner Facility to support HPC hosting and colocation. This shift allows us to capitalize on the growing demand for AI, machine learning, and cloud computing workloads while further optimizing our power utilization and digital infrastructure.

A key milestone in this transition occurred on December 22, 2024, when we signed a multi-year data center lease agreement with Core42, securing 72.5 MW of HPC hosting capacity at the Lake Mariner Facility for GPU compute workloads. This agreement includes an option to expand by an additional 135 MW through March 31, 2025, enabling total deployments to Core42 of up to 72.5 MW in 2025 and 135 MW in 2026. This development accelerates our HPC hosting expansion, positioning us at the intersection of energy and digital compute infrastructure. To support this expansion, we have expanded our digital infrastructure at the site, featuring advanced liquid cooling systems and Tier 3 redundancy. This infrastructure will be optimized for high-density compute workloads, reinforcing our ability to attract hyperscale and enterprise customers.

By prioritizing cost-efficient power utilization, sustainability, and scalable infrastructure, our strategy positions TeraWulf to maximize value creation while adapting to the evolving landscape of digital asset mining and AI-driven computing. Looking ahead, we remain focused on expanding our infrastructure, optimizing operations, and strengthening our competitive advantage in both bitcoin mining and HPC hosting.

Our Facilities

During the year ended December 31, 2024, we operated bitcoin mining activities at two data centers: the Lake Mariner Facility and the Nautilus Cryptomine Facility in central Pennsylvania. In October 2024, we sold our entire equity interest in Nautilus, allowing us to consolidate operations and reinvest in future infrastructure growth.

Lake Mariner Facility

Strategically located in Barker, New York, on the site of a former coal-fired power plant, the Lake Mariner Facility began operations in March 2022, designed to support sustainable bitcoin mining. As of December 31, 2024, the facility was operating 195 MW of bitcoin mining capacity, with an additional 50 MW under construction and expected to come online in the first half of 2025. Additionally, the Company is developing HPC data centers at the Lake Mariner Facility to provide HPC hosting services for Core42, supporting up to 72.5 MW of data center infrastructure dedicated to GPU compute workloads. This capacity is expected to come online throughout 2025. Core42 also has an option, exercisable through March 31, 2025, to secure an additional 135 MW of data center infrastructure at the Lake Mariner Facility.

The Company has a PPA with NYPA, securing 90 MW of high-load factor power to support its bitcoin mining operations. The PPA, executed in February 2022, has a ten-year term from the commencement of NYPA's power delivery. The Lake Mariner Facility is built for scalable expansion, with the ability to grow up to 500 MW in the near term and potentially 750 MW with targeted transmission upgrades. Its strategic location and access to low-cost, predominantly zero-carbon energy make it a highly attractive site for both bitcoin mining and HPC workloads.

As of December 31, 2024, we owned approximately 62,000 miners, of which approximately 58,800 are operational at the Lake Mariner Facility with the remainder undergoing maintenance, awaiting disposal or on standby to replace miners under repair. These miners were comprised as follows:

Vendor and Model	Number of miners
Bitmain S19 XP	18,500
Bitmain S19j XP	18,100
Bitmain S19k Pro	4,200
Bitmain S21	8,300
Bitmain S21 Pro	12,900
	62,000

As of December 31, 2024, our fleet of miners ranged in age from 0.1 to 2.6 years and have an average age of approximately 0.7 years. We do not have scheduled downtime for our miners; however, while we periodically perform unscheduled maintenance on our miners, such downtime has not been significant historically. When performing unscheduled maintenance, depending on the length of estimated repair time, we may replace a miner with a substitute miner to limit overall downtime. As of December 31, 2024, our fleet of miners at the Lake Mariner Facility had a range of energy efficiency from 15 to 23 joules per terahash ("j/th") and has an average energy efficiency of 19.8 j/th.

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Nautilus Cryptomine Facility

The Nautilus Cryptomine Facility, located in Berwick, Pennsylvania, was a joint venture between TeraWulf and Talen Member. The Nautilus Cryptomine Facility was a 200 MW bitcoin mining operation, situated adjacent to the 2.5-gigawatt nuclear-powered Susquehanna Station and was the first bitcoin mining site powered entirely by behind-the-meter, zero-carbon nuclear energy, operating under a fixed-rate power contract of 2.0 cents per kilowatt-hour for a five-year term, with options for two three-year renewals.

Under the terms of the joint venture agreement, TeraWulf held a 25% equity interest in Nautilus, while Talen Member held a 75% equity interest, with ownership subject to adjustments based on capital contributions. TeraWulf began mining bitcoin at the Nautilus Cryptomine Facility in the first quarter of 2023, with an allotted 50 MW of operational capacity prior to divesting its interest in Nautilus in October 2024. While holding a 25% equity stake, TeraWulf's share of mined bitcoin was determined by relative hashrate contributions. The Company had contributed approximately 1.9 EH/s of the facility's total 5.2 EH/s capacity, representing approximately 35.7% of the total hashrate attributed to the Company. At the time of TeraWulf's ownership, the Nautilus Cryptomine Facility deployed approximately 48,000 miners, of which 15,800 miners were attributed to TeraWulf's contributions to utilize its 50 MW allotment.

In October 2024, TeraWulf sold its entire equity interest in Nautilus, allowing the Company to reallocate capital toward expanding its digital infrastructure at the Lake Mariner Facility and advancing its HPC hosting strategy. As part of the transaction, Nautilus distributed to TeraWulf all of its right, title, and interest in its miners, as well as certain other related equipment. Following the sale, TeraWulf deployed 12,300 S19 XP miners and sold or otherwise disposed of 35,700 miners as of December 31, 2024.

Bitcoin Mining - Combined Facilities

As outlined above, several factors influence our ability to mine bitcoin profitably, including bitcoin's USD value, mining difficulty, global hashrate, power costs, fleet energy efficiency, and overall data center efficiency. Among these, energy efficiency is a critical driver of profitability, as power costs represent the most significant direct expense in bitcoin mining. We believe we operate a highly efficient mining fleet, optimized to maximize output while minimizing energy consumption. To assess operational performance and effectiveness, the Company tracks key metrics, which we believe are also valuable to investors for evaluating our progress and benchmarking against industry peers.

The table below presents our miner efficiency and computing power as compared to the global computing power as of December 31, 2024 and 2023:

	December 31, 2024	December 31, 2023[1]
Global hashrate (EH/s)[2]	704.0	558.4
Miner efficiency (w/th)[3]	19.0	27.6
TeraWulf combined average operating hashrate (EH/s)[4]	9.7	5.0
TeraWulf % of Global hashrate	1.4 %	0.9 %

[1] Results as of December 31, 2023 reflect hashrate of mining operations at the Lake Mariner Facility and TeraWulf's net share of hashrate produced at the Nautilus Cryptomine Facility.
[2] Total global hashrate obtained from YCHARTS (https://ycharts.com/indicators/bitcoin_network_hash_rate)
[3] Joules of energy required to produce each terahash of processing power
[4] While nameplate inventory at the Lake Mariner Facility was 9.7 EH/s as of December 31, 2024 and was 5.5 EH/s for TeraWulf's two facilities as of December 31, 2023, inclusive of gross total hosted miners, actual monthly hashrate performance depends on a variety of factors, including (but not limited to) performance tuning to increase efficiency and maximize margin, scheduled outages (scopes to improve reliability or performance), unscheduled outages, curtailment due to participation in various cash generating demand response programs, derate of ASICS due to adverse weather and ASIC maintenance and repair.

As of December 31, 2024, our operating hashrate represented approximately 1.4% of the total global hashrate, aligning with our share of global blockchain rewards. As of that date, this translated to approximately 6 bitcoin mined per day. To maintain profitability, we focus on optimizing operational efficiency and cost management, ensuring that our mining rewards consistently cover direct operating expenses.

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The table below presents the average cost of mining each bitcoin, including bitcoin mined at the Lake Mariner Facility and the Company's net share of bitcoin mined at the Nautilus Cryptomine Facility, for the years ended December 31, 2024 and 2023 and the total energy cost per kWh utilized within the facilities.

	Year Ended December 31,	
Cost of mining - Analysis of costs to mine one bitcoin	**2024**	**2023**
Cost of mining - Lake Mariner Facility and net share of the Nautilus Cryptomine Facility		
Cost of energy per bitcoin mined	$ 25,227	$ 8,676
Other direct costs of mining - non energy utilities per bitcoin mined	$ 41	$ 29
Cost to mine one bitcoin[1]	$ 25,268	$ 8,705
Value of each bitcoin mined[2]	$ 62,889	$ 29,645
Cost to mine one bitcoin as % of value of bitcoin mined	40.2 %	29.4 %
Statistics		
Lake Mariner Facility and net share of the Nautilus Cryptomine Facility		
Total bitcoin mined[3]	2,728	3,343
Total value of bitcoin mined[2] *($ in thousands)*	$ 171,547	$ 99,105
Total MWhs utilized	1,601,061	910,744
Total energy expense, net of expected demand response proceeds[4] *($ in thousands)*	$ 68,815	$ 29,006
Cost per kWh	$ 0.043	$ 0.032
Energy expense, net as % of value of bitcoin mined	40.1 %	29.3 %
Other direct costs of mining *($ in thousands)*	$ 111	$ 97

[1] "Cost to mine one bitcoin" is a cash cost metric and does not include depreciation. Although the Company recognizes depreciation with respect to its mining assets, it does not consider depreciation in determining whether it is economical to operate its mining equipment. As a result, the Company does not consider the sunk costs or depreciation of past capital investments in its historical or forecasted breakeven analysis. If depreciation of our miner fleet were factored into the above cost of mining analysis, it would add $22,086 and $9,892 per bitcoin mined for the years ended December 31, 2024 and 2023, respectively, bringing the total "cost to mine one bitcoin" to $47,354 and $18,598 for the years ended December 31, 2024 and 2023, respectively.
[2] Computed as the weighted-average opening price of bitcoin on each respective day the mined bitcoin is earned. Excludes bitcoin earned from profit sharing associated with a bitcoin miner hosting agreement that expired in February 2024 at the Lake Mariner Facility.
[3] Excludes bitcoin earned from profit sharing associated with a bitcoin miner hosting agreement that expired in February 2024 at the Lake Mariner Facility of 6 and 64 bitcoin for the years ended December 31, 2024 and 2023, respectively, and includes TeraWulf's net share of bitcoin mined at the Nautilus Cryptomine Facility, based on the hashrate share attributed to the Company.
[4] Excludes energy expenses associated with a bitcoin miner hosting agreement that expired in February 2024 at the Lake Mariner Facility and includes TeraWulf's net share of energy expense at the Nautilus Cryptomine Facility, based on aggregate nameplate power consumption of deployed miners attributed to TeraWulf's contribution to Nautilus.

Power costs are the most significant expense in our bitcoin mining operations, accounting for 40.1% and 29.4% of the total value of bitcoin mined for the years ended ended December 31, 2024 and 2023, respectively. The increase in power costs as a percentage of bitcoin mined in 2024 compared to 2023 was primarily driven by a near doubling of network difficulty and the bitcoin halving event in April 2024, which reduced block rewards. These impacts were partially offset by growth in our average operating hashrate and an increase in the average market value of each bitcoin mined.

Energy prices are highly volatile, influenced by global events that can drive nationwide fluctuations in power costs. At the Lake Mariner Facility, power costs are subject to variable market rates, which can change hourly based on wholesale electricity pricing. While this introduces some unpredictability, it also provides us with the flexibility to actively manage our energy consumption, optimizing for profitability and efficiency. Energy prices are also highly sensitive to weather conditions, such as winter storms and polar vortices, which can increase regional power demand and drive up costs. During such events, we may curtail operations to avoid consuming power at peak rates, or we may be curtailed under demand response programs in which we participate. For the years ended December 31, 2024, and 2023, the average aggregate realized power prices at the Lake Mariner Facility and Nautilus Cryptomine Facility were $0.043 and $0.032 per kilowatt hour, respectively.

Our management team continuously monitors market conditions to determine when and for how long to curtail operations. If curtailment is not mandated under demand response programs, we make real-time decisions to curtail mining whenever power prices exceed the value of the fixed bitcoin reward. As a result, curtailment increases when bitcoin's value declines or energy prices rise, and decreases when bitcoin's value appreciates or energy costs fall. These decisions are actively managed on an hour-by-hour basis to optimize profitability.

During the years ended December 31, 2024 and 2023, we curtailed operations at the Lake Mariner Facility in response to weather events, energy price spikes, and participation in demand response programs. The Company records expected payments to be received for demand response programs as a reduction in cost of revenue, which amounted to $8.6 million and $3.5 million for the years ended December 31, 2024 and 2023, respectively.

The Company has purchased all miners with cash, without relying on limited recourse equipment financing for miner acquisitions. To support operations, invest in our joint venture, and purchase miners and other fixed assets, we have raised capital through both equity issuances and corporate-level debt. Costs related to these capital raises are not included in this analysis.

Miner acquisition costs, or capital expenditures, are not factored into the cost of mining analysis, as they do not impact the marginal cost of producing one bitcoin. Instead, these costs are recorded as property, plant, and equipment in the consolidated balance sheets. Depreciation of property, plant, and equipment is calculated using the straight-line method, with estimated useful lives of four years for miners and five years for computer equipment.

During the year ended December 31, 2024, the Company recorded an accelerated depreciation expense of $5.1 million related to certain miners whose estimated useful lives were shortened due to planned replacement by April 2024. While our standard depreciation period for miners is four years, historically low power costs may allow for a longer actual useful life in certain cases. However, if depreciation were included in the cost of mining analysis, it would add $22,086 and $9,892 per bitcoin mined for the years ended December 31, 2024 and 2023, respectively.

Estimating asset useful lives requires management judgment, particularly given the rapid evolution of next-generation mining rigs in industrial-scale bitcoin mining. Depreciation schedules may be adjusted if events, regulatory changes, or shifts in operating conditions indicate a need for revision. Management continuously evaluates factors such as future energy market conditions, operating costs, maintenance practices, and capital investment needs to ensure depreciation assumptions remain reasonable. When an asset's estimated useful life is adjusted—either shortened or extended—depreciation provisions are updated accordingly, which could have a material impact on future financial results.

Recent Developments

In October 2024, the Company's board of directors approved a share repurchase program authorizing the Company to repurchase up to $200.0 million of the Company's outstanding shares of Common Stock through December 31, 2025. Subsequent to December 31, 2024 and through February 28, 2025, the Company repurchased 5,900,000 shares of its Common Stock for $33.3 million.

In December 2024, the Company entered into certain long-term data center lease agreements with Core42, a G42 company specializing in sovereign cloud, AI infrastructure, and digital services, to lease specified data center infrastructure comprising 72.5 MW of HPC hosting capacity at the Lake Mariner Facility to the customer to support the customer's HPC operations (the "HPC Leases"). As of the date of this Annual Report, none of the HPC Leases had commenced and all are expected to commence at various dates in 2025, each having an initial term of ten years and granting the customer two five-year renewal options. Additionally, the HPC Leases provide Core 42 an option to expand near-term HPC hosting capacity by an additional 135 MW gross, which is equivalent to 108 MW of critical IT load, by March 31, 2025.

The HPC Leases provide for certain prepaid rent amounts ("Prepaid Rent") representing the first 12 months base rent under each lease for a total of $90.0 million and shall be applied towards each month's base rent for 24 months commencing on the respective commencement date of each lease until the Prepaid Rent is exhausted. As of the date of this Annual Report, the Company has received all $90.0 million of Prepaid Rent.

The Business Combination

On December 13, 2021, TeraWulf completed its business combination (the "Merger") with IKONICS Corporation ("IKONICS"), through which the Company effectively acquired IKONICS and became a publicly traded entity on Nasdaq, which was the primary objective of the business combination.

As part of the Merger consideration, IKONICS shareholders received contractual contingent value rights ("CVR") under a Contingent Value Rights Agreement (the "CVR Agreement"). Each IKONICS shareholder as of immediately prior to the Merger received one non-transferable CVR for each share of IKONICS common stock held at that time. The CVR holders were entitled to receive 95% of the Net Proceeds (as defined in the CVR Agreement) from any sale, transfer, disposition, spin-off, or licensing of IKONICS' pre-merger business assets.

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During the year ended December 31, 2023, the Company fulfilled its CVR obligations, making $11.0 million in payments related to proceeds from the sale of net assets held for sale. As of December 31, 2023, the Company had completed all required distributions to CVR holders, and the CVR Agreement was deemed terminated.

Results of Operations - Comparative Results for the Years Ended December 31, 2024 and 2023

The Company generates revenue in the form of bitcoin by providing hash computation services to a mining pool operator to mine bitcoin and validate transactions on the global bitcoin network using miners owned by the Company. The earned bitcoin are routinely sold for U.S. dollars. The Company also earned revenue by providing bitcoin miner hosting services to third parties. While the Company may choose to mine other digital currencies, it has no plans to do so currently.

The Company's business strategy centers on growing revenue and profitability by enhancing the capacity and efficiency of our bitcoin mining fleet while expanding our data center infrastructure to support HPC hosting activities. We plan to strategically develop the infrastructure necessary for profitability of bitcoin mining while pursuing adjacent high-value HPC hosting opportunities that leverage our power utilization and digital infrastructure. We are confident that our expertise in power infrastructure and digital asset mining can be favorably applied to the design, development, and operation of large-scale data centers. These data centers are optimized for high-value applications such as cloud computing, machine learning, and artificial intelligence. We will actively seek opportunities to expand into these areas using our knowledge, expertise, and existing infrastructure wherever favorable market opportunities arise.

Revenue

The following table presents revenue (in thousands):

	Year Ended December 31,	
	2024	2023
Revenue	$ 140,051	$ 69,229

Revenue for the years ended December 31, 2024 and 2023 was $140.1 million and $69.2 million, respectively, an increase of $70.9 million. The increase was primarily attributed to an increase in the average price of bitcoin during the year ended December 31, 2024 of $65,824 as compared to $28,788 during the same period in the prior year and an increase in mining capacity at the Lake Mariner Facility to approximately 195 MW as of December 31, 2024 as compared to 110 MW as of December 31, 2023, partially offset by decreases in the total bitcoin mined due to impacts of the halving in April 2024 and the increase in network hashrate, resulting in total bitcoin mined of 2,177 bitcoin during the year ended December 31, 2024 as compared to 2,168 bitcoin during the same period in the prior year.

During the years ended December 31, 2024 and 2023 revenue from bitcoin miner hosting was $0.8 million and $7.5 million, respectively, a decrease due to the expiration of the Company's bitcoin miner hosting contract with a customer in February 2024.

Costs and Expenses

The following table presents cost of revenue (exclusive of deprecation) (in thousands):

	Year Ended December 31,	
	2024	2023
Cost of revenue (exclusive of depreciation)	$ 62,608	$ 27,315

Cost of revenue (exclusive of depreciation) for the years ended December 31, 2024 and 2023 was $62.6 million and $27.3 million, respectively, an increase of approximately $35.3 million. Cost of revenues is primarily comprised of power expense and the increase was primarily due to the increase in mining capacity due to infrastructure constructed and placed in service between December 31, 2023 and December 31, 2024 at the Lake Mariner Facility and, to a lesser extent, an increase in realized power prices during the year ended December 31, 2024 as compared to the same period in the prior year. The Company records proceeds related to participation in demand response programs as a reduction in cost of revenue in the period corresponding to the underlying demand response program period; the amount of aggregate proceeds received or expected to be received were $8.6 million and $3.5 million for the years ended December 31, 2024 and 2023, respectively. The Company is actively expanding its enrollment in such available programs in New York State.

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The following table presents operating expenses (in thousands):

	Year Ended December 31,	
	2024	2023
Operating expenses	$ 3,387	$ 2,116
Operating expenses - related party	4,262	2,773
	$ 7,649	$ 4,889

Operating expenses (including related party expenses) for the years ended December 31, 2024 and 2023 were approximately $7.6 million and $4.9 million, respectively, a net increase of $2.7 million. Operating expenses increased primarily due to higher engineering expenses of $0.4 million and property insurance of $0.7 million. Operating expense - related party increased primarily due to $0.4 million in rent expense and $1.1 million due to increased staffing at the Lake Mariner Facility. These increases related to infrastructure constructed and placed in service between December 31, 2023 and 2024.

The following table presents selling, general and administrative expenses (in thousands):

	Year Ended December 31,	
	2024	2022
Selling, general and administrative expenses	$ 57,883	$ 23,693
Selling, general and administrative expenses - related party	12,695	13,325
	$ 70,578	$ 37,018

Selling, general and administrative expenses (including related party expenses) for the years ended December 31, 2024 and 2023 were $70.6 million and $37.0 million, respectively, a net increase of $33.6 million. Selling, general and administrative expenses increased primarily due to increased expense during the year ended December 31, 2024 as compared to the same period in the prior year of (i) stock-based compensation of $25.2 million, (ii) employee compensation and benefits of $5.7 million, (iii) travel expenses of $0.6 million, (iv) legal and other professional fees of $1.4 million, (v) charity, sponsorships and investor relations of $1.1 million and (vi) other public company costs of $1.1 million, partially offset by decreases in insurance expense of $0.9 million. Selling, general and administrative expenses – related party decreased a net $1.3 million in fees paid under the Services Agreement with Beowulf E&D primarily due to performance milestone expense incurred during the year ended December 31, 2023 that were not incurred during the year ended December 31, 2024, offset by an increase in the base fee as well as increased travel expense of $0.6 million.

Depreciation for the years ended December 31, 2024 and 2023 was $59.8 million and $28.4 million, respectively. The increase was primarily due to the increase in mining capacity due to infrastructure constructed and placed in service between December 31, 2023 and December 31, 2024 at the Lake Mariner Facility. Additionally, during the year ended December 31, 2024, the Company recorded accelerated depreciation expense of $5.1 million related to certain miners of which the Company shortened their estimated useful lives based on anticipated replacement by April 30, 2024.

Gain on fair value of digital currency, net during the year ended December 31, 2024 was $2.2 million as a result of the Company adopting Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2023-08, Intangible – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets (“ASU 2023-08”), on January 1, 2024 which requires entities with certain crypto assets to subsequently measure such assets at fair value, with changes in fair value recorded in net income in each reporting period. Prior to the adoption of ASU 2023-08, the Company recorded impairment of digital currency of $3.0 million during the year ended December 31, 2023 representing the decline in bitcoin prices during the Company’s holding period of its bitcoin, which was not reversed during its holding period, and realized gain on sale of digital currency of $3.2 million during the year ended December 31, 2023 upon subsequent liquidation of bitcoin held. The Company elected to early adopt ASU 2023-08 effective January 1, 2024, resulting in a cumulative-effect change of $37,000 to increase the balance of digital currency with a corresponding decrease in the opening balance of accumulated deficit in the consolidated balance sheet as of January 1, 2024.

During the years ended December 31, 2024 and December 31, 2023, the Company recorded a loss on disposal of property, plant and equipment of $17.8 million and $1.2 million, respectively, related to disposals of miners and write-off of deposits on miners.

Interest expense

Interest expense for the years ended December 31, 2024 and 2023 was $19.8 million and $34.8 million, respectively, a decrease of $15.0 million. Interest expense through July 2024 related primarily to the borrowings under the Loan, Guaranty and Security Agreement (the "LGSA") with Wilmington Trust (the "Term Loans"), which had an original maturity date of December 1, 2024 and was fully repaid in July 2024 ahead of maturity. In October 2024, the Company completed a private offering of convertible senior notes due 2030 (the "2030 Convertible Notes") which accrue 2.75% interest annually. The decrease in interest expense during the year ended December 31, 2024 as compared to the prior year is primarily due to early repayments of the Term Loans principal balance resulting in a decrease of amortization of debt issuance costs and debt discount of $8.1 million. Additionally, interest expense related to the stated interest rate decreased $9.4 million for the same reason, partially offset by $2.6 million of interest accrued during the year ended December 31, 2024 under the 2030 Convertible Notes and payable in May 2025.

Loss on extinguishment of debt

Loss on extinguishment of debt was $6.3 million for the year ended December 31, 2024 related to voluntary prepayments of the Term Loans in February and July 2024. The Company incurred prepayment fees of $1.3 million in connection with the voluntarily prepayments and derecognized unamortized debt discount of $5.0 million associated with the principal repaid. The Company made no prepayments on the principal balance of the Term Loans during the year ended December 31, 2023.

Income tax benefit

Income tax benefit was $0 for the years ended December 31, 2024 and 2023. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a full valuation allowance against its gross deferred tax assets as of December 31, 2024 and 2023.

Equity in net loss of investee, net of tax

Equity in net income (loss) of investee, net of tax for the years ended December 31, 2024 and 2023 was $3.4 million and $(9.3) million, respectively, which represents TeraWulf's proportional share of income or loss of Nautilus, which commenced operations in February 2023. The amount includes an impairment loss of $13.6 million for the year ended December 31, 2023 related to the distribution of miners from Nautilus to the Company whereby the miners were marked to fair value from book value on the date distributed. The impairment loss was the result of decreasing prices for miners between initial purchase and distribution.

Additionally the Company recorded a gain on sale of equity interest in investee of $22.6 million in the consolidated statement of operations for the year ended December 31, 2024 as a result of the sale of its entire 25% equity interest in Nautilus to the Talen Member in October 2024.

Non-GAAP Measure

To provide investors with additional information in connection with our results as determined in accordance with generally accepted accounting principals in the United States ("U.S. GAAP"), we disclose Adjusted EBITDA as a non-GAAP measure. This measure is not a financial measure calculated in accordance with U.S. GAAP, and it should not be considered as a substitute for net loss, operating loss, or any other measure calculated in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies.

We define Adjusted EBITDA as net loss adjusted for (i) impacts of interest, taxes, depreciation and amortization; (ii) stock-based compensation expense, amortization of right-of-use asset and related party expense to be settled with respect to common stock, all of which are non-cash items that the Company believes are not reflective of its general business performance, and for which the accounting requires management judgment, and the resulting expenses could vary significantly in comparison to other companies; (iii) one-time, non-recurring transaction-based compensation expense related to the 2030 Convertible Notes (iv) equity in net income (loss) of investee, net of tax, related to Nautilus and the gain on sale of interest in Nautilus; (v) other income which is related to interest income or income for which management believes is not reflective of the Company's ongoing operating activities; (vi) loss on extinguishment of debt and net losses on disposals of property, plant and equipment, net, which are not reflective of the Company's general business performance and (vii) loss from discontinued operations, net of tax, which is not applicable to the Company's future

business activities. The Company's Adjusted EBITDA also includes the impact of distributions from investee received in bitcoin related to a return on the Nautilus investment, which management believes, in conjunction with excluding the impact of equity in net income (loss) of investee, net of tax, is reflective of assets available for the Company's use in its ongoing operations as a result of its investment in Nautilus.

Management believes that providing this non-GAAP financial measure allows for meaningful comparisons between the Company's core business operating results and those of other companies, and provides the Company with an important tool for financial and operational decision making and for evaluating its own core business operating results over different periods of time. In addition to management's internal use of non-GAAP Adjusted EBITDA, management believes that Adjusted EBITDA is also useful to investors and analysts in comparing the Company's performance across reporting periods on a consistent basis. Management believes the foregoing to be the case even though some of the excluded items involve cash outlays and some of them recur on a regular basis (although management does not believe any of such items are normal operating expenses necessary to generate the Company's bitcoin related revenues). For example, the Company expects that share-based compensation expense, which is excluded from Adjusted EBITDA, will continue to be a significant recurring expense over the coming years and is an important part of the compensation provided to certain employees, officers, directors and consultants. Additionally, management does not consider any of the excluded items to be expenses necessary to generate the Company's bitcoin related revenue.

The Company's Adjusted EBITDA measure may not be directly comparable to similar measures provided by other companies in the Company's industry, as other companies in the Company's industry may calculate non-GAAP financial results differently. The Company's Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP and should not be considered as an alternative to net loss or any other measure of performance derived in accordance with U.S. GAAP. Although management utilizes internally and presents Adjusted EBITDA, the Company only utilizes that measure supplementally and does not consider it to be a substitute for, or superior to, the information provided by U.S. GAAP financial results. Accordingly, Adjusted EBITDA is not meant to be considered in isolation of, and should be read in conjunction with, the information contained in the Company's consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

The following table is a reconciliation of the Company's Adjusted EBITDA to its most directly comparable U.S. GAAP measure (i.e., net loss) for the periods indicated (in thousands):

	Year Ended December 31,	
	2024	2023
Net loss	$ (72,418)	$ (73,421)
Adjustments to reconcile net loss to non-GAAP Adjusted EBITDA:		
Loss from discontinued operations, net of tax	—	129
Gain on sale of equity interest in investee	(22,602)	—
Equity in net (income) loss of investee, net of tax, related to Nautilus	(3,363)	9,290
Distributions from investee, related to Nautilus	22,776	21,949
Income tax benefit	—	—
Other income	(3,927)	(231)
Loss on extinguishment of debt	6,300	—
Interest expense	19,794	34,812
Loss on disposals of property, plant, and equipment, net	17,824	1,209
Depreciation	59,808	28,350
Amortization of right-of-use asset	1,373	1,001
Stock-based compensation expense	30,927	5,859
Transaction-based compensation expense	3,885	—
Related party expense to be settled with respect to common stock	—	2,917
Non-GAAP adjusted EBITDA	$ 60,377	$ 31,864

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Liquidity and Capital Resources

As of December 31, 2024, the Company had balances of cash and cash equivalents of $274.1 million, working capital of $229.6 million, total stockholders' equity of $244.4 million and an accumulated deficit of $332.3 million. The Company incurred a net loss of $72.4 million for the year ended December 31, 2024. The Company began mining bitcoin in March 2022 and had 9.7 EH/s of operating capacity as of December 31, 2024. To date, the Company has relied primarily on proceeds from the sale of bitcoin, both self-mined and distributed from the joint venture which owned the Nautilus Cryptomine Facility, and its issuances of debt and equity to fund its principal operations.

The principal uses of cash are for the operation and buildout of data center facilities, debt service, and general corporate activities and, to a lesser extent in 2023, investments in the Nautilus joint venture related to mining facility buildout and general corporate activities. Cash flow information is as follows (in thousands):

	Year Ended December 31,	
	2024	2023
Cash provided by (used in):		
Operating activities:		
Continuing operations	$ (24,422)	$ 4,160
Discontinued operations	—	103
Total operating activities	(24,422)	4,263
Investing activities	(91,159)	(78,013)
Financing activities	335,207	119,866
Net change in cash and cash equivalents and restricted cash	$ 219,626	$ 46,116

Operating activities

Cash (used in) provided by operating activities for continuing operations was $(24.4) million and $4.2 million for the years ended December 31, 2024 and 2023, respectively, reflecting a decrease of $28.6 million. During the year ended December 31, 2024, the Company completed significant expansion of its bitcoin mining operations resulting in an increase in mining capacity at the Lake Mariner Facility to approximately 195 MW as of December 31, 2024 as compared to 110 MW as of December 31, 2023 which resulted in stable bitcoin earned during the period despite the impacts of the halving in April 2024. In addition, the average price of bitcoin increased during the year ended December 31, 2024 to $65,824 as compared to $28,788 during the same period in the prior year, resulting in an increase in revenue of $70.9 million. Power prices increased during the year ended December 31, 2024 as compared to prior year and cost of revenue (exclusive of depreciation) increased approximately $35.3 million for the year ended December 31, 2024 as compared to the prior year primarily due to the increase in mining capacity and the halving in April 2024. Additionally, prior to the repayment of the Term Loans in July 2024, the Company converted its bitcoin holdings nearly immediately to cash and the related proceeds from sales of digital currency were included within cash flows from operating activities in the consolidated statements of cash flows. Subsequently, proceeds from sales of digital currency of $67.4 million are included within cash flows from investing activities in the consolidated statements of cash flows for the year ended December 31, 2024 as the Company no longer converts bitcoin into cash on a nearly immediate basis.

Investing activities

Cash used in investing activities was $91.2 million and $78.0 million for the years ended December 31, 2024 and 2023, respectively. The Company invested $267.9 million and $75.2 million in the buildout of its facilities at the Lake Mariner Facility for the years ended December 31, 2024 and 2023, respectively, which included $69.2 million during the year ended December 31, 2024 related to infrastructure intended to support expansion into HPC leasing operations in 2025. Additionally, during the year ended December 31, 2023, the Company invested $2.8 million in its joint venture. During the year ended December 31, 2024, the Company received proceeds from the sale of its equity interest in the joint venture of $86.1 million, proceeds from the sale of property, plant and equipment of $23.3 million, and proceeds from sales of digital currency not converted nearly immediately into cash of $67.4 million.

Financing activities

Cash provided by financing activities was $335.2 million and $119.9 million for the years ended December 31, 2024 and 2023, respectively. During the year ended December 31, 2024, the Company received proceeds from (i) issuance

of convertible notes, net of issuance costs paid, of $487.1 million, (ii) issuances of Common Stock, net of issuance costs, of $188.7 million and (iii) warrant exercises of $4.8 million. The cash provided by financing activities during the year ended December 31, 2024 was partially offset by principal payments on long-term debt of $139.4 million, repurchases of treasury stock of $118.2 million, purchases of capped call instruments of $60.0 million and payments related to tax withholdings related to net share settlements of stock-based compensation awards of $23.7 million. During the year ended December 31, 2023, the Company received proceeds from (i) issuances of Common Stock, net of issuance costs, of $135.9 million (ii) proceeds from warrant exercises of $2.5 million, and (iii) issuance of convertible promissory notes of $1.3 million. The cash provided by financing activities during the year ended December 31, 2023 was partially offset by payments of contingent value rights liability related to the proceeds from sales of net assets held for sale of RM 101 of $11.0 million, principal payments on long-term debt of $6.6 million, and payments related to tax withholdings related to net share settlements of stock-based compensation awards of $2.0 million.

Financial Condition

The Company incurred a net loss of $72.4 million and reported cash used in operating activities of $24.4 million for the year ended December 31, 2024. As of December 31, 2024, the Company had balances of cash and cash equivalents of $274.1 million, working capital of $229.6 million, total stockholders' equity of $244.4 million and an accumulated deficit of $332.3 million. The Company had 9.7 EH/s of operating capacity at the Lake Mariner Facility as of December 31, 2024. To date, the Company has relied primarily on proceeds from sales of bitcoin, both self-mined and distributed from the joint venture which owned the Nautilus Cryptomine Facility, and its issuances of debt and equity to fund its principal operations. Subsequent to December 31, 2024, the Company received $90.0 million of Prepaid Rent under its HPC Leases which shall be applied towards each month's base rent for 24 months commencing on the respective commencement date of each lease until the Prepaid Rent is exhausted.

Critical Accounting Estimates

The above discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

See Note 2 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report for a summary of the Company's significant accounting policies.

Digital currency

Digital currency is comprised of bitcoin earned as noncash consideration in exchange for providing hash computation services to a mining pool as well as consideration for bitcoin miner hosting services. From time to time, the Company also receives bitcoin as distributions-in-kind from its joint venture.

Bitcoin are accounted for as intangible assets with indefinite useful life and is included in current assets in the consolidated balance sheets due to the Company's ability to sell it in a highly liquid marketplace and because the Company reasonably expects to liquidate its bitcoin to support operations within the next twelve months. The Company elected to early adopt ASU 2023-08 effective January 1, 2024, which requires digital currency to be valued at fair value each reporting period in accordance with ASC 820 with changes in fair value recorded in net income. Gains and losses from the remeasurement of digital currency are included within gain on fair value of digital currency, net in the consolidated statements of operations. The Company sells bitcoin and gains and losses from such transactions, measured as the difference between the cash proceeds and the cost basis of bitcoin as determined on a first-in-first-out basis, are also included within gain on fair value of digital currency, net in the consolidated statements of operations.

Prior to the adoption of ASU 2023-08, bitcoin was assessed for impairment annually, or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. The Company elected to bypass the optional qualitative impairment assessment and to track its bitcoin activity daily for impairment assessment purposes. The Company performed an analysis each day to identify whether events or changes in circumstances, principally decreases in the quoted price of bitcoin on the active trading platform, indicated that it was more likely than not that its bitcoin were impaired. For impairment testing purposes, the lowest intraday trading price of bitcoin was identified at the single bitcoin level (one bitcoin). The excess, if any, of the carrying amount of bitcoin and the lowest daily trading price of

bitcoin represented a recognized impairment loss. To the extent an impairment loss was recognized, the loss established the new cost basis of the asset. Subsequent reversal of previously recorded impairment losses was prohibited.

Bitcoin earned through mining activities is recorded as an adjustment in the consolidated statements of cash flows, reconciling net loss to cash flows from operating activities. Bitcoin received as distributions-in-kind from equity investees is disclosed in supplemental noncash investing activities.

Prior to the repayment of the Term Loans in July 2024 (see Note 9), bitcoin sales proceeds were included in cash flows from operating activities, as bitcoin was converted into cash immediately during that period. Following repayment of the Term Loans, bitcoin sales proceeds are now classified under cash flows from investing activities, as the Company no longer converts bitcoin into cash immediately upon mining.

Long-lived Assets

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Judgment is necessary in estimating the Company's various assets' useful lives. This includes evaluating the Company's own usage experience with its currently owned assets, the quality of materials used in construction-related projects and, for its miners, the rate of technological advancement and market-related factors such as the price of bitcoin and the bitcoin network hashrate, which impact the value of the miners. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally 5 years for computer equipment and 4 years for miners). Leasehold improvements and electrical equipment are depreciated over the shorter of their estimated useful lives or the lease term. Changes in depreciation and amortization, generally accelerated depreciation, are determined and recorded when estimates of the remaining useful lives or residual values of long-term assets change.

The Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or asset group, may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted cash flows expected to be generated by the asset. Significant judgment is used when estimating future cash flows, particularly the price of bitcoin and the network hashrate. Any impairment loss recorded is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. Should our estimates of useful lives, undiscounted cash flows, or asset fair values change, additional and potentially material impairments may be required, which could have a material impact on our reported financial results.

Stock-based compensation

The Company measures stock-based compensation cost related to share-based payment awards at the grant date of the award, based on the estimated fair value of the award. For restricted stock units ("RSUs") with time-based vesting, the fair value is determined by the Company's Common Stock price on the date of the grant. For RSUs with vesting based on market conditions ("PSUs"), the effect of the market condition is considered in the determination of fair value on the grant date using a Monte Carlo simulation model. Stock-based compensation expense for PSUs is recorded over the derived service period unless the market condition is satisfied in advance of the derived service period, in which case a cumulative catch-up is recognized as of the date of achievement. Stock-based compensation for PSUs is recorded regardless of whether the market conditions are met unless the service conditions are not met. The Company accounts for forfeitures as they occur. The Company uses significant judgment in determining the likelihood of meeting milestones and market conditions. Inputs into valuation models such as Monte Carlo simulations include both the Company's and guideline public company historical and expected annual volatility and, depending on the inputs selected, the Company could calculate significantly different estimated grant date fair values, materially impacting the valuation of our stock-based awards and the stock-based compensation expense we recognize in future periods.

Income Taxes

The Company accounts for income taxes pursuant to ASC 740, Income Taxes ("ASC 740"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of ASC 740 related to accounting for uncertain income tax positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740, the benefit of a tax

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position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely that not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the Company's balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The most critical estimate for income taxes is the determination of whether to record a valuation allowance for any net deferred tax asset, including net loss carryforwards, whereby management must estimate whether it is more likely than not that the deferred tax asset would be realized.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2024. All figures presented below represent results from continuing operations, unless otherwise specified. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the consolidated financial statements. Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to the "Company," "TeraWulf," "we," "us" or "our" refers to TeraWulf Inc. and its consolidated subsidiaries, unless otherwise indicated. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations may be deemed forward-looking statements. See "Forward-Looking Statements."

Overview

We are a vertically integrated owner and operator of next-generation digital infrastructure, purpose-built to support bitcoin mining and HPC workloads. With a strong commitment to sustainability, our operations are powered predominantly by zero-carbon energy, reinforcing our focus on environmentally responsible data center operations in the United States. By leveraging clean, cost-effective, and reliable energy sources, we aim to drive long-term efficiency and resilience within the digital infrastructure sector.

Our primary operations are centered at the Lake Mariner Facility, strategically located on the shores of Lake Ontario. Developed on the site of a decommissioned coal-fired power plant, this expansive facility is designed for scalable growth, with the ability to expand up to 500 MW in the near term and up to 750 MW with targeted transmission upgrades. Purpose-built to support both bitcoin mining and GPU-driven HPC workloads, the Lake Mariner Facility is well-positioned to meet the rising demand for compute-intensive applications. This dual-purpose strategy enhances operational efficiency, diversifies revenue streams, and strengthens our position in the evolving digital economy.

As of the date of this Quarterly Report, the Lake Mariner Facility has 245 MW of energized capacity supporting bitcoin mining infrastructure. TeraWulf remains on track to deliver 72.5 MW of HPC colocation capacity under its data center lease agreements with Core42 Holding US LLC ("Core42"), a G42 company specializing in sovereign cloud, AI infrastructure, and digital services, with revenue recognition expected as data halls become operational in the second half of 2025.

On May 21, 2025 (the "Acquisition Date"), the Company acquired 100% of the membership interests in Beowulf Electricity & Data LLC, Beowulf E&D (MD) LLC, and Beowulf E&D (NY) LLC (collectively, "Beowulf E&D"). The fair value of total consideration for the transaction was approximately $54.6 million, including $3.0 million in cash and 5.0 million shares of the Company's common stock ("Common Stock") issued on the Acquisition Date. The purchase agreement also includes up to $19.0 million in contingent cash payments and up to $13.0 million in additional Common Stock, subject to the achievement of key milestones related to the expansion of the Company's data center business and project financing initiative. As part of the acquisition, 94 employees of Beowulf E&D, including site staff at the Lake Mariner Facility and corporate personnel, were transitioned to TeraWulf. In addition, the existing Administrative and Infrastructure Services Agreement (the "Services Agreement") with Beowulf E&D was terminated on the Acquisition Date.

Bitcoin and Blockchain

Bitcoin, introduced in 2008, revolutionized digital finance by enabling a decentralized system for exchanging and storing value without reliance on traditional financial institutions. It operates on a public ledger known as the "blockchain," which records every transaction transparently and securely. This decentralized structure eliminates the need for intermediaries, enhancing transaction efficiency while making the network resilient to censorship and fraud. Unlike fiat currencies, bitcoin is not controlled by any government or central bank, reinforcing its role as a scarce, independent store of value.

Bitcoin mining is the process of validating transactions and securing the network through proof-of-work consensus, where miners solve complex cryptographic puzzles to add new blocks to the blockchain. The network is maintained by a global pool of distributed nodes, ensuring transaction integrity and preventing double-spending. Key factors influencing mining economics include computing power, energy costs, and network difficulty, with miners competing to maximize their share of the total computational power (hashrate) deployed on the bitcoin network. As more miners participate, the network difficulty adjusts dynamically every 2,016 blocks (approximately every two weeks) to maintain a consistent block creation rate.

Bitcoin Reward Halving

Bitcoin's supply issuance follows a predefined halving schedule, reducing the block reward by 50% approximately every four years. This mechanism enforces a controlled supply of bitcoin, contributing to its scarcity and long-term value proposition. The total bitcoin supply is capped at 21 million coins, and halvings will continue until this limit is reached.

The most recent halving occurred on April 19, 2024, reducing the block reward from 6.25 to 3.125 bitcoin per block. While the halving decreases the direct mining subsidy, transaction fees remain an additional source of miner revenue. This built-in supply constraint influences mining economics and often plays a role in bitcoin's long-term price dynamics.

The April 2024, halving intensified competition among miners and underscores the importance of our access to low-cost power and vertically integrated business model. These advantages are increasingly critical to sustaining profitability in the post-halving environment.

Business Strategy

Our strategy is centered on leveraging our owned and scalable digital infrastructure to drive revenue and profitability through both bitcoin mining and HPC hosting. As a vertically integrated operator, we own and control our infrastructure, allowing us to optimize efficiency, reduce costs, and maintain a highly competitive cost structure.

While bitcoin mining remains a core focus, we are strategically transitioning an increasing portion of the Lake Mariner Facility's capacity to support HPC hosting and colocation. This shift allows us to capitalize on the growing demand for AI, machine learning, and cloud computing workloads while further optimizing our power utilization and digital infrastructure.

A key milestone in this transition occurred on December 22, 2024, when we signed multi-year data center lease agreements with Core42, securing 72.5 MW of HPC hosting capacity at the Lake Mariner Facility for GPU compute workloads. The Company remains in discussions with Core42 regarding future capacity. This development accelerates our HPC hosting expansion, positioning us at the intersection of energy and digital compute infrastructure. To support this expansion, we have expanded our digital infrastructure at the site, featuring advanced liquid cooling systems and Tier 3 redundancy. This infrastructure will be optimized for high-density compute workloads, reinforcing our ability to attract hyperscale and enterprise customers.

By prioritizing cost-efficient power utilization, sustainability, and scalable infrastructure, our strategy positions TeraWulf to maximize value creation while adapting to the evolving landscape of digital asset mining and AI-driven computing. Looking ahead, we remain focused on expanding our infrastructure, optimizing operations, and strengthening our competitive advantage in both bitcoin mining and HPC hosting.

Our Facilities

During the three and six months ended June 30, 2025 and 2024, we operated bitcoin mining activities at the Lake Mariner Facility. During the three and six months ended June 30, 2024, we also operated bitcoin mining activities at the jointly owned Nautilus Cryptomine Facility located in central Pennsylvania. In October 2024, we sold our entire equity interest in Nautilus Cryptomine LLC ("Nautilus"), allowing us to consolidate operations and reinvest in future infrastructure growth.

The Lake Mariner Facility

Strategically located in Barker, New York, on the site of a former coal-fired power plant, the Lake Mariner Facility began operations in March 2022, designed to support sustainable bitcoin mining. As of the date of this Quarterly Report, the facility is operating 245 MW of bitcoin mining capacity. Additionally, the Company is developing HPC data centers at the Lake Mariner Facility to provide HPC hosting services for Core42, supporting up to 72.5 MW of data center infrastructure dedicated to GPU compute workloads. This capacity is expected to come online throughout 2025.

The Lake Mariner Facility sources 100% of its power from the Zone A grid, which is characterized by low-cost, predominantly zero-carbon energy. Of the Facility's total power needs, 90 MW is secured under a Power Purchase Agreement ("PPA") with the New York Power Authority ('NYPA") executed in February 2022, which provides high-load factor power under a ten-year term commencing with NYPA's initial power delivery. The Lake Mariner Facility is built for scalable expansion, with the ability to grow up to 500 MW in the near term and potentially 750 MW with targeted transmission upgrades. Its strategic location and direct access to sustainable Zone A power make it a highly attractive site for both bitcoin mining and HPC workloads.

As of June 30, 2025, we owned approximately 70,300 miners, with approximately 65,100 operational at the Lake Mariner Facility and the remainder undergoing maintenance, awaiting disposal or on standby to replace miners under repair. These miners were comprised as follows:

Vendor and Model	**Number of miners**
Bitmain S19 XP	17,100
Bitmain S19j XP	15,500
Bitmain S19k Pro	2,800
Bitmain S21	8,100
Bitmain S21 Pro	26,800
	70,300

As of June 30, 2025, our fleet of miners ranged in age from 0.2 years to 3.1 years with an average age of approximately 1.0 year. We do not have scheduled downtime for our miners and while we periodically perform unscheduled maintenance on our miners, such downtime has not been significant historically. When performing unscheduled maintenance, depending on the length of estimated repair time, we may replace a miner with a substitute miner to limit overall downtime. As of June 30, 2025, our fleet of miners at the Lake Mariner Facility had a range of energy efficiency from 15.0 to 23.0 joules per terahash (""j/th") and an average energy efficiency of 17.9 j/th.

The Nautilus Cryptomine Facility

Located in Berwick, Pennsylvania, Nautilus was a joint venture between TeraWulf and Talen Member. Under the Nautilus joint venture agreement and prior to the sale of TeraWulf's interests in Nautilus in October 2024, the Company held a 25% equity interest in Nautilus and Talen held a 75% equity interest, with ownership subject to adjustments based on capital contributions. Nautilus owned and operated the Nautilus Cryptomine Facility, a 200 MW bitcoin mining operation situated adjacent to the 2.5 gigawatt nuclear-powered Susquehanna Station, which was the first bitcoin mining facility site powered entirely by behind-the-meter zero-carbon nuclear energy, operating under a fixed-rate power contract of 2.0 cents per kilowatt hour ("kWh") for a five-year term, with options for two three-year renewals.

TeraWulf began mining bitcoin at the Nautilus Cryptomine Facility in the first quarter of 2023 with an allotted 50 MW of operational bitcoin mining capacity. While holding a 25% equity stake, TeraWulf's share of mined bitcoin was determined by relative hashrate contributions. The Company had contributed approximately 1.9 EH/s of the facility's total 5.2 EH/s capacity, representing approximately 35.7% of the total hashrate attributed to the Company. At the time of TeraWulf's ownership, the Nautilus Cryptomine Facility deployed approximately 48,000 miners, of which 15,800 miners were attributed to TeraWulf's contribution to utilize is 50 MW allotment.

In October 2024, TeraWulf sold its entire equity interest in Nautilus, allowing the Company to reallocate capital toward expanding its digital infrastructure at the Lake Mariner Facility and advancing its HPC hosting strategy. As part of the transaction, Nautilus distributed to TeraWulf all of its right, title, and interest in its miners, as well as certain other related equipment.

Bitcoin Mining - Combined Facilities

As outlined above, several factors influence our ability to mine bitcoin profitably, including bitcoin's USD value, mining difficulty global hashrate, power costs, fleet energy efficiency, and overall data center efficiency. Among these, energy efficiency is a critical driver of profitability, as power costs represent the most significant direct expense in bitcoin mining. We believe we operate a highly efficient mining fleet, optimized to maximize output while minimizing energy consumption. To assess operational performance and effectiveness, the Company tracks key metrics, which we believe are also valuable to investors for evaluating our progress and benchmarking against industry peers.

The table below presents our miner efficiency and computing power as compared to the global computing power as of June 30, 2025 and 2024:

Combined facilities[1]	**June 30, 2025**	**June 30, 2024**
Global hashrate (EH/s)[2]	843.0	566.0
Miner efficiency (j/th)[3]	17.7	23.2
TeraWulf operational hashrate (EH/s)[4]	12.2	8.0
TeraWulf percentage of global hashrate	1.4 %	1.4 %

(1) Results as of June 30, 2024 reflect hashrate of mining operations at the Lake Mariner Facility and TeraWulf's net share of hashrate produced at the Nautilus Cryptomine Facility.
(2) Total global hashrate obtained from YCHARTS (https://ycharts.com/indicators/bitcoin_network_hash_rate)
(3) Joules of energy required to produce each terahash of processing power
(4) While nameplate at the Lake Mariner Facility was 12.8 EH/s as of June 30, 2025 and was 8.8 EH/s for TeraWulf's two facilities as of June 30, 2024, actual operational hashrate depends on a variety of factors, including (but not limited to) performance tuning to increase efficiency and maximize margin, scheduled outages (scopes to improve reliability or performance), unscheduled outages, curtailment due to participation in various cash generating demand response programs, derate of ASICS due to adverse weather and ASIC maintenance and repair.

As of June 30, 2025, our operational hashrate represented approximately 1.4% of the total global hashrate, aligning with our share of global blockchain rewards, which as of that date, is equivalent to approximately 5 bitcoin mined per day. To maintain profitably, we focus on optimizing operational efficiency and cost management, ensuring that our mining rewards consistently cover direct operating expenses.

The table below presents the average cost of mining each bitcoin for bitcoin mined at the Lake Mariner Facility and for the three and six months ended June 30, 2024, includes the Company's net share of bitcoin mined at the Nautilus Cryptomine Facility and the total energy cost per kWh utilized within the facilities:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Cost of mining - Analysis of costs to mine one bitcoin	**2025**	**2024**	**2025**	**2024**
Cost of mining - Lake Mariner Facility and net share of the Nautilus Cryptomine Facility[1]				
Cost of energy per bitcoin mined	$ 45,555	$ 22,954	$ 54,431	$ 18,473
Other direct costs of mining - non energy utilities per bitcoin mined	$ 54	$ 40	$ 63	$ 33
Cost to mine one bitcoin[2]	$ 45,608	$ 22,994	$ 54,494	$ 18,506
Value of each bitcoin mined[3]	$ 98,219	$ 65,984	$ 95,730	$ 58,622
Cost to mine one bitcoin as % of value of bitcoin mined	46.4 %	34.8 %	56.9 %	31.6 %
Statistics				
Lake Mariner Facility and net share of the Nautilus Cryptomine Facility				
Total bitcoin mined[4]	485	699	857	1,750
Total value of bitcoin mined[3] *($ in thousands)*	$ 47,636	$ 46,094	$ 82,041	$ 102,585
Total MWhs utilized	420,771	429,520	722,651	822,931
Total energy expense, net of expected demand response proceeds[5] *($ in thousands)*	$ 22,094	$ 16,035	$ 46,647	$ 32,327
Cost per kWh	$ 0.053	$ 0.037	$ 0.065	$ 0.039
Energy expense, net as % of value of bitcoin mined	46.4 %	34.8 %	56.9 %	31.5 %
Other direct costs of mining *($ in thousands)*	$ 26	$ 27	$ 54	$ 57

(1) Results for the three and six months ended June 30, 2024 reflect hashrate of mining operations at the Lake Mariner Facility and TeraWulf's net share of hashrate produced at the Nautilus Cryptomine Facility.

(2) "Cost to mine one bitcoin" is a cash cost metric and does not include depreciation. Although the Company recognizes depreciation with respect to its mining assets, it does not consider depreciation in determining whether it is economical to operate its mining equipment. As a result, the Company does not consider the sunk costs or depreciation of past capital investments in its historical or forecasted breakeven analysis. If depreciation of our miner fleet were factored into the above cost of mining analysis, it would add $33,745 and $35,294 for the three and six months ended June 30, 2025, respectively, bringing the total "cost to mine one bitcoin" to $79,353 and $89,788 for the three and six months ended June 30, 2025, respectively. If depreciation of our miner fleet were factored into the above cost of mining analysis, it would add $21,532 and $17,660 for the three and six months ended June 30, 2024, respectively, bringing the total "cost to mine one bitcoin" to $44,526 and $36,166 for the three and six months ended June 30, 2024, respectively.

(3) Computed as the weighted-average opening price of bitcoin on each respective day the mined bitcoin is earned. Excludes bitcoin earned from profit sharing associated with a bitcoin miner hosting agreement that expired in February 2024 at the Lake Mariner Facility.

(4) Excludes bitcoin earned from profit sharing associated with a bitcoin miner hosting agreement that expired in February 2024 at the Lake Mariner Facility and includes TeraWulf's net share of bitcoin mined at the Nautilus Cryptomine Facility, based on the hashrate share attributed to the Company.

(5) Excludes energy expenses associated with a bitcoin miner hosting agreement that expired in February 2024 at the Lake Mariner Facility and includes TeraWulf's net share of energy expense at the Nautilus Cryptomine Facility, based on aggregate nameplate power consumption of deployed miners attributed to TeraWulf's contribution to Nautilus.

Power costs are the most significant expense in our bitcoin mining operations, accounting for 46.4% and 56.9% of the total value of bitcoin mined for the three and six months ended June 30, 2025, respectively, and 34.8% and 31.5% for the three and six months ended June 30, 2024, respectively. The increase in power costs as a percentage of bitcoin mined for the three and six months ended June 30, 2025 as compared to 2024 was primarily driven by a near doubling of network difficulty and the bitcoin reward halving in April 2024, which reduced block rewards. The increase in three and six months ended June 30, 2025 is also driven by historically high power prices in the first quarter of 2025. These impacts were partially offset by growth in our average operating hashrate and an increase in the average market value of each bitcoin mined.

Energy prices are highly volatile, influenced by global events that can drive nationwide fluctuations in power costs. At the Lake Mariner Facility, power costs are subject to variable market rates, which can change hourly based on wholesale electricity pricing. While this introduces some unpredictability, it also provides us with the flexibility to actively manage our energy consumption, optimizing for profitability and efficiency. Energy prices are also highly sensitive to weather conditions, such as winter storms, which can increase regional power demand and drive up costs. During such events, we may curtail operations to avoid consuming power at peak rates, or we may be curtailed under demand response programs in which we participate. The average aggregate realized power prices at the Lake Mariner Facility were $0.053 and $0.065 per kWh during the three and six months ended June 30, 2025, respectively, and $0.037 and $0.039 per kWh at the Lake Mariner Facility and the Nautilus Cryptomine Facility during the three and six months ended June 30, 2024, respectively.

Our management and operations teams continuously monitor market conditions to determine when and for how long to curtail operations. If curtailment is not mandated under demand response programs, we make real-time decisions to curtail mining whenever power prices exceed the value of the fixed bitcoin reward. As a result, curtailment increases when bitcoin's value declines or energy prices rise, and decreases when bitcoin's value appreciates or energy costs fall. These decisions are actively managed on an hour-by-hour basis to optimize profitability.

During the three and six months ended June 30, 2025 and 2024, we curtailed operations at the Lake Mariner Facility in response to weather events, energy price spikes, and participation in demand response programs. The Company records expected payments to be received for demand response programs as a reduction in cost of revenue, which amounted to $3.1 million and $5.9 million for the three and six months ended June 30, 2025, respectively, and $1.9 million and $3.2 million for the three and six months ended June 30, 2024, respectively.

The Company has purchased all miners with cash, without relying on limited recourse equipment financing for miner acquisitions. To support operations and purchase miners and other fixed assets, we have raised capital through both equity issuances and corporate-level debt. Costs related to these capital raises are not included in this analysis.

Miner acquisition costs, or capital expenditures, are not factored into the cost of mining analysis, as they do not impact the marginal cost of producing one bitcoin. Instead, these costs are recorded as property, plant and equipment in the condensed consolidated balance sheets. Depreciation of property, plant and equipment is calculated using the straight-line method, with estimated useful lives of four years for miners and five years for computer equipment.

During the three and six months ended June 30, 2024, the Company recorded accelerated depreciation expense of $1.3 million and $5.1 million, respectively, related to certain miners whose estimated useful lives were shortened due to planned replacement by April 2024. While our standard depreciation period for miners is four years, historically low power costs may allow for a longer actual useful life in certain circumstances. However, if depreciation were included in the cost of mining analysis, it would add $33,745 and $35,294 per bitcoin mined for the three and six months ended June 30, 2025, respectively, and $21,532 and $17,660 per bitcoin mined for the three and six months ended June 30, 2024, respectively.

Estimating asset useful lives requires management judgement, particularly given the rapid evolution of next-generation mining rigs in industrial-scale bitcoin mining. Depreciation schedules may be adjusted if events, regulatory changes, or shifts in operating conditions indicate a need for revision. Management continuously evaluates factors such as future energy market conditions, operating costs, maintenance practices and capital investment needs to ensure depreciation assumptions remain reasonable. When an asset's estimated useful life is adjusted — either shortened or extended — depreciation provisions are updated accordingly, which could have a material impact on future financial results.

Recent Developments

In July 2025, the CB-1 Earnout Milestone was achieved and the Company paid $6.0 million in cash and issued 1.8 million shares of Common Stock to the Seller valued at $6.5 million, calculated on the basis of a 60-day trailing VWAP as of the date the CB-1 Earnout Milestone was achieved.

Results of Operations

The Company generates revenue in the form of bitcoin by providing hash computation services to a mining pool operator to mine bitcoin and validate transactions on the global bitcoin network using miners owned by the Company. The earned bitcoin are routinely sold for U.S. dollars. The Company also earned revenue by providing miner hosting services to third parties. While capable of mining other digital currencies, the Company has no current plans to do so.

The Company's business strategy centers on growing revenue and profitability by enhancing the capacity and efficiency of our bitcoin mining fleet while expanding our data center infrastructure to support HPC hosting activities. We plan to strategically develop the infrastructure necessary for profitability of bitcoin mining while pursuing adjacent high-value HPC hosting opportunities that leverage our power utilization and digital infrastructure. We are confident that our expertise in power infrastructure and digital asset mining can be favorably applied to the design, development, and operation of large-scale data centers. These data centers are optimized for high-value applications such as cloud computing, machine learning, and artificial intelligence. We are actively seeking opportunities to expand into these areas using our knowledge, expertise, and existing infrastructure wherever favorable market opportunities arise.

Revenue

The following table presents revenue (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Revenue	$ 47,636	$ 35,574	$ 82,041	$ 78,007

Revenue for the three months ended June 30, 2025 and 2024 was $47.6 million and $35.6 million, respectively, representing an increase of $12.0 million. Revenue for the six months ended June 30, 2025 and 2024 was $82.0 million and $78.0 million, respectively, representing an increase of $4.0 million. These increases were primarily due to the increase in average bitcoin prices during the periods, partially offset by a decrease in total bitcoin mined during the periods. Although the Company expanded its mining infrastructure capacity, due to the halving in April 2024 as well as an increase in network difficulty, the Company mined 485 and 857 bitcoin during the three and six months ended June 30, 2025, respectively, compared to 699 and 1,750 bitcoin during the same three and six month period in the prior year, respectively.

Bitcoin prices averaged $98,434 and $95,992 per bitcoin during the three and six months ended June 30, 2025, respectively, as compared to $65,771 and $59,515 per bitcoin during the three and six months ended June 30, 2024, respectively.

During the three and six months ended June 30, 2024, the Company also reported revenue from bitcoin miner hosting of $0.8 million prior to the expiration of the Company's one bitcoin miner hosting contract with a customer in February 2024.

Costs and Expenses

The following table presents cost of revenue (exclusive of depreciation) (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Cost of revenue (exclusive of depreciation)	$ 22,094	$ 13,918	$ 46,647	$ 28,326

Cost of revenue (excluding depreciation) for the three months ended June 30, 2025 and 2024 was $22.1 million and $13.9 million, respectively, representing an increase of $8.2 million. Cost of revenue (excluding depreciation) for the six months ended June 30, 2025 and 2024 was $46.6 million and $28.3 million, respectively, representing an increase of approximately $18.3 million. These increases were primarily driven by higher power expenses, resulting from both increased mining capacity due to infrastructure placed in service between June 30, 2024 and June 30, 2025, and higher realized power prices during the 2025 period partially offset by higher proceeds from participation in demand response programs. Proceeds from participation in demand response programs are recorded as a reduction in cost of revenue during the period in which the underlying program occurs. These proceeds totaled $3.1 million and $5.9 million during the three and six months ended June 30, 2025, respectively, as compared to $1.9 million and $3.2 million during the three and six months ended June 30, 2024, respectively. The Company is actively expanding its participation in such programs across New York State.

The following table presents operating expenses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Operating expenses	$ 2,039	$ 797	$ 3,183	$ 1,582
Operating expenses – related party	1,475	875	3,223	1,763
	$ 3,514	$ 1,672	$ 6,406	$ 3,345

Operating expenses (including related party expenses) for the three months ended June 30, 2025 and 2024, were $3.5 million and $1.7 million, respectively, an increase of $1.8 million. Operating expenses (including related party expenses) for the six months ended June 30, 2025 and 2024 were $6.4 million and $3.3 million, respectively, an increase of $3.1 million. These increases were primarily due to higher rent subsequent to the New Ground Lease in October 2024 and increased site labor, professional, and engineering expenses at the Lake Mariner Facility.

The following table presents selling, general and administrative expenses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Selling, general and administrative expenses	$ 9,996	$ 9,113	$ 56,569	$ 21,402
Selling, general and administrative expenses – related party	4,292	2,803	7,863	5,423
	$ 14,288	$ 11,916	$ 64,432	$ 26,825

Selling, general and administrative expenses (including related party expenses) for the three months ended June 30, 2025 and 2024 were $14.3 million and $11.9 million, respectively, an increase of $2.4 million which was primarily due to the $2.4 million performance milestone expense under the Services Agreement during the three months ended June 30, 2025.

Selling, general and administrative expenses (including related party expenses) for the six months ended June 30, 2025 and 2024 were $64.4 million and $26.8 million, respectively, an increase of $37.6 million. The increase for the six months ended June 30, 2025 as compared to the same period was due to business acquisition-related costs of $1.5 million, increased stock-based compensation of $28.2 million, increased employee compensation and benefits of $3.3 million, increased travel expenses of $1.2 million, increased professional service fees of $1.1 million, as well as the $2.4 million performance milestone expense under the Services Agreement during the six months ended June 30, 2025. Selling, general

and administrative expenses – related party increased $2.6 million under the Services Agreement with Beowulf E&D for the six months ended June 30, 2024.

Depreciation for the three months ended June 30, 2025 and 2024 was $18.8 million and $14.1 million, respectively, an increase of $4.7 million. Depreciation for the six months ended June 30, 2025 and 2024 was $34.4 million and $29.2 million, respectively, an increase of $5.2 million. The increase was primarily due to the increase in mining capacity related to infrastructure constructed and placed in service between June 30, 2024 and June 30, 2025. The increase was partially offset by (i) decrease in depreciation on certain electrical equipment and leasehold improvements related to a change in accounting estimate of useful lives in connection with the New Ground Lease in October 2024 and (ii) accelerated depreciation expense of $5.1 million during the three and six months ended June 30, 2024 related to certain miners of which the Company shortened their estimated useful lives based on expected replacement by April 2024.

(Gain) loss on fair value of digital currency, net during the three months ended June 30, 2025 and 2024 was $(0.9) million and $0.7 million, respectively. (Gain) loss on fair value of digital currency, net during the six months ended June 30, 2025 and 2024 was $(17,000) and $(0.6) million, respectively, due to the steady increases in the price of bitcoin during the three months ended June 30, 2025 as compared to decreases in the price of bitcoin during the three months ended June 30, 2024.

Change in fair value of contingent consideration was $1.6 million during the three and six months ended June 30, 2025 related to fair value remeasurement of contingent consideration liabilities for the acquisition of Beowulf E&D as of June 30, 2025.

Loss on disposals of property, plant, and equipment was $3.8 million during the three and six months ended June 30, 2025, due to 2,918 miner sold or otherwise disposed in May and June 2025 for proceeds of $1.9 million. No miners were sold or otherwise disposed during the three and six months ended June 30, 2024.

Interest expense during the three months ended June 30, 2025 and 2024 was $4.0 million and $5.3 million, respectively, a decrease of $1.3 million. The decrease is primarily attributed to $0.6 million of amortization of debt issuance costs for the 2030 Convertible Notes during the three months ended June 30, 2025 as compared to $3.1 million of amortization for the LGSA during the three months ended June 30, 2024. Interest expense during six months ended June 30, 2025 and 2024 was $8.1 million and $16.4 million, respectively, a decrease of $8.3 million. The decrease is primarily attributed to $1.2 million of amortization of debt issuance costs for to the 2030 Convertible Notes during the six months ended June 30, 2025 as compared to $10.7 million of amortization for the LGSA during six months ended June 30, 2024. The decrease is further driven by the lower stated interest rates, during three and six months ended June 30, 2025 and 2024, respectively.

Loss on extinguishment of debt during the three and six months ended June 30, 2024 was $0 and $2.0 million for related to voluntary prepayment of the Term Loans in February 2024, reflecting $0.3 million of prepayment fees and the derecognition of unamortized debt discount of $1.7 million associated with the principal repaid.

Interest income during the three months ended June 30, 2025 and 2024 was $1.2 million and $0.4 million, respectively, an increase of $0.8 million. Interest expense during the six months ended June 30, 2025 and 2024 was $3.5 million and $0.9 million, respectively. These increase were primarily due to an increase of interest earned on higher average cash balances during the three and six months ended June 30, 2025 as compared to the three and six months ended June 30, 2024.

There was no income tax benefit for the three and six months ended June 30, 2025 and 2024. Based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of the remaining deductible temporary differences, and as a result the Company has recorded a full valuation allowance against its gross deferred tax assets as of June 30, 2025 and December 31, 2024.

Equity in net income of investee, net of tax was $0.8 million and $6.0 million for the three and six months ended June 30, 2024, which represents TeraWulf's proportional share of income of Nautilus. On October 2, 2024, the Company sold its entire 25% equity interest in Nautilus to the Talen Member.

Non-GAAP Measure

To provide investors with additional information in connection with our results as determined in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), we disclose Adjusted EBITDA as a non-GAAP measure. This measure is not a financial measure calculated in accordance with U.S. GAAP, and it should not be considered as a substitute for net loss, operating loss, or any other measure calculated in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies.

We define Adjusted EBITDA as net loss adjusted for (i) impacts of interest, taxes, depreciation and amortization; (ii) stock-based compensation expense, amortization of right-of-use asset, related party expense settled with respect to Common Stock, which are noncash items that the Company believes are not reflective of its general business performance and for which the accounting requires management judgment, and the resulting expenses could vary significantly in comparison to other companies; (iii) equity in net income of investee, net of tax, related to Nautilus; (iv) interest income which management believes is not reflective of the Company's ongoing operating activities; (v) acquisition-related transaction costs which management believes is not reflective of the Company's ongoing operating activities; and (vi) change in fair value of contingent consideration, loss on extinguishment of debt and loss on disposals of property, plant and equipment, which are not reflective of the Company's general business performance. The Company's Adjusted EBITDA also included the impact of distributions from investee received in bitcoin related to a return on the Nautilus investment, which management believes, in conjunction with excluding the impact of equity in net income of investee, net of tax, is reflective of assets available for the Company's use in its ongoing operations as a result of its investment in Nautilus.

Management believes that providing this non-GAAP financial measure allows for meaningful comparisons between the Company's core business operating results and those of other companies, and provides the Company with an important tool for financial and operational decision making and for evaluating its own core business operating results over different periods of time. In addition to management's internal use of non-GAAP Adjusted EBITDA, management believes that Adjusted EBITDA is also useful to investors and analysts in comparing the Company's performance across reporting periods on a consistent basis. Management believes the foregoing to be the case even though some of the excluded items involve cash outlays and some of them recur on a regular basis (although management does not believe any of such items are normal operating expenses necessary to generate the Company's bitcoin related revenues). For example, the Company expects that share-based compensation expense, which is excluded from Adjusted EBITDA, will continue to be a significant recurring expense over the coming years and is an important part of the compensation provided to certain employees, officers, directors and consultants. Additionally, management does not consider any of the excluded items to be expenses necessary to generate the Company's bitcoin related revenue.

The Company's Adjusted EBITDA measure may not be directly comparable to similar measures provided by other companies in the Company's industry, as other companies in the Company's industry may calculate non-GAAP financial results differently. The Company's Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP and should not be considered as an alternative to net loss or any other measure of performance derived in accordance with U.S. GAAP. Although management utilizes internally and presents Adjusted EBITDA, the Company only utilizes that measure supplementally and does not consider it to be a substitute for, or superior to, the information provided by U.S. GAAP financial results. Accordingly, Adjusted EBITDA is not meant to be considered in isolation of, and should be read in conjunction with, the information contained in the Company's condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

The following table is a reconciliation of the Company's Adjusted EBITDA to its most directly comparable U.S. GAAP measure (i.e., net loss) for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Net loss	$ (18,370)	$ (10,876)	$ (79,788)	$ (20,489)
Adjustments to reconcile net loss to non-GAAP Adjusted EBITDA:				
Equity in net income of investee, net of tax	—	(767)	—	(6,042)
Distributions from investee, related to Nautilus	—	7,065	—	19,087
Income tax benefit	—	—	—	—
Interest income	(1,232)	(447)	(3,491)	(947)
Loss on extinguishment of debt	—	—	—	2,027
Change in fair value of contingent consideration	1,600	—	1,600	—
Interest expense	4,012	5,325	8,061	16,370
Loss on disposals of property, plant, and equipment	3,831	—	3,831	—
Depreciation	18,786	14,133	34,360	29,221
Amortization of right-of-use asset	750	251	1,435	503
Stock-based compensation expense	1,304	4,842	39,978	11,773
Related party expense settled with respect to common stock	2,375	—	2,375	—
Acquisition-related transaction costs	1,475	—	1,475	—
Non-GAAP Adjusted EBITDA	$ 14,531	$ 19,526	$ 9,836	$ 51,503

Liquidity and Capital Resources

The principal uses of cash are for the operation and buildout of data center facilities, debt service and general corporate activities. Cash flow information is as follows (in thousands):

	Six Months Ended June 30,	
	2025	2024
Cash provided by (used in):		
Operating activities:	$ 1,677	$ 39,227
Investing activities	(132,096)	(93,579)
Financing activities	(52,228)	104,022
Net change in cash and cash equivalents	$ (182,647)	$ 49,670

Cash provided by operating activities was $1.7 million and $39.2 million for the six months ended June 30, 2025 and 2024, respectively. This decrease is primarily due to an $18.3 million increase in cost of revenue during the 2025 period compared to the prior year. Cost of revenue, which primarily consists of power expenses, increased due to expanded mining and hosting capacity, the effects of the April 2024 halving and increased network hashrate, and higher realized power prices. Additionally, prior to the repayment of its Term Loans in July 2024, the Company converted bitcoin to cash almost immediately. As a result, $97.6 million in proceeds from digital currency sales were included in operating cash flows for the six months ended June 30, 2024. In contrast, during the same period in 2025, bitcoin sales proceeds of $82.4 million are classified as cash flows from investing activities, as the Company no longer converts bitcoin to cash on a near-immediate basis. Additionally, in 2025 the Company received $90.0 million in prepaid rent from the Company's HPC customer ahead of lease commencement, which are reflected in the condensed consolidated balance sheet as of June 30, 2025 within the current and noncurrent portions of deferred rent liability, totaling $47.7 million and $42.3 million, respectively.

Cash used in investing activities was $132.1 million and $93.6 million for the six months ended June 30, 2025 and 2024, respectively. The increase in cash used in investing activities is primarily attributed to increases in purchase of and deposits on plant and equipment of $120.1 million related to the buildout of its facilities at the Lake Mariner Facility and $2.7 million cash paid for the acquisition of Beowulf E&D. The increase in cash used in investing activities was partially offset by the classification of cash received as proceeds from sales of digital currency not converted nearly immediately into cash of $82.4 million and cash received for miners sold of $1.9 million during the six months ended June 30, 2025.

Cash (used in) provided by financing activities from continuing operations was $(52.2) million and $104.0 million for the six months ended June 30, 2025 and 2024, respectively. During the six months ended June 30, 2025 and 2024, the Company repurchased $33.3 million and $0 of treasury stock under the Share Repurchase Program, respectively, and paid $18.9 million and $5.7 million in taxes related to net share settlements of stock-based compensation awards, respectively. During the six months ended June 30, 2024, financing activities included $173.2 million in proceeds from issuances of Common Stock, partially offset by $63.6 million in principal repayments on long-term debt.

Financial Condition

As of June 30, 2025, the Company had cash and cash equivalents of $90.0 million, a working capital balance of $(52.2) million, total stockholders' equity of $174.3 million and an accumulated deficit of $412.1 million. The Company incurred a net loss of $79.8 million for the six months ended June 30, 2025. The Company began mining bitcoin in March 2022 and has 12.8 EH/s of operating capacity at the Lake Mariner Facility as of the date of this Quarterly Report. To date, the Company has relied primarily on proceeds from sale of bitcoin, both self-mined and distributed from the joint venture which owned the Nautilus Cryptomine Facility ,rent prepayments, and its issuances of debt and equity to fund its principal operations.

Critical Accounting Estimates

The above discussion and analysis of the Company's financial condition and results of operations are based upon its condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the Company's condensed consolidated financial statements requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

See Note 2 of the Notes to Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q and Note 2 of the Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2024 for a summary of the Company's significant accounting policies.

Digital Currency

Digital currency consists of bitcoin earned as noncash consideration for providing hash computation services to a mining pool. Digital currency is classified as an intangible asset with indefinite useful life and presented as a current asset on the condensed consolidated balance sheets, based on the Company's ability to sell bitcoin in a highly liquid market and its expectation to convert these holdings to cash within the next twelve months. Effective January 1, 2024, the Company early adopted ASU 2023-08, which requires digital assets to be measured at fair value each reporting period in accordance with ASC 820, with changes in fair value recognized as net income. Gains and losses from the remeasurement of digital currency are recorded in "(gain) loss on fair value of digital currency, net" within the consolidated statements of operations. Similarly, realized gains and losses from bitcoin sales - measured as the difference between the cash proceeds and the cost basis, determined on a first-in, first-out basis - are also reported within this line item.

Bitcoin earned through mining is reflected as a noncash adjustment reconciling net loss to cash flows from operating activities in the consolidated statements of cash flows. Bitcoin received as distributions-in-kind from equity investees is reported as supplemental noncash investing activity. Prior to the repayment of the Term Loans in July 2024 (see Note 10), bitcoin was converted into cash immediately upon mining, and related sales proceeds were included in cash flows from operating activities. Following the loan repayment, the Company no longer converts bitcoin into cash immediately, and proceeds from bitcoin sales are now reported within cash flows from investing activities.

Long-Lived Assets

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Judgment is necessary in estimating the Company's various assets' useful lives. This includes evaluating the Company's own usage experience with its currently owned assets, the quality of materials used in construction-related projects and, for its miners, the rate of technological advancement and market-related factors such as the price of bitcoin and the bitcoin network hashrate, which impact the value of the miners. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally 5 years for computer equipment and 4 years for miners). Leasehold improvements and electrical equipment are depreciated over the shorter of their estimated useful lives or the lease term. Changes in depreciation and amortization, generally accelerated depreciation, are determined and recorded when estimates of the remaining useful lives or residual values of long-term assets change.

The Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or asset group, may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted cash flows expected to be generated by the asset. Significant judgment is used when estimating future cash flows, particularly the price of bitcoin and the network hashrate. Any impairment loss recorded is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. Should our estimates of useful lives, undiscounted cash flows, or asset fair values change, additional and potentially material impairments may be required, which could have a material impact on our reported financial results.

Stock-Based Compensation

The Company measures stock-based compensation cost related to share-based payment awards at the grant date of the award, based on the estimated fair value of the award. For RSUs with time-based vesting, the fair value is determined by Common Stock price on the date of the grant. For RSUs with vesting based on market conditions ("PSUs"), the effect of the market condition is considered in the determination of fair value on the grant date using a Monte Carlo simulation model. Stock-based compensation expense for PSUs is recorded over the derived service period unless the market condition is satisfied in advance of the derived service period, in which case a cumulative catch-up is recognized as of the date of achievement. Stock-based compensation for PSUs is recorded regardless of whether the market conditions are met unless the service conditions are not met. The Company accounts for forfeitures as they occur. The Company uses significant judgment in determining the likelihood of meeting milestones and market conditions. Inputs into valuation models such as Monte Carlo simulations include both the Company's and guideline public company historical and expected annual volatility and, depending on the inputs selected, the Company could calculate significantly different estimated grant date fair values, materially impacting the valuation of our stock-based awards and the stock-based compensation expense we recognize in future periods.

Income Taxes

The Company accounts for income taxes pursuant to ASC 740, which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred tax asset will not be realized. The Company follows the provision of ASC 740 related to accounting for uncertain income tax positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely that not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. The tax benefits recognized in the condensed consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the Company's balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The most critical estimate for income taxes is the determination of whether to record a valuation allowance for any net deferred tax asset, including net loss carryforwards, whereby management must estimate whether it is more likely than not that the deferred tax asset would be realized.

Assets Acquired and Liabilities Assumed in a Business Combination

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805 - Business Combinations, by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, measured at the acquisition date fair value. The determination of fair value involves assumptions, estimates and judgments. Any purchase consideration in excess of the estimated fair values of net assets acquired is recorded as goodwill.

Goodwill Impairment

Goodwill is not subject to amortization, and instead, assessed for impairment annually, or more frequently when events or changes in circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount in accordance with ASC 350.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated statement of financial position of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") (the "**Unaudited Pro Forma Financial Information**") prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants and on the basis of the notes set out below, to illustrate the effect on the financial position of the Group as if the acquisition and disposal of TeraWulf Inc. (Nasdaq trading symbol: WULF) shares ("**TeraWulf Shares**") (the "**Major Transaction**") had been completed on 30 June 2025.

This Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Group had the Major Transaction been completed on 30 June 2025.The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Statement of Financial Position

	Unaudited 30 June 2025	Pro forma adjustments		Unaudited Pro forma 30 June 2025
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	
NON-CURRENT ASSETS				
Plant and equipment	24,530	–	–	24,530
Right-of-use assets	1,090	–	–	1,090
Intangible assets	644	–	–	644
Deferred tax assets	1,108	–	–	1,108
	27,372	–	–	27,372
CURRENT ASSETS				
Inventories	1,564	–	–	1,564
Trade and other receivables	16,312	–	–	16,312
Contract assets	2,145	–	–	2,145
Amounts due from related companies	10,959	–	–	10,959
Financial assets at fair value through profit or loss	51,539	36,943	(15,024)	73,458
Deferred tax asset	323	–	–	323
Bank balances and cash	25,054	(37,035)	14,986	3,005
	107,896	(92)	(38)	107,766
CURRENT LIABILITIES				
Trade and other payables	42,476	–	–	42,476
Amount due to related companies	1,137	–	–	1,137
Lease liabilities	873	–	–	873
Loan from ultimate controlling party	18,193	–	–	18,193
Loans from related companies	44,350	–	–	44,350
Income tax payables	34	–	–	34
	107,063	–	–	107,063
NET CURRENT ASSETS	833	(92)	(38)	703
TOTAL ASSETS LESS CURRENT LIABILITIES	28,205	(92)	(38)	28,075

	Unaudited 30 June 2025	Pro forma adjustments		Unaudited Pro forma 30 June 2025
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	
NON-CURRENT LIABILITIES				
Lease liabilities	287	–	–	287
NET ASSETS	27,918	(92)	(38)	27,788
CAPITAL AND RESERVES				
Share capital	8,000	–	–	8,000
Reserves	(80,082)	(92)	(38)	(80,212)
	(72,082)	(92)	(38)	(72,212)
Perpetual bonds	100,000	–	–	100,000
TOTAL EQUITY	27,918	(92)	(38)	27,788

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The exchange rate set out below have been used in the preparation of the adjustment unless specified in the note.

US$1 = HK$7.78

Notes:

1. The unaudited consolidated statement of financial position of the Group as at 30 June 2025 has been extracted from the interim report of the Company for the six months ended 30 June 2025 dated 27 August 2025.

2. The Group acquired TeraWulf Shares through the open market with details below. Total consideration of TeraWulf Shares was HK$37,035,000, being assumed to the fair value of TeraWulf Shares as at the transaction date.

Trade date	**Number of shares acquired**	**Average purchase price per share** *US$*	**Average purchase price per share** *HK$*	**Consideration (excluding stamp duty and related expenses)** *HK$'000*	**Stamp duty and related expenses** *HK$'000*	**Total consideration** *HK$'000*
11 September 2025	30,000	11	85	2,537	6	2,543
11 September 2025	20,000	11	83	1,659	4	1,663
11 September 2025	20,000	11	84	1,680	4	1,684
11 September 2025	20,000	11	82	1,640	4	1,644
11 September 2025	9,500	11	82	781	2	783
11 September 2025	20,000	11	83	1,663	4	1,667
11 October 2025	10,000	15	119	1,190	3	1,193
11 October 2025	10,000	15	120	1,196	3	1,199
11 October 2025	10,000	15	118	1,183	3	1,186
11 October 2025	10,000	16	121	1,206	3	1,209
11 October 2025	10,000	15	120	1,198	3	1,201
11 October 2025	10,000	15	119	1,190	3	1,193
11 October 2025	10,000	15	118	1,182	3	1,185
11 October 2025	10,000	15	119	1,190	3	1,193
11 October 2025	10,000	15	119	1,186	3	1,189
11 October 2025	10,000	15	119	1,186	3	1,189
11 October 2025	800	15	117	94	–	94
29 October 2025	28,000	16	126	3,542	8	3,550
29 October 2025	30,000	16	127	3,802	10	3,812
29 October 2025	30,000	16	127	3,820	10	3,830
29 October 2025	30,000	16	127	3,818	10	3,828
				36,943	92	37,035

3. The Group disposed TeraWulf Shares through the open market with details below. Total consideration of TeraWulf Shares was HK$14,986,000, being assumed to the fair value of TeraWulf Shares as at the transaction date.

Trade date	**Number of shares disposed**	**Average selling price per share** *US$*	**Average selling price per share** *HK$*	**Consideration (excluding stamp duty and related expenses)** *HK$'000*	**Stamp duty and related expenses** *HK$'000*	**Total consideration** *HK$'000*
1 November 2025	36,000	15	119	4,290	11	4,279
1 November 2025	30,000	15	119	3,583	9	3,574
1 November 2025	30,000	15	119	3,571	9	3,562
1 November 2025	30,000	15	119	3,580	9	3,571
				15,024	38	14,986

4. Other than the above adjustments, no other adjustment had been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions that the Group entered subsequent to 30 June 2025. The above adjustments are not expected to have a continuing effect on the Unaudited Pro Forma Financial Information of the Group.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Brainhole Technology Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Brainhole Technology Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2025 and related notes as set out on pages IV-1 to IV-5 of the circular in connection with the acquisition and disposal of TeraWulf Inc. (Nasdaq trading symbol: WULF) shares ("**TeraWulf Shares**") (the "**Major Transaction**") issued by the Company dated 16 December 2025 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page IV-4 to IV-5 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Major Transaction on the Group's financial position as at 30 June 2025 as if the Major Transaction had taken place at 30 June 2025. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six months ended 30 June 2025 on which no review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management ("**HKSQM**") 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Major Transaction on the unadjusted financial information of the Group as if the Major Transaction had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Major Transaction at 30 June 2025 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Prism Hong Kong Limited
Certified Public Accountants

Yip Chi Chiu
Practising Certificate Number: P06934
Hong Kong
16 December 2025

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares of the Company

As at the Latest Practicable Date, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange.

Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in the Company as at Latest Practicable Date
Mr. Zhang Liang Johnson	Interest of controlled Corporation *(Note 2)*	599,658,000 Shares (L)	74.96%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at the Latest Practicable Date, through Yoho Bravo Limited which is wholly-owned by him.

(b) Substantial Shareholders' interests and short positions

Name of Shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in our Company as at the Latest Practicable Date
Yoho Bravo Limited *(Note 2)*	Beneficial owner	599,658,000 Shares (L)	74.96%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at the Latest Practicable Date, through Yoho Bravo Limited which is wholly-owned by him.

Save as disclosed herein, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered, or proposed to enter, into any service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2024 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group.

5. MATERIAL CONTRACTS

The Group has entered into the following contract (not being contract entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date which is or may be material:

(a) on 19 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,200 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(b) on 19 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 15,700 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(c) on 19 December 2023 (after trading hours of Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 7,100 Class A common stocks of DraftKings, Inc. through the open market at the aggregate consideration of approximately US$0.3 million (equivalent to approximately HK$2.0 million) (for which no written contract was entered into between the parties thereto);

(d) on 19 December 2023 (after trading hours of Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,560 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(e) on 19 December 2023 (after trading hours of Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 810 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.3 million (equivalent to approximately HK$2.0 million) (for which no written contract was entered into between the parties thereto);

(f) on 20 December 2023 (after trading hours of Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 5,300 Class A common stocks of Airbnb, Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(g) on 20 December 2023 (after trading hours of Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 17,650 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(h) on 27 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,470 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(i) on 27 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 2,350 Class A common stocks of Airbnb, Inc. through the open market at the aggregate consideration of approximately US$0.3 million (equivalent to approximately HK$2.5 million) (for which no written contract was entered into between the parties thereto);

(j) on 27 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,310 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(k) on 9 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 890 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.6 million) (for which no written contract was entered into between the parties thereto);

(l) on 9 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 13,700 Class A common stocks of DraftKings Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.7 million) (for which no written contract was entered into between the parties thereto);

(m) on 23 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,460 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(n) on 23 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 33,500 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$1.5 million (equivalent to approximately HK$11.8 million) (for which no written contract was entered into between the parties thereto);

(o) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,910 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (for which no written contract was entered into between the parties thereto);

(p) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 3,340 American depository shares of Taiwan Semiconductor Manufacturing Company Limited through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(q) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 10,700 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$1.4 million (equivalent to approximately HK$10.5 million) (for which no written contract was entered into between the parties thereto);

(r) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,070 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.9 million) (for which no written contract was entered into between the parties thereto);

(s) on 30 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,960 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(t) on 30 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,430 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(u) on 5 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 3,880 American depository shares of Pinduoduo Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.7 million) (for which no written contract was entered into between the parties thereto);

(v) on 5 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 3,340 American depository shares of Taiwan Semiconductor Manufacturing Company Limited through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.1 million) (for which no written contract was entered into between the parties thereto);

(w) on 6 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 3,220 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(x) on 8 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 21,300 Class A common stocks of Palantir Technologies Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(y) on 8 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 3,740 American depository shares of Pinduoduo Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.7 million) (for which no written contract was entered into between the parties thereto);

(z) on 13 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 21,300 Class A common stocks of Palantir Technologies Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(aa) on 14 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 5,710 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(bb) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,740 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(cc) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 880 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(dd) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 2,650 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(ee) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,020 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(ff) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,470 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(gg) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 213,000 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB15.5 million (equivalent to approximately HK$17.1 million) (for which no written contract was entered into between the parties thereto);

(hh) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 16,370 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$2.9 million (equivalent to approximately HK$22.3 million) (for which no written contract was entered into between the parties thereto);

(ii) on 21 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 51,500 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB3.7 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(jj) on 22 February 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,920 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (for which no written contract was entered into between the parties thereto);

(kk) on 22 February 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 840 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(ll) on 27 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 33,350 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(mm) on 28 February 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 93,800 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB8.3 million (equivalent to approximately HK$9.1 million) (for which no written contract was entered into between the parties thereto);

(nn) on 29 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 1,490 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(oo) on 1 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 101,200 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB9.2 million (equivalent to approximately HK$10.1 million) (for which no written contract was entered into between the parties thereto);

(pp) on 6 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 780 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.9 million) (for which no written contract was entered into between the parties thereto);

(qq) on 6 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 870 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(rr) on 7 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 305,000 domestic shares of IEIT SYSTEMS Co., Ltd. (浪潮電子信息產業股份有限公司) through the open market at the aggregate consideration of approximately RMB12.9 million (equivalent to approximately HK$14.2 million) (for which no written contract was entered into between the parties thereto);

(ss) on 21 March 2024 (after trading hours of the Stock Exchange), Company executed a trade order with BOCI Securities Limited relating to the disposal of 201,000 domestic shares of IEIT SYSTEMS Co., Ltd. (浪潮電子信息產業股份有限公司) through the open market at the aggregate consideration of approximately RMB8.3 million (equivalent to approximately HK$9.1 million) (for which no written contract was entered into between the parties thereto);

(tt) on 21 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 23,200 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$19.8 million) (for which no written contract was entered into between the parties thereto);

(uu) on 21 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 181,000 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB18.4 million (equivalent to approximately HK$20.3 million) (for which no written contract was entered into between the parties thereto);

(vv) on 22 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 650,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$18.0 million (for which no written contract was entered into between the parties thereto);

(ww) on 22 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 94,000 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB9.2 million (equivalent to approximately HK$10.2 million) (for which no written contract was entered into between the parties thereto);

(xx) on 1 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 10,400 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$10.0 million) (for which no written contract was entered into between the parties thereto);

(yy) on 1 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 740 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(zz) on 2 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 166,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$5.0 million (for which no written contract was entered into between the parties thereto);

(aaa) on 23 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 145,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$5.0 million (for which no written contract was entered into between the parties thereto);

(bbb) on 30 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 66,100 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB6.5 million (equivalent to approximately HK$7.1 million) (for which no written contract was entered into between the parties thereto);

(ccc) on 7 May 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 82,900 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB7.3 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(ddd) on 21 May 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 5,200 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB0.5 million (equivalent to approximately HK$0.5 million) (for which no written contract was entered into between the parties thereto);

(eee) on 21 May 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,370 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$10.0 million) (for which no written contract was entered into between the parties thereto);

(fff) on 22 May 2024, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 40,700 domestic shares of Seres Group Co., Ltd. (賽力斯集團股份有限公司) through the open market at the aggregate consideration of approximately RMB3.5 million (equivalent to approximately HK$3.9 million) (for which no written contract was entered into between the parties thereto);

(ggg) on 23 May 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 9,950 Class A common stocks of Vertiv Holdings Co through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(hhh) on 23 May 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 495 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(iii) on 31 May 2024, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 321,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$12.0 million (for which no written contract was entered into between the parties thereto);

(jjj) on 6 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 9,950 Class A common stocks of Vertiv Holdings Co through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.5 million) (for which no written contract was entered into between the parties thereto);

(kkk) on 17 June 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 378,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$15.0 million (for which no written contract was entered into between the parties thereto);

(lll) on 17 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 12,790 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) (for which no written contract was entered into between the parties thereto);

(mmm) on 17 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 2,580 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$2.2 million (equivalent to approximately HK$17.0 million) (for which no written contract was entered into between the parties thereto);

(nnn) on 18 June 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 262,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$10.4 million (for which no written contract was entered into between the parties thereto);

(ooo) on 20 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 2,680 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$20.4 million) (for which no written contract was entered into between the parties thereto);

(ppp) on 20 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 363,100 call options of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$5.1 million (equivalent to approximately HK$39.8 million) (for which no written contract was entered into between the parties thereto);

(qqq) on 20 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 150,000 call options of Taiwan Semiconductor Manufacturing Company Limited through the open market at the aggregate consideration of approximately US$2.1 million (equivalent to approximately HK$16.1 million) (for which no written contract was entered into between the parties thereto);

(rrr) on 24 June 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 8,000 put options of Broadcom Inc. through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.9 million) (for which no written contract was entered into between the parties thereto);

(sss) on 26 September 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 15,360 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.8 million) (for which no written contract was entered into between the parties thereto);

(ttt) on 27 September 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 187,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$10.0 million (for which no written contract was entered into between the parties thereto);

(uuu) on 2 October 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 187,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$10.5 million (for which no written contract was entered into between the parties thereto);

(vvv) on 2 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 396,000 American depositary shares of UP Fintech Holding Limited through the open market at the aggregate consideration of approximately US$3.0 million (equivalent to approximately HK$23.0 million) (for which no written contract was entered into between the parties thereto);

(www) on 2 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 147,000 Class A ordinary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately HK$10.0 million (for which no written contract was entered into between the parties thereto);

(xxx) on 2 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 41,800 American depositary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately to HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(yyy) on 2 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 33,600 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$3.4 million (equivalent to approximately HK$26.4 million) (for which no written contract was entered into between the parties thereto);

(zzz) on 4 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 260,100 call options of UP Fintech Holding Limited through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.8 million) (for which no written contract was entered into between the parties thereto);

(aaaa) on 4 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 8,000 put options of Broadcom Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.1 million) (for which no written contract was entered into between the parties thereto);

(bbbb) on 8 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 396,000 American depositary shares of UP Fintech Holding Limited through the open market at the aggregate consideration of approximately US$3.6 million (equivalent to approximately HK$27.9 million) (for which no written contract was entered into between the parties thereto);

(cccc) on 11 October 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 143,000 American depositary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately US$3.2 million (equivalent to approximately to HK$25.0 million) (for which no written contract was entered into between the parties thereto);

(dddd) on 11 November 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 60,300 American depositary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately to HK$10.0 million) (for which no written contract was entered into between the parties thereto);

(eeee) on 5 December 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 16,200 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately to HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(ffff) on 28 January 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 153,500 American depository shares of XPeng Inc. through the open market at the aggregate consideration of approximately US$2.3 million (equivalent to approximately to HK$18.0 million) (for which no written contract was entered into between the parties thereto);

(gggg) on 28 January 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 62,900 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$3.1 million (equivalent to approximately to HK$24.0 million) (for which no written contract was entered into between the parties thereto);

(hhhh) on 31 January 2025, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 6,400 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(iiii) on 31 January 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 102,500 American depository shares of XPeng Inc. through the open market at the aggregate consideration of approximately US$1.5 million (equivalent to approximately to HK$12.0 million) (for which no written contract was entered into between the parties thereto);

(jjjj) on 31 January 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 22,000 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$1.2 million (equivalent to approximately to HK$9.0 million) (for which no written contract was entered into between the parties thereto);

(kkkk) on 4 February 2025 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 8,400 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(llll) on 4 February 2025 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 9,800 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$0.5 million (equivalent to approximately to HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(mmmm) on 11 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 220,800 common stocks of BigBear.ai Holdings, Inc. through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately to HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(nnnn) on 11 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 28,600 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$2.2 million (equivalent to approximately HK$16.8 million) (for which no written contract was entered into between the parties thereto);

(oooo) on 13 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 51,000 American depository shares of XPeng Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately to HK$6.3 million) (for which no written contract was entered into between the parties thereto);

(pppp) on 14 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 103,220 common stocks of BigBear.ai Holdings, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately to HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(qqqq) on 14 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 57,700 American depositary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately US$1.2 million (equivalent to approximately to HK$9.0 million) (for which no written contract was entered into between the parties thereto);

(rrrr) on 22 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 36,900 common stocks of Innodata Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately to HK$20.0 million) (for which no written contract was entered into between the parties thereto);

(ssss) on 22 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 50,400 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$2.9 million (equivalent to approximately to HK$22.2 million) (for which no written contract was entered into between the parties thereto);

(tttt) on 25 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 26,300 common stocks of Innodata Inc. through the open market at the aggregate consideration of approximately US$1.5 million (equivalent to approximately to HK$12.0 million) (for which no written contract was entered into between the parties thereto);

(uuuu) on 25 February 2025, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 66,800 American depositary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately US$1.4 million (equivalent to approximately to HK$10.6 million) (for which no written contract was entered into between the parties thereto);

(vvvv) on 9 July 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 13,600 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately to HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(wwww) on 9 July 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 3,600 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(xxxx) on 9 July 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 324,000 common stocks of BigBear.ai Holdings, Inc. through the open market at the aggregate consideration of approximately US$2.8 million (equivalent to approximately to HK$21.6 million) (for which no written contract was entered into between the parties thereto);

(yyyy) on 11 July 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 147,000 Class A ordinary shares of KE Holdings Inc. through the open market at the aggregate consideration of approximately HK$7.4 million (for which no written contract was entered into between the parties thereto);

(zzzz) on 12 August 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 29,400 Class A common stocks of Nebius Group N.V., Inc. through the open market at the aggregate consideration of approximately US$2.2 million (equivalent to approximately to HK$16.8 million) (for which no written contract was entered into between the parties thereto);

(aaaaa) on 12 August 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 14,400 Class A common stocks of Tempus AI, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately to HK$6.9 million) (for which no written contract was entered into between the parties thereto);

(bbbbb) on 12 August 2025, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 6,540 Class A common stock of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately to the HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(ccccc) on 12 August 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 4,580 Class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$1.5 million (equivalent to approximately HK$11.5 million) (for which no written contract was entered into between the parties thereto);

(ddddd) on 12 August 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 63,200 common stocks of Innodata Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately to HK$20.5 million) (for which no written contract was entered into between the parties thereto);

(eeeee) on 11 September 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 119,500 TeraWulf Shares through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately to HK$10.0 million) (for which no written contract was entered into between the parties thereto);

(fffff) on 11 September 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 14,400 Class A common stocks of Tempus AI, Inc. through the open market at the aggregate consideration of approximately US$1.2 million (equivalent to approximately to HK$9.1 million) (for which no written contract was entered into between the parties thereto);

(ggggg) on 11 October 2025, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 100,800 TeraWulf Shares through the open market at the aggregate consideration of approximately US$1.5 million (equivalent to approximately to HK$12.0 million) (for which no written contract was entered into between the parties thereto);

(hhhhh) on 11 October 2025, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 12,700 Class A common stocks of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately to HK$15.1 million) (for which no written contract was entered into between the parties thereto);

(iiiii) on 29 October 2025, the Company executed a trade order with BOCI Securities Limited relating to the Further Acquisition of TeraWulf Shares through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately to HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(jjjjj) on 29 October 2025, the Company executed a trade order with BOCI Securities Limited relating to the disposal of 15,300 Class A common stocks of Nebius Group N.V., Inc. through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately to HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(kkkkk) on 1 November 2025, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 14,700 Class A common stocks of Nebius Group N.V., Inc. through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately to HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(lllll) on 1 November 2025, the Company executed a trade order with BOCI Securities Limited relating to the Disposal of TeraWulf Shares through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately to HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(mmmmm) on 18 November 2025, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 11,300 Class A common stocks of Robinhood Markets, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately to HK$10.5 million) (for which no written contract was entered into between the parties thereto); and

(nnnnn) on 18 November 2025, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 34,300 common shares of Canadian Solar Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately to HK$8.0 million) (for which no written contract was entered into between the parties thereto).

6. EXPERT AND CONSENT

The following are the qualifications of the expert who has given advice or opinions contained in this circular:

Name	Qualifications
Prism Hong Kong Limited ("**Prism**")	Certified Public Accountants

Prism has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Prism had no shareholding in any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, Prism did not have any direct or indirect interest in any assets which have been, since 31 December 2024 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The report from Prism on the unaudited pro forma consolidated statement of financial position of the Group as set out in Appendix IV is given as of the date of this circular for incorporation herein.

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Group is not engaged in any material litigation or arbitration proceedings nor is any material litigation or claim pending or threatened against it.

8. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of the Group.

9. GENERAL

(a) The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suites 1801–03, 18/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(c) The Hong Kong share registrar of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Ms. Wong Tik. Ms. Wong is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants.

(e) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.

10. DOCUMENTS ON DISPLAY

Copies of (i) memorandum giving full particulars of the transactions contemplated under the Further Acquisition of TeraWulf Shares (material contract (iiiii) as mentioned above) and (ii) the written consent referred to in the section headed "EXPERT AND CONSENT" in this Appendix will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.brainholetechnology.com) for a period of 14 days from the date of this circular.