HUT 8

# Q1 2024 Earnings Conference Call

May 15, 2024

## Hut 8 Speakers

**Asher Genoot**
Chief Executive Officer

**Shenif Visram**
Chief Financial Officer

**Operator**

Good morning, and welcome to Hut 8's Q1 2024 financial results conference call. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded and a transcript will be available on Hut 8's website. In addition to the press release issued earlier today, you can find Hut 8's quarterly report on Form 10-Q on the company's website at www.hut8.com, under the company's EDGAR profile at www.sec.com, and under the company's SEDAR+ profile at www.sedarplus.ca.

Unless otherwise noted, all amounts referred to during this call are denominated in US dollars. Any comments made during this call may include forward-looking statements within the meaning of applicable securities laws regarding Hut 8 Corp and its subsidiaries. The statements may reflect current expectations, and as such, are subject to a variety of risk and uncertainties that could cause actual results to differ materially from current expectations. These risk and uncertainties include but are not limited to factors discussed in Hut 8's Form 10-Q for the three months ended March 31st, 2024, and Form 10-K for the year ended December 31st, 2023, as well as the company's other continuous disclosure documents.

Except as required by applicable law, Hut 8 undertakes no obligation to publicly update or review any forward-looking statements. During the call, Management may also make reference to certain non-GAAP measures that are not separately defined under GAAP, such as adjusted EBITDA. Management believes that non-GAAP measures taken in conjunction with GAAP financial measures provides useful information for both management and investors. Reconciliations between GAAP and non-GAAP results are presented in the tables accompanying the press release, which can be viewed on Hut 8's website. I would now like to turn the call over to Asher Genoot, CEO of Hut 8.

---

**Asher Genoot,** Chief Executive Officer

Thank you, and good morning, everyone. It has been a privilege to lead Hut 8 for the last three months. When I became CEO in February, I launched a comprehensive restructuring program designed to bring the operating rigor of the US Bitcoin Corp to the new Hut 8. Since then, I have methodically and meticulously drilled down into every facet of the business in an effort to drive efficiencies, increase profitability, and set the business on a new trajectory.

We have centered Hut 8 on operating excellence and bottom-line economics, making the difficult but necessary decisions to position the business for long-term success. While strengthening this foundation is an ongoing commitment, I'd like to share some highlights from the first quarter.
In our digital assets mining or self-mining segment, we streamline and optimize our operations by shutting down our underperforming Drumheller site, retiring inefficient machines, initiating the relocation of our fleet from hosted to owned facilities, and beginning the implementation of our proprietary energy curtailment software across our sites.

In our managed services segment, we've signed a four-year partnership with Ionic Digital and began managing the construction and operation of its West Texas facilities. And in our High Performance

Computing, or HPC, segment, we completed our initial review of the business and executed initiatives to strengthen financial performance, which included sunsetting unprofitable products and reducing operating expenses. At an organizational level, we have restructured our leadership team, eliminated redundant and underperforming roles, and initiated an ongoing budget review process with the goal of further reducing our overhead expenses.

Going forward, we will remain lean and focused on areas where we can build and sustain competitive moats, allocating resources thoughtfully while investing aggressively to build best-in-class talent, technology, and infrastructure design, construction, and operating capabilities.

With that, I'll turn to our results for the quarter, which reflects the combined company's performance for the full period. Note that the results for the comparison period reflect US Bitcoin Corp's performance as a standalone business prior to the merger. Our revenue for the quarter was $51.7 million, up 231% from the prior year. Nearly 25% of this revenue came from our managed services and HPC segments. Both of which generate recurring fiat revenue streams that reduce the downside risk of Bitcoin exposure in our mining business.

Net income attributable to Hut 8 for the quarter was $250.9 million versus $17.3 million in the prior year. Adjusted EBITDA was $297 million versus $11.1 million in the prior year. Like many of our peers, we benefited from the early adoption of the new FASB fair value accounting rules. Our average cost to mine a Bitcoin, excluding hosted facilities, was $20,419. Our average cost to mine a Bitcoin, including hosted facilities, was $24,594.

Importantly, as of March 31st, we have ended all self-mining operations at hosted facilities and now only mine at our own facilities, giving us a higher level of control over our fleet and operating costs moving forward. The increase in our cost to mine this period was driven primarily by higher network difficulty, which nearly doubled year over year. Driving down our all-in cost to mine through both direct cost reduction and revenue diversification remains a priority.

Analysis from Cantor Fitzgerald's latest cost-per-coin report validates our dual approach. In the fourth quarter of 2023, Cantor estimated that we had the third-lowest all-in cost of mine among the 14 miners analyzed. As I shared last quarter, we are focused on two pillars of growth—strengthening and growing our self-mining business and continuing to diversify our broader business.

Since the close of the quarter, we've made significant headway on both pillars. In our digital assets mining segment, we brought 63 megawatts of new capacity online after energizing our Salt Creek site and completing the relocation of our fleet to owned facilities. We did so just over three months after breaking ground and an expected all-in cost of less than $275,000 per megawatt.

Our projections continue to indicate that our cost of mine at the site will be 30% lower than our cost of mine at former hosted facilities at Kearney and Granbury. In our managed services segment, we completed the initial energization of Ionic's 215-megawatt Cedarvale site. We also began the transition of operating responsibilities at four additional West Texas sites owned by Ionic, totaling 87 megawatts and plan on assuming full operating responsibility of the sites in the third quarter.

After completing transition-related activities at Kearney and Granbury, we're now entitled to an early termination fee of $13.5 million from the new owner of the sites. Lastly, in our HVC segment, we launched our new AI vertical under GPU as a service model. We have executed the purchase order of our first cluster of 1,000 NVIDIA H100 GPUs and secured a customer agreement with a venture-backed AI cloud platform which provides for fixed infrastructure payments plus revenue sharing.

With engineering efforts now well underway, I'm thrilled to share that we expect this cluster to begin generating revenue in the second half of the year at a forecasted annual run rate of approximately $20 million. Our conviction is that building lasting shareholder value requires disciplined capital allocation. To that end, we continue to maintain a robust liquid balance sheet that enables us to explore creative financing approaches and prioritize non-diluted sources of funding whenever possible.

We closed a quarter with 9,102 Bitcoin in our treasury, representing a market value of approximately $650 million as of March 31st. Speaking of growth, I'd like to share our long-term vision and how it informs our strategy today. Then I'll detail the investments we are making as we prepare to scale our platform in the coming quarters. Simply put, we are committed to building a company that endures for decades to come.

Today, we believe Bitcoin mining generates the highest return on investment into large-scale stranded load interconnection assets. However, we also see a massive opportunity in the broader energy infrastructure sector as demand grows across new use cases like AI. While we remain intently focused on and invested in Bitcoin mining, our vision is to build a platform that can address new technologies and energy use cases with the largest market opportunity and best return profile both today and in the future.

Achieving this vision requires a portfolio of assets that is competitive not only in mining, but also in other verticals. This means we're incredibly selective in the opportunities we pursue, and will not chase short-lived stock appreciation by developing sites that are not competitive in the long term. We will continue to underwrite investments with rigor, maintain a high rigor rate for return on invested capital, and execute decisively on opportunities that we believe position us for enduring market leadership.

We are confident in this approach because it has enabled us to build a robust pipeline of expansion capacity of more than 1100 megawatts under exclusivity as of the end of the quarter. In an environment where sourcing new capacity is extremely competitive due to the growing shortage of load interconnection assets, we believe our ability to source these opportunities is a direct reflection of the depth of our energy expertise, and the differentiated value proposition we're bringing to our partners.

Historically, Bitcoin miners have taken off-the-shelf retail tariffs, and commercial power supply agreements to secure load capacity. Our strategy is different. We identify areas where Bitcoin mining can solve underlying market inefficiencies for energy infrastructure partners, and the system as a whole. We then work with counterparties to design highly customized structures that enable us to extract value for solving these inefficiencies.

These opportunities are primarily greenfield development projects, where we can bring our market-leading infrastructure development capabilities to the table. We believe our track record of building sites quickly and cost-effectively without sacrificing quality has differentiated us from our peers and enabled us to secure a large pipeline of greenfield opportunities. Ultimately, the implication is that the opportunities in our pipeline are complex, which results in long lead times, the involvement of many stakeholders, and intensive regulatory processes.

Given the confidential nature of these discussions, we cannot share more detail today. However, we understand the importance of providing an outlook on growth, and we look forward to sharing more when we have committed projects to announce.

Building a sustainable competitive advantage in energy requires a deep, nuanced understanding of the energy markets. Our corporate development team, led by a founding member of NextEra's former digital infrastructure practice, has more than 60 years of collective experience across leading names in energy such as Invenergy, ACCIONA, J.P. Morgan, Citigroup Energy, and GE Capital.

Our strategy is also shaped by the members of our board of directors who leverage their deep experience in relevant industries to help guide our plans for future growth. Mayo Shattuck III, for example, is the former chairman of Exelon, the largest electric utility company in the US, and the former chairman, president, and CEO of Constellation Energy, the largest producer of carbon-free energy in the US.

Stanley O'Neal, as another example, is the former CEO of Merrill Lynch and a director of Clearway Energy—one of the largest renewable energy producers in the US. Both Mayo and Stan were early investors in US Bitcoin Corp, and along with the rest of our talented board, have a vested interest in the success of our business. As I shared earlier, we have begun making strategic investments to prepare to scale our platform, specifically in areas where we can build and sustain competitive moats.

The first area of investment is the expansion of our internal development team. Maintaining control over the development of our site enables us to control build timeline, cost, and quality. We continuously apply the lessons we have learned in operating a portfolio of nearly 27 exahash with the goal of optimizing the design and performance of our assets while maintaining a lean cost structure.

We believe the speed, cost-effectiveness, and quality of our site development is a key competitive advantage as potential partners evaluate Hut 8. To that end, we aim to more than double the size of our engineering, procurement, and construction organization from 8 to 20 in the coming months as we prepare to build new sites. Given the scale of our pipeline, we believe the potential for cost savings under this strategy is significant. Even with the increase in headcount we are targeting, our internal development team is expected to cost a fraction of the general contractor fees required to build a pipeline of this scale. Ultimately, our goal is to sharpen the competitive edge we have created in infrastructure development, driving continued access to what we believe are the most attractive growth opportunities in the market.

The second area of investment is technology. Having built a portfolio of 1.2 gigawatts under management as of the end of April, we have learned the value of scalable data-driven operating processes. Software automation is a core element of our operating philosophy because it enables us to scale our footprint efficiently while maintaining a premium on asset management and visibility.

As we prepare for the significant growth of our platform across new markets and use cases, we are doubling down on our commitment to build and deploy best-in-class operating technology to optimize our operations. Our investments will fund the continued development of a sophisticated modular software suite with robust product management and data science functions.

Without question, we believe our strategy will position us for market leadership, first in Bitcoin mining, then in the broader energy infrastructure sector. With our commitment to disciplined capital allocation, focus on non-diluted sources of funding, and exceptional team involvement, we are more confident than ever that we are building a business that endures for generations and delivers lasting shareholder value. With that, I'll turn it over to Shenif.

---

**Shenif Visram,** Chief Financial Officer

Thank you, Asher. Before we review the financial results, I wanted to remind you that US Bitcoin Corp was deemed the accounting acquirer in the merger. As a result, the historical figures in our income statement for Q1 2023 reflect US Bitcoin's standalone performance. Results for Q1 2024, however, reflect the performance of the combined company. With respect to our balance sheet, Q1 2024 will be compared to year-end 2023, both of which reflect the combined company's performance.

Turning now to our results. We generated revenue of $51.7 million in the current period versus $15.6 million in the prior year period, which represents a $36.1 million increase. The year-over-year increase was driven by growth in our digital assets mining and managed services segment. Digital assets mining revenue was $30.4 million for the current period versus $7.6 million for the prior year period.

Revenue growth was due to an increase in Bitcoin mined and an appreciation of the average price per Bitcoin mined from approximately $23,400 during the prior year period, to approximately $51,300 during the current quarter. Managed services revenue was $9.2 million in the current period versus $5.1 million in the prior year, and includes $7.8 million from fees and $1.4 million in cost reimbursement versus $2.9 million from fees and $2.6 million in cost reimbursement in the prior year period.

The growth in managed services revenue is mainly due to our managed services agreement with Ionic Digital, which was signed at the end of January 2024. The current quarter includes two months of revenue from this new agreement.

High-performance computing, co-location, and cloud revenue was $3.3 million for the current period. The revenue for this segment relates to the legacy Hut 8 business, which was acquired as part of the merger with Hut 8 Mining Corp. As a result, the prior period includes no revenue from this segment.

Other revenue was $8.8 million for the current period versus $2.5 million in the prior year period. Current period other revenue consists of hosting services revenue, including cost reimbursement of $4.4 million, equipment sale of $3.7 million, and $0.7 million of power revenues related to the newly acquired power plants in Ontario. Prior period other revenue of $2.5 million was driven by the recognition of deferred revenue on a hosting contract that was terminated at the Bravo site, formerly owned by the Company.

I'll now review our costs and expenses. Cost of revenue for digital assets mining for Q1 2024 was $16.6 million versus $6.1 million in the same prior year period. The increase of $10.5 million was driven primarily by an increase in electricity and hosting costs from additional miners online, including miners acquired as part of the business combination agreement, and nearly three months of hosted self-mining activity at Kearney and Granbury sites, versus less than one month of activity in the prior year period.

Cost of revenues for managed services for the current period was $2.8 million versus $2.4 million in the prior year period. The cost of revenue primarily consists of reimbursable payroll and other site operating costs. The $0.4 million increase was driven by a $0.8 million increase in reimbursable payroll costs offset by a $0.5 million decrease in other site operating costs.

Managed services gross margins were 70% in the current period versus 57% in the prior year period. Cost of revenues for high-performance computing, co-location, and cloud for the current period was $2.6 million and nil in the prior year period.

Finally, cost of revenue for other, for the three months ended March 31st, 2024, was $6.2 million, and consisted primarily of $3.3 million in cost of hosting services revenue, $2 million in cost of equipment sold, and $0.9 million in the cost of power revenues. Cost of revenue for other for the three months ended March 31st, 2023 was less than $0.1 million and consisted primarily of cost of hosting services revenue.

Depreciation and amortization expense was $11.5 million for the current period versus $2.9 million for the prior year period. The increase was primarily driven by property and equipment acquired as part of the merger and an increase in the number of minors at our US site. Additionally, during the quarter ended March 31st, 2024, management performed a review of the operating efficiency and profitability of its mining fleet, which resulted in a change in the expected useful life of some of its mining equipment.

The result was an increase in depreciation expense of $2.7 million for the three months ended March 31st, 2024. General and administrative expenses were $20 million for the current period versus $6.4 million for the prior year period. The increase in SG&A was driven by a $3.4 million increase in stock-based compensation, $2.9 million in restructuring costs due to our optimization initiative during the quarter, $1.4 million in expenses related to the Far North transaction, a $2.7 million increase in salary and benefits due to the headcount added as part of the merger and additional team members brought on to support the growth of the business, and a $3.2 million increase in other SG&A acquired as part of the merger.

Gains on digital assets were $274.6 million for the current period, and nil for the prior year period. The increase was due to the adoption of the FASB fair value accounting rule, which requires us to recognize our digital assets at fair value, with changes recognized in net income during the reporting period. The price of Bitcoin on December 31st, 2023 was $42,288 versus $71,289 on March 31st, 2024, such that the increase in Bitcoin prices during the quarter resulted in the gain of $274.6 million.

Other expenses totaled $4.2 million for the current period versus other income of $19.4 million for the prior year period. The decrease of $23.6 million was primarily due to gain on debt extinguishment in the prior period. This was partially offset by an increase in equity and earning of an unconsolidated joint venture of $1.2 million during the current period versus the prior year period.

Loss from discontinued operations was $7.6 million in the current period compared to nil in the prior year period. On March 6th, 2024, we announced the closure of our Drumheller site in Alberta, Canada in connection with our restructuring and optimization initiative designed to strengthen financial performance. Of the $7.6 million loss, the impairment of long-term assets contributed $6.1 million, and the remaining $1.5 was from other operational activities.

Next, I will turn to net income. Net income attributable to Hut 8 Corp for the current period was $250.9 million versus $17.3 million in the prior year period. We previously opted for early adoption of the new FASB fair value accounting rules which resulted in a gain of $274.6 million for the current period. Excluding the reevaluation of our Bitcoin holdings to fair value, we would have recorded a net loss of $23.7 million.

This reflects the impact of various one-time expenses incurred as part of our restructuring program including $7.6 million related to the shutdown of Drumheller, $2.9 million in restructuring charges, and a $2.7 million chart related to the retirement of inefficient miners. The prior year period net income attributable to Hut 8 Corp of $17.3 million included a gain from debt extinguishment of $23.7 million.

Turning now to adjusted EBITDA. Adjusted EBITDA for the period was $297 million versus $11.1 million in the prior year period, an improvement of $285.8 million. Excluding the gain from fair valuing our Bitcoin stack, adjusted EBITDA would have been $22.4 million for the current period. The improvement versus prior year period is due to higher margins in digital assets mining and managed services segments.

Finally, I'll discuss our balance sheet. Our balance sheet remains healthy. We closed the quarter with $11.5 million in cash. In Q1 2024, we paid for our substation in Culberson County, began building our now fully energized 63-megawatt Salt Creek site, and made our first payments related to our investments in Ionic Digital. These activities were funded with cash on hand.

Our Bitcoin holdings are marked at fair value and totaled $648.9 million as at March 31st, 2024, based on 9,102 Bitcoin held in reserve. Of this total, 7,230 Bitcoin valued at $515.4 million remained unencumbered at the end of the quarter. Our total debt was $177.6 million as at March 31st, 2024. During the quarter, we took an additional draw of $15 million from our Coinbase loan, bringing our total amount outstanding to $64.8 million. We also paid off a third-party note for $11.5 million during the period. Of our $177.6 million of total debt outstanding, $112.8 million is project-level debt to be repaid based on a sweep of cash generated at the project level with no minimum monthly repayment.

Lastly, our Q1 2024 balance sheet includes the assets and liabilities related to the newly-acquired Validus assets. We continue to explore a range of strategic options for these assets. As Asher shared earlier, our results this quarter reflect the impact of an extensive restructuring program designed to set a new standard of operating rigor for Hut 8. While we continue to identify opportunities to drive efficiency and reduce costs across the business, we believe we have taken meaningful steps towards achieving profitable long-term growth.

As we turn our focus to executing on our pipeline of opportunities, we remain committed to maintaining a strong liquid balance sheet, prioritizing non-dilutive sources of funding, and allocating capital with an unwavering focus on maximizing shareholder value. That concludes my commentary. I will turn the call back to our operator.

---

**Operator**

Thank you, ladies and gentlemen. If you have a question or comment at this time, please press *11 on your telephone. If your question has been answered, you wish to move yourself from the queue, please press *11 again. We'll pause for a moment while we compile our Q&A roster.

Our first question comes from Joseph Vafi with Canaccord. Your line is open.

---

**Joseph Vafi,** Canaccord

Hey, guys. Good morning. Thanks for all the information here this morning. Just a couple for me. One, maybe, Asher, when you fully implement your curtailment software, just wondering what kind of efficiency gains you may get versus current operation. That would be a repeat of whether we saw last year and then I'll have a follow-up.

---

**Asher Genoot,** Chief Executive Officer

Yes, sure. Thanks, Joe. Our software curtails the machines based on the efficiency of the machining and based on the energy grids. In some grids, we basically have lots of PPAs where we have a behind-the-meter as-produced energy generation PPA. In some grids, we play with index. There are other sites that we have, like in the sites in Canada, where part of it is a fixed behind-the-meter relation, but part of it is grid.

Our software, we built algorithms around it where, based on the dynamics of that specific facility, it will curtail the site in the specific machines based on the energy dynamics. We feel very confident in our ability to continue doing that and continue to drive costs and to drive overall cost of energy down with that. The example that I used historically is when you look at the year of 2023 and you look at West Texas, which is where our new Salt Creek site is, if you look last year, the average cost of power, if you were to run 24-7, was about 5.9 cents.

If you use our curtailment software and if you just look at curtailment at anything above $90 a megawatt hour based on hash prices and you curtailed about 8.6% of the time, that drops your average cost of energy from 5.9 cents to 2.6 cents. It's a pretty strong reduction of over 56% with just under 9% of curtailment. We look at continuing to develop and continuing to implement and strengthen our curtailment software, but running the software that we have that's been very effective across the sites that we have.

I think that is also a big competitive advantage when we look at some of these projects in the pipeline. We talked about 1,100 megawatts in the pipeline. I think this operational capability and this comfort around curtailing around price risk and volatility is what gives some of our partners comfort as well that we come and we're supportive to their burden, their ecosystems, rather than pulling energy when other people need it as well.

---

**Joseph Vafi,** Canaccord

Sure, that's great color. Thanks. It's great to hear that you're ramping the AI business up with line of sight to revenue here. Are you ordering more GPUs at this point, or are you going to wait and implement and get up and running before you would continue to expand that business? Thanks a lot.

---

**Asher Genoot,** Chief Executive Officer

We haven't shared any additional orders that we put into the pipeline yet, but as we look at expanding and building business protocols, and as I go through this re-structuring, a key focus is really spending time and bandwidth on areas that we can compete and scale and compound the value and the knowledge that we gain. We're excited for this first cluster to come in and to be a revenue-generating, and we're excited for the growth of that business unit as well.

---

**Joseph Vafi,** Canaccord

Great. Thanks very much, sir.

---

**Operator**

One moment for our next question. Our next question comes from Bill Papanastasiou with Stifel. Your line is open.

---

**Bill Papanastasiou**, Stifel

Hey. Good morning, everyone. Thanks for taking my questions. For the first one, apologies if I missed this earlier on the call. I'm curious to hear how Management is thinking about the fleet upgrade following the recent Hut 8 event and just generally weaker mining economics.

---

**Asher Genoot,** Chief Executive Officer

Thanks, Bill. If you look at our revenue, we grew from Q1 of '23 from $15.6 million to $51.7 million, and self-mining grew from $7.6 million to $30.4 million. As a part of our restructuring during the quarter, we shut down Drumheller but we also retired older efficiency machines, and the machines were with a bit higher efficiencies than they were comfortable with. We could tell those machines as well.

Today, even with half prices fluctuating around 5 cents, based on the different efficient machines, we basically still mine at a profitability. If your average efficiency is 30 to 32 at around 5 cents, your revenue is about $65 or $70 per megawatt basis. Our average cost of the energy on self-mining sites was about 4 cents in Q1 and that was for a lot of the restructuring, as you remember, I took over February 7th, so halfway through the quarter already. A lot of how we think about the market is, on our current operations, how do we make sure that we're continuing to operate with cashflow positivity and never mind at a loss, especially if this goes back to the earlier questions on the curtailment software. In terms of new mining fleet, we're watching the markets very, very closely and having conversations with all the key manufacturers in regards to their production timelines and our scale.

Today, like last earnings call, I talked about new efficiency machines coming out, and literally the next day, Bitmain had announced the S21 pros that came out. That statement continues to hold as we watch the markets closely, we think efficiencies will continue to increase this year. Our main focus has been on megawatt expansion and net new growth, rather than just retiring the machines we have today, because we believe that we can still drive cash flows off of the machines we have, rather than retiring them at a pretty low cost in the secondary market.

How do we continue to drive net new growth? We believe that the ability to order machines when the price is right and efficiency is right, will be there and there's ready supply available. The ability to capture net new megawatts will be a bottleneck, not in just our industry, but with the massive demand and growth within the data center segment, primarily driven by a lot of the AI demand. That's where a lot of our focus has been. Obviously, as new facilities come online, a decision will be how do we fill up those rack spaces with machines because our machines right now are fully plugged in in our facilities and hashing.

---

**Bill Papanastasiou**, Stifel

Great, appreciate the color. Just as a follow-up to that, has the appetite to tap the Bitcoin stack increased at all? Obviously, you guys have over 9,000 Bitcoin, you've been sitting on it. I believe you mentioned that you continue to see Bitcoin mining as one of the best returns to shareholder value. Just curious if you have any thoughts on that.

---

**Asher Genoot,** Chief Executive Officer

Yes, most definitely. When I took over, I shared that basically the strategy of just hodling Bitcoin and not looking at it for growth and accretive growth has been reassessed and that we'll look at using Bitcoin to increase the yield on the returns that we get from the Bitcoin we have and potentially swap exposure in terms of investing in net new growth.

Salt Creek was an example of that, where we were prepared to swap some of our Bitcoin exposure into building a new facility to drive costs down. However, because we had strong cash flows, we were able to fund a lot of the growth of Salt Creek. Again, the site is fully energized. We started developing in February and got it fully online in April. All of that was through the cash flows of the operations of the business.

In the scenarios where we can fund growth through operations of the business, we'll continue to do so. When there's really accretive opportunities, we believe that the exposure and the levered exposure on a specific asset or investment will exceed the stack we have today. As you all know, it's not a surprise, but today our stock is still trading relatively close in terms of value to our Bitcoin stack. We're closely monitoring our cost of equity and the different levers we have in pulling cash in order to fund these growth opportunities.

---

**Operator**

Thank you. One moment for our next question. Our next question comes from George Sutton with Craig-Hallum. Your line is open.

---

**George Sutton**, Braig-Hallum

Thank you. Asher, I wondered if we could walk through the 1.1 gigawatts of opportunities in the sense that that was a number you gave a few months ago. I'm just curious if there have been any updates within that. In other words, have things moved in and out of that number or has it remained the same? I'm also curious about the breadth of opportunities you're looking at. You, I think, gave a compelling thought process around really broadening out to the broader energy market of opportunities. Can you just discuss the composition a little bit? Thanks.

---

**Asher Genoot,** Chief Executive Officer

Yes, most definitely. Thanks, George. I shared more than 1,100 megawatts. We decided to be conservative and keep the number [unintelligible 00:40:32] larger and larger headline number. The team has been very active in building and growing our megawatt pipeline and the relationships. I shared a little earlier that the team is led by a guy named Greg Irwin, who is on Extera's-- they're the founding team of their digital infrastructure practice. We have a pretty strong depth within our team of energy folks who brought those relationships to the company.

I think we've proven ourselves out as well. We've operated two behind-the-meter site; one 300 megawatts, one 280 megawatts. The two are some of the largest energy companies in the US. We have a track record that we're able to show as we engage in these relationships. When we think about the pipeline, yes, we have additional megawatts in addition to those that we've been in conversation with that are farther along in the pipeline than the last time we spoke. Within these 1,100 megawatts, we have moved them forward down the pipeline in the funnel as well in terms of executability and how likely they are to actually put shovel in the ground. We're excited to share more updates in the near term as time progresses.

In regards to how we think about power and infrastructure, when we started this business, and when I say, I say that with-- high corporate is obviously a merger between two businesses. When Mike and I started US Bitcoin Corp, there was really two theses that drove it. One was on the crypto side and one was on the energy side.

On the crypto side, it was heavier adoption in Bitcoin. If we could be a lower-cost operator than the market, then we can make money as long as we had a thesis that we believe that Bitcoin was going to stay around. In regards to energy, really how we saw the opportunity was this asset class is a flexible load. The ability to consume low-cost power in areas where they're congested, and you have the opportunity to curtail around price risk, as to the question I answered Joe earlier, that drives value. As we've grown and expanded our platform, and now have such a large breadth of megawatts that we have under management, and such a large pipeline, and proven relationships with these energy counterparties, we see the total addressable market of this business, larger than just Bitcoin mining.

Bitcoin mining is going to have a certain amount of consumption on a megawatt basis. When you look at the broader power markets, the directional bet that we're taking is if you look a decade down the road, the demand on power will continue to increase, and the energy infrastructure that we own will continue to increase in value. Meanwhile, we make a yield on those business cases that we run on top of those interconnections. When we look at the business today, we see the underlying foundation, the backbone of our business as an energy infrastructure company that connects interconnection infrastructure to large-scale loading use cases. The two primary business segments that we're targeting and focusing on today is number 1, Bitcoin mining, and number 2, data centers, but specifically focused on high density compute, because that is a market that's evolving and changing and growing. It gives us an opportunity to come in and innovate at a faster speed and capture market share, rather than traditional data centers with low density, where there's a lot of incumbents in that space that have a mode that they've already built.

We're excited by growing that and looking at other opportunities in the years to come as new commercializations comes forward. Today, we believe the two markets that we're focusing on, there's a ton of opportunity, capital chasing those opportunities, and growth for our business.

---

**George Sutton**, Braig-Hallum

Right. Just one other question on the GPU deal. I assume this is a reserve deal. You mentioned that it's fixed revenues plus a rev share. I'm familiar with a lot of the deals in the space. I'm not familiar with the rev share. Can you just talk about what's unique about this deal in your view?

---

**Asher Genoot,** Chief Executive Officer

When we looked at the markets, right now, access to compute and access to chips is one bottleneck and then access to the actual power and data centers is another. We were able to solve those problems and get the chips on order now delivering and also the capacity from a data center perspective, energized to actually provide the compute. When we looked at the customer side, there was demand, and there was demand from different types of customers. You have the large enterprises, the small AI startups, and also different platform layers that we saw that were growing in scale.

When we looked at this first cluster, really, for us, the first cluster was, how do we really prove out this model and create a foundation to be able to scale this business unit? We approached it more of a JV structure where we thought that we could acquire more of the upside by having a rev share structure to it, because some of it is on demand, which drives a higher premium rather than just locking in a fixed return profile.

If you think about it, it's similar to Bitcoin mining where if you have a fixed base hosting rate and then you have some rev share on top of it, it allows you to have a much more levered return, especially with the dynamics that we're seeing in the markets and demand profiles that we're seeing. We're pretty sensitive on what we're sharing right now, because we think we can let the numbers speak for themselves and want to be thoughtful on how we're strategically growing this business unit and being competitive and being thoughtful about what we're sharing when, so we continue to maintain that strategy and mode.

---

**George Sutton**, Braig-Hallum

Got it. Good stuff. Thank you.

---

**Operator**

One moment for our next question. Our next question comes from John Todaro with Needham. Your line is open.

---

**John Todaro**, Needham

Hey, great. Thanks for taking my questions here. Had two for you guys. I'll start with the AI one, because it segues from that last question we had. This cluster, is this going to be at third-party data centers, and apologies if I missed it, or your own legacy cloud sites? If so, is there any additional CapEx that's needed to go into the sites either to accommodate this cluster or additional ones if you put them in there?

---

**Asher Genoot,** Chief Executive Officer

Yes. This first data center is going to a third-party data center. That's primarily because when I took over from data center division as a part of the restructuring queue and going in and looking at the current business, which primarily has historically had two segments–co-location, and cloud. Co-location and cloud have been more historical businesses in terms of lower-density compute and VMware.

When we look at net new growth of high-density data centers, and we look at high-density compute like the GPU clusters, it's growing and increasing the value that we have. For this first cluster, it was how do we minimize the execution risk and get revenue generating as quickly as possible? That was something very similar to what we did at US Bitcoin when we first started and scaled.

As we're diving into our current data center division, there is an opportunity to invest CapEx to bring two of the five data centers to a place where we can have high-density compute and be able to host some of these GPU servers. As we're looking at the market, when there's available data center capacity, we're trying to secure as much of that capacity as we can, because we also know when that capacity drives up that we have additional capacity ourselves that we can develop and grow as well.

---

**John Todaro**, Needham

Got it. That's great. Thanks, Asher. Just one on the self mining business, if I could. You mentioned with curtailment, you can get power costs down to about 2.9. You said the last quarter was 4 cents. Is it fair to pencil in 3 to 4 cents kilowatt-hour on average for, I guess, the remainder of '24, or is that a bit aggressive?

---

**Asher Genoot,** Chief Executive Officer

You're saying from an energy perspective?

---

**John Todaro**, Needham

Yes, exactly.

---

**Asher Genoot,** Chief Executive Officer

Our average cost of energy this quarter for Southlining sites was around 4 cents, and that was pre the retirement of the sites, like Drumheller pre-implementation of the curtailment software at Medicine Hat. That is definitely within our target as we look at net new sites. That's the range. We're not really interested in sites above that range. I can't predict forward-looking energy prices, but we're pretty confident in our curtailment abilities and to drive that.

I think the energy costs as well is relative to hash price, right? Because we'll be curtailing at a lot lower levels if hash price goes back up to 10 cents, and be willing to take a higher energy price. The markets that a lot of our exposure is in allows us to really control those energy costs through that economic curtailment and the reactor software that we have. I think that's a fair way to look at it, and then we can reassess if we see that energy markets make any strong changes.

One additional thing to the earlier question that you had, which was net new data center growth, something we're excited about as well, because we have five data centers in Canada right now, the incremental CapEx in order to scale up that infrastructure and upgrade it to host high-density compute is not a new data center building from the ground up. You're paying for a certain amount of CapEx to basically upgrade, but you have a lot of that core infrastructure there already, so the cost is relatively competitive.

---

**John Todaro**, Needham

Got it. Thank you, appreciate it.

---

**Operator**

One moment for our next question. Our next question comes from Mike Colonnese with H.C. Wainwright. Your line is open.

---

**Mike Colonnese**, H.C. Wainwright

Hi, good morning, guys. Great progress in optimizing your operations over the past few months here. Most of my questions have been answered, so I just have one here for you. What portion of your managed services revenue in the quarter was driven by the Ionic Digital deal? I think you mentioned, in the past, that the agreement is for up to 300 megawatts for them.

How many megs did you manage during the quarter, and how should we expect that number to scale up over the course of the year as you energize and bring online more of Cedarvale? Thanks.

---

**Asher Genoot,** Chief Executive Officer

Most definitely. The Kearney and Granbury sites, the end of the contract and the early termination was at the end of April. During the first quarter, we had revenue that we continued to generate from those two facilities. Ionic was brought on and the contract was finalized at the end of February. You have Ionic contributing halfway through the quarter and then you had the Kearney and Granbury facilities contribute for the remainder.

The Ionic deal is a little nuanced compared to the historical Kearney and Granbury sites that we had, which were based on a megawatt basis. This deal that we did with Ionic is a fixed rate that we have. Today there's four facilities that they have in West Texas, totaling a little bit over 85 megawatts. We're building out a 215-megawatt facility for them right now that we've already started and have already energized the first phase, which is our Cedarvale facility. In total, it'll be a little over 300 megawatts. They have 12 exahash online today and have ambitious growth plans to continue scaling and growing.

The way that the current structure works is we have a pass-through model where our direct costs associated with site labor, hard costs, allocated accounting, and other specialized services that pass through over to them, which will obviously increase revenue, but that gets paid off. Then we have a little over a $20 million service fee that we charge per year, in addition to some equity RSU and warrant takers on a yearly basis as well. That's a four-year agreement with an extension to the fifth year based on some growth targets from an exahash deployment perspective and getting their miners all online, because a lot of them have been sitting in boxes through that bankruptcy.

---

**Mike Colonnese**, H.C. Wainwright

Got it. In terms of that $20 million revenue stream outside of the pass-through type of revenue source, if you will, is that going to start to break out fully in the second quarter for Ionic, or is it contingent upon you fully energizing the Cedarvale site?

---

**Asher Genoot,** Chief Executive Officer

No, that's fully-- again, will continue to be paid off in the second quarter and at full run rate. We also are obviously extremely excited by this business unit because we see more and more appetite as the ATFs come online, both from a financial perspective and from an energy perspective, where we can come in and provide this institutional service.
Managed services, I feel like, was a business unit that we really created with the thesis that people may want exposure to Bitcoin mining, but not just mining stocks or might not have the operational abilities or desire to run a facility. In any other mature market, if you want to own a wind farm or an oil well, you can hire an operator, like Haliburten to come in and operate your facilities for you.

We want to create that blue chip institutional brand that people could hire to turnkey run their facilities or their mining units for them, and that includes building, operating, running the accounting, finances, customer service, billing, and so forth. I think, since we've launched that, we've gained pretty large scale within that business unit, and we've also seen some of the other players in the industry try to pick up and grow their market share and try to grow this business unit.

We're excited by this business unit and by its scale. What it also gives us that I want to really hone in and drive, by us building more megawatts on an aggregate basis, we're able to drive our purchasing power and drive down the cost of building net-use facilities and increasing efficiencies across not just our own fleet, but across all of our partners' to not create the flywheel effect or become more and more competitive, and the cost to hire us becomes more and more justified than running it yourself and trying to build out your own team, to have a development team, an engineering team, a procurement team, an operations team, a software team, a data science team, and so forth.

---

**Mike Colonnese**, H.C. Wainwright

Great. Thanks for taking my questions. Bye-bye.

---

**Asher Genoot,** Chief Executive Officer

Thanks, Mike.

---

**Operator**

I'm not showing any further questions at this time. As such, this does conclude today's presentation. You may now disconnect, and have a wonderful day.