UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2024

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__________________________to __________________________

Commission File Number: **001-36532**

Sphere 3D Corp.

(Exact name of Registrant as specified in its charter)

Ontario, Canada	**98-1220792**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
243 Tresser Blvd, 17th Floor **Stamford, CT**	**06901**
(Address of principal executive offices)	*(Zip Code)*

647 952-5049

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	ANY	NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 5, 2024, there were 21,238,243 shares of the registrant's common shares outstanding.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Sphere 3D Corp.

Condensed Consolidated Balance Sheets
(in thousands of U.S. dollars, except shares)
(unaudited)

	September 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 4,950	$ 586
Digital assets	79	986
Investment in equity securities	6,950	—
Other current assets	2,522	11,938
Total current assets	14,501	13,510
Property and equipment, net	23,391	24,166
Intangible assets, net	3,467	4,581
Other non-current assets	2,896	3,406
Total assets	$ 44,255	$ 45,663
Liabilities, Temporary Equity and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 612	$ 2,374
Accrued liabilities	1,778	1,179
Accrued payroll and employee compensation	1,127	1,482
Warrant liabilities	32	205
Other current liabilities	—	106
Total current liabilities	3,549	5,346
Commitments and contingencies (Note 12)		
Temporary equity:		
Series H preferred shares, no par value, unlimited shares authorized, 11,132 and 43,515 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	4,858	13,794
Shareholders' equity:		
Common shares, no par value; unlimited shares authorized, 20,940,530 and 15,373,616 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	487,262	475,702
Accumulated other comprehensive loss	(1,814)	(1,808)
Accumulated deficit	(449,600)	(447,371)
Total shareholders' equity	35,848	26,523
Total liabilities, temporary equity, and shareholders' equity	$ 44,255	$ 45,663

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Operations
(in thousands of U.S. dollars, except share and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues:				
Bitcoin mining revenue	$ 2,355	$ 5,102	$ 13,967	$ 12,592
Service and product revenue	—	622	—	1,624
Total revenues	2,355	5,724	13,967	14,216
Operating costs and expenses:				
Cost of Bitcoin mining revenue (exclusive of depreciation and amortization shown below)	2,731	4,292	10,997	10,331
Cost of service and product revenue	—	221	—	728
Sales and marketing	—	217	—	768
Research and development	—	362	—	859
General and administrative	3,032	3,399	9,470	10,504
Depreciation and amortization	1,737	2,028	5,374	4,428
Impairment of acquired intangible assets	—	1,231	—	1,231
Impairment of property and equipment	—	—	860	—
Loss on disposal of property and equipment	—	315	691	566
Change in fair value of Bitcoin	8	—	(695)	—
Realized gain on sale of Bitcoin	—	(136)	—	(908)
Impairment of Bitcoin	—	199	—	549
Total operating costs and expenses	7,508	12,128	26,697	29,056
Loss from operations	(5,153)	(6,404)	(12,730)	(14,840)
Other income (expense):				
Unrealized (loss) gain on investment in equity securities	(446)	—	4,093	—
Other income, net	5,775	100	6,462	1,464
Interest expense	—	(10)	—	(1,183)
Net income (loss) before taxes	176	(6,314)	(2,175)	(14,559)
Provision for income taxes	72	—	74	4
Net income (loss)	104	(6,314)	(2,249)	(14,563)
Less: Non-controlling interest - (loss) income	—	(7)	—	76
Net income (loss) available to common shareholders	$ 104	$ (6,307)	$ (2,249)	$ (14,639)
Net income (loss) per share:				
Basic	$ 0.01	$ (0.50)	$ (0.12)	$ (1.29)
Diluted	$ 0.005	$ (0.50)	$ (0.12)	$ (1.29)
Shares used in computing net income (loss) per share:				
Basic	20,733,022	12,653,413	18,681,399	11,340,973
Diluted	22,323,306	12,653,413	18,681,399	11,340,973

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands of U.S. dollars)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net income (loss)	$ 104	$ (6,314)	$ (2,249)	$ (14,563)
Other comprehensive loss:				
Foreign currency translation adjustment	—	(1)	(6)	(6)
Total other comprehensive loss	—	(1)	(6)	(6)
Comprehensive income (loss)	$ 104	$ (6,315)	$ (2,255)	$ (14,569)

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Shareholders' Equity
(in thousands of U.S. dollars, except shares)
(unaudited)

	Common Shares		Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-controlling Interest	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2024	15,373,616	$ 475,702	$ (1,808)	$ (447,371)	$ —	$ 26,523
Cumulative adjustment from adoption of ASU 2023-08	—	—	—	20	—	20
Issuance of common shares for conversion of preferred shares	2,422,710	4,327	—	—	—	4,327
Share-based compensation	—	1,086	—	—	—	1,086
Other comprehensive loss	—	—	(3)	—	—	(3)
Net loss	—	—	—	(4,477)	—	(4,477)
Balance at March 31, 2024	17,796,326	481,115	(1,811)	(451,828)	—	27,476
Issuance of common shares for conversion of preferred shares	1,621,140	2,811	—	—	—	2,811
Issuance of common shares for vested restricted stock units	717,858	—	—	—	—	—
Issuance of common shares for settlement of liabilities	199,597	255	—	—	—	255
Share-based compensation	—	772	—	—	—	772
Other comprehensive loss	—	—	(3)	—	—	(3)
Net income	—	—	—	2,124	—	2,124
Balance at June 30, 2024	20,334,921	484,953	(1,814)	(449,704)	—	33,435
Issuance of common shares for conversion of preferred shares	582,283	1,798	—	—	—	1,798
Issuance of common shares for vested restricted stock units	23,326	—	—	—	—	—
Share-based compensation	—	511	—	—	—	511
Net income	—	—	—	104	—	104
Balance at September 30, 2024	20,940,530	$ 487,262	$ (1,814)	$ (449,600)	$ —	$ 35,848

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Shareholders' Equity (continued)
(in thousands of U.S. dollars, except shares)
(unaudited)

	Common Shares		Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-controlling Interest	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2023	9,804,609	$ 456,402	$ (1,799)	$ (419,732)	$ (306)	$ 34,565
Cumulative adjustment from adoption of ASU 2016-13	—	—	—	(3,821)	—	(3,821)
Issuance of common shares for conversion of preferred shares	748,427	2,311	—	—	—	2,311
Issuance of common shares pursuant to the vesting of restricted stock units	10,656	—	—	—	—	—
Share-based compensation	—	485	—	—	—	485
Remeasurement of redeemable non-controlling interest	—	—	—	(376)	—	(376)
Other comprehensive loss	—	—	(2)	—	—	(2)
Net (loss) income	—	—	—	(3,505)	16	(3,489)
Balance at March 31, 2023	10,563,692	459,198	(1,801)	(427,434)	(290)	29,673
Issuance of common shares for conversion of preferred shares	682,856	2,109	—	—	—	2,109
Exercise of stock options	94,701	200	—	—	—	200
Issuance of common shares for vested restricted stock units, net of shares withheld for income taxes	82,061	—	—	—	—	—
Share-based compensation	—	719	—	—	—	719
Remeasurement of redeemable non-controlling interest	—	—	—	(36)	—	(36)
Other comprehensive loss	—	—	(3)	—	—	(3)
Net (loss) income	—	—	—	(4,827)	67	(4,760)
Balance at June 30, 2023	11,423,310	462,226	(1,804)	(432,297)	(223)	27,902
Issuance of common share warrants, net	—	1,130	—	—	—	1,130
Issuance of common shares for conversion of preferred shares	2,699,136	8,335	—	—	—	8,335
Issuance of common shares for the settlement of liabilities	44,450	64	—	—	—	64
Issuance of common shares pursuant to the vesting of restricted stock units	10,000	—	—	—	—	—
Exercise of stock options	45,298	117	—	—	—	117
Share-based compensation	—	756	—	—	—	756
Other comprehensive loss	—	—	(1)	—	—	(1)
Net loss	—	—	—	(6,307)	(7)	(6,314)
Balance at September 30, 2023	14,222,194	$ 472,628	$ (1,805)	$ (438,604)	$ (230)	$ 31,989

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)
(unaudited)

	Nine Months Ended September 30,	
	2024	**2023**
Operating activities:		
Net loss	$ (2,249)	$ (14,563)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on investment in equity securities	(4,093)	—
Depreciation and amortization	5,374	4,428
Share-based compensation	2,369	1,960
Impairment of property and equipment	860	—
Change in fair value of Bitcoin	(695)	—
Loss on disposal of property and equipment	691	566
Bitcoin issued for services	538	1,263
Realized gain on sale of investment in equity securities	(3,395)	—
Change in fair value of warrant liabilities	(173)	(1,371)
Impairment of acquired intangible assets	—	1,231
Warrants issued with convertible debt	—	976
Realized gain on sale of Bitcoin	—	(908)
Impairment of Bitcoin	—	549
Extinguishment of debt	—	63
Noncash lease cost	—	40
Changes in operating assets and liabilities:		
Proceeds from sale of Bitcoin	13,529	12,958
Mining of Bitcoin	(13,967)	(12,592)
Accounts receivable	—	10
Accounts payable and accrued liabilities	(1,567)	1,336
Accrued payroll and employee compensation	(100)	48
Other assets and liabilities, net	(186)	(2,018)
Net cash used in operating activities	(3,064)	(6,024)
Investing activities:		
Proceeds from sale of investment in equity securities	10,538	—
Payments for purchase of property and equipment	(4,632)	(1,561)
Proceeds from sale of Bitcoin	1,522	—
Proceeds from sale of property and equipment	—	4,111
Redemption of non-controlling interest	—	(10,410)
Redemption of cash in trust account	—	10,297
Net cash provided by investing activities	7,428	2,437
Financing activities:		
Proceeds from issuance of preferred shares and warrants	—	3,048
Payments for convertible debt	—	(1,285)
Proceeds from convertible debt, net of debt issuance costs	—	779
Proceeds from exercise of stock options	—	317
Net cash provided by financing activities	—	2,859
Net increase (decrease) in cash, and cash equivalents	4,364	(728)
Cash, cash equivalents, and restricted cash, beginning of period	586	1,543
Cash, cash equivalents, and restricted cash, end of period	$ 4,950	$ 815

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Cash Flows (continued)
(in thousands of U.S. dollars)
(unaudited)

	Nine Months Ended September 30,	
	2024	**2023**
Reconciliation of cash, cash equivalents and restricted cash to consolidated balance sheets:		
Cash and cash equivalents	$ 4,950	$ 613
Restricted cash	—	202
Total cash, cash equivalents and restricted cash	$ 4,950	$ 815
Supplemental disclosures of non-cash investing and financing activities:		
Settlement of prepaid hosting services deposit with equity securities	$ 10,000	$ —
Amounts accrued for purchases of property and equipment	$ 404	$ —
Issuance of common shares for settlement of liabilities	$ 255	$ —
Remeasurement of redeemable non-controlling interest	$ —	$ 412
Preferred shares and warrants accrued issuance cost	$ —	$ 34

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Organization and Business

Sphere 3D Corp. was incorporated under the *Business Corporations Act (Ontario)* on May 2, 2007 as T.B. Mining Ventures Inc. On March 24, 2015, the Company completed a short-form amalgamation with a wholly-owned subsidiary. In connection with the short-form amalgamation, the Company changed its name to "Sphere 3D Corp." Any reference to the "Company", "Sphere 3D", "we", "our", "us", or similar terms refers to Sphere 3D Corp. and its subsidiaries. In January 2022, the Company commenced operations of its Bitcoin mining business and is dedicated to becoming a leader in the Blockchain and Crypto Industry. The Company has established and plans to continue to grow an enterprise-scale mining operation through the procurement of mining equipment and partnering with experienced service providers. In addition, through December 28, 2023, the Company delivered data management and desktop and application virtualization solutions through hybrid cloud, cloud and on premise implementations by its global reseller network. On December 28, 2023, the Company sold its service and product segment which included HVE ConneXions and Unified ConneXions.

Going Concern

Management has projected that based on our recurring losses, negative cash flows from operating activities, and our hashing rate at September 30, 2024, cash on hand may not be sufficient to allow the Company to continue operations and there is doubt about the Company's ability to continue as a going concern within 12 months from the date of issuance of the financial statements if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Included in our working capital is an investment in equity securities that we can liquidate as needed to assist in funding our operations. Our ability to raise additional funds for working capital through equity or debt financings or other sources may depend on the financial success of our business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. We require additional capital and if we are unsuccessful in raising that capital at a reasonable cost and at the required times, or at all, we may not be able to continue our business operations in the cryptocurrency mining industry or we may be unable to advance our growth initiatives, either of which could adversely impact our business, financial condition and results of operations. In an effort to mitigate these risks we expect to take steps to lower our cost of mining and also refresh our mining fleet to increase our mining efficiency.

Significant changes from the Company's current forecasts, including but not limited to: (i) shortfalls from projected mining earning levels; (ii) increases in operating costs; (iii) decreases in the value of cryptocurrency; and (iv) if we do not maintain compliance with the requirements of the NASDAQ Capital Market and/or we do not maintain our listing with the NASDAQ Capital Market could have a material adverse impact on the Company's ability to access the level of funding necessary to continue its operations at current levels. These factors, among others, should they occur may result in the Company's inability to continue as a going concern within 12 months from the date of issuance of the financial statements. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP"), applied on a basis consistent for all periods. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission on March 13, 2024. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. These condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been appropriately eliminated in consolidation.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiary, for which the functional currency is the local currency, is translated into U.S. dollars using the exchange rate at the consolidated balance sheet date for assets and liabilities and a weighted-average exchange rate during the year for revenue, expenses, gains and losses. Translation adjustments are recorded as accumulated other comprehensive income (loss) within shareholders' equity. Gains or losses from foreign currency transactions are recognized in the condensed consolidated statements of operations. Such transactions resulted in minimal losses for the three and nine months ended September 30, 2024 and 2023.

Cash and Cash Equivalents

Highly liquid investments with insignificant interest rate risk and original maturities of three months or less, when purchased, are classified as cash equivalents. Cash equivalents are composed of money market funds. The Company maintains cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances and believes credit risk to be minimal.

Investment in Equity Securities

The Company's investments are in publicly held equity securities which have readily determinable fair values. These equity investments are recorded at fair value with unrealized holding gains and losses recorded in other income or expense in the consolidated statement of operations.

Digital Assets

Digital assets are included in current assets in the consolidated balance sheets as the Company has the ability to sell its Bitcoin in a highly liquid marketplace and the sale of Bitcoin is used to fund operating expenses to support operations. Bitcoin is expected to be realized in cash or sold or consumed during the Company's normal operating cycle. Bitcoin held are accounted for as intangible assets with indefinite useful lives. The proceeds from the sale of Bitcoin are included within operating or investing activities in the consolidated statements of cash flows depending on the length of time the Bitcoin is held. The Company adopted ASU 2023-08 effective January 1, 2024, which requires Bitcoin to be valued at fair value at the end of each reporting period with changes in fair value recorded in operating expenses in the consolidated statements of operations. The fair value of Bitcoin is measured using the period-end closing price from the Company's principal market. When Bitcoin is sold, the gains and losses from such transactions are measured as the difference between the cash proceeds and the carrying basis of the Bitcoin as determined on a first in-first out ("FIFO") basis and are recorded within the same line item, Change in Fair Value of Bitcoin, in the consolidated statements of operations.

Prior to the adoption of ASU 2023-08, the Company accounted for its digital assets, Bitcoin, as indefinite-lived intangible assets. The digital assets were recorded at cost less impairment. An impairment analysis was performed daily to determine if the fair value of Bitcoin was lower than the carrying value for Bitcoin until the Bitcoin was disposed of or until the end of the reporting period, whichever came first. The fair value of digital assets was determined on a nonrecurring basis based on the lowest intraday quoted price as reported in the Company's principal market. If the carrying value of the digital asset exceeded the fair value, an impairment loss had occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the fair value determined. Impairment losses were recognized in operating expenses in the consolidated statements of operations in the period in which the impairment is identified. The impaired digital assets were written down to their fair value at the time of impairment and this new cost basis would not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale or disposition.

Digital assets awarded to the Company through its mining activities were included within operating activities on the consolidated statements of cash flows. The disposal of digital assets were included within operating activities in the consolidated statements of cash flows and any realized gains or losses from such sales are included in operating costs and expenses in the consolidated statements of operations. The Company accounted for its gains or losses in accordance with the FIFO method of accounting.

Property and Equipment

Property and equipment primarily consists of mining equipment and is stated at cost, including purchase price and all shipping and custom fees, and depreciated using the straight-line method over the estimated useful lives of the assets, generally five years.

The Company reviews the carrying amounts of property and equipment when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the fair value of the asset is estimated in order to determine the extent of the impairment loss, if any.

Intangible Assets

For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. For intangible assets acquired in a non-monetary exchange, the estimated fair values of the assets transferred (or the estimated fair values of the assets received, if more clearly evident) are used to establish their recorded values. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value.

Supplier agreements are amortized on a straight-line basis over their economic lives of 5 years as this method most closely reflects the pattern in which the economic benefits of the assets will be consumed.

Impairment of Intangible Assets

The Company performs regular reviews of intangible assets to determine if any event has occurred that may indicate that intangible assets with finite useful lives and other long-lived assets are potentially impaired. Triggering events for impairment reviews may be indicators such as adverse industry or economic trends, restructuring actions, lower projections of profitability, or a sustained decline in our market capitalization. Intangible assets are quantitatively assessed for impairment, if necessary, by comparing their estimated fair values to their carrying values. If the carrying value exceeds the fair value, the difference is recorded as an impairment.

Warrant Liabilities

Warrant liabilities are presented at fair value on the consolidated balance sheets. The warrant liabilities are subject to remeasurement at each balance sheet date and any change in fair value is recognized in other income, net, in the consolidated statements of operations.

Revenue Recognition

The Company accounts for revenue pursuant to ASU 2014-09, *Revenue from Contracts with Customers* and all the related amendments ("Topic 606"). Under Topic 606, an entity is required to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and contract consideration will be recognized on a "sell-in basis" or when control of the purchased goods or services transfer to the distributor.

The Company is engaged with Bitcoin mining pool operators, its customers, to provide a service to perform hash calculations for the mining pool operator, which is the Company's only performance obligation. Providing hash calculation services is an output of the Company's ordinary activities. The Company currently has service agreements with Foundry Digital LLC and Luxor Technology Corporation, each a cryptocurrency mining pool operator, to provide a service to perform hash calculations. In exchange for providing the service, the Company is entitled to Full Pay Per Share ("FPPS"), which is a fractional share of the fixed Bitcoin award the mining pool operator receives, plus a fractional share of the transaction fees attached to that blockchain less net digital asset fees due to the mining pool operator over the measurement period, as applicable. The pay-outs received are based on the expected value from the block reward plus the transaction fee reward, regardless of whether the mining pool operator successfully records a block to the blockchain.

The Company's fractional share is based on a contractual formula, which primarily calculates the hash rate provided to the mining pool as a percentage of total network hash rate and other inputs. The contracts, which are less than 24 hours and continuously renew throughout the day, are terminable at any time by either party without compensation and the Company's enforceable right to compensation only begins when the Company starts providing the service to the mining pool operator, which begins daily at midnight Universal Time Coordinated ("UTC"). The terms, conditions, and compensation are at the current market rates, and accordingly the renewal option is not a material right. The contract arises at the point that the Company provides hash calculation services to the mining pool operator, which is the beginning of the contract day at midnight UTC time (contract inception), as customer consumption is in tandem with daily earnings of delivery of the service. According to the customer contract, daily earnings are calculated from midnight-to-23:59:59 UTC time, and the payout is made one hour later at 1:00 AM UTC time.

The Company satisfies its performance obligation over time with daily settlement in Bitcoin. The Company's performance is completed as it transfers the hash rate computations over the continuously renewed contract periods, which are less than 24 hours. The Company has full control of the mining equipment utilized in the mining pool and if the Company determines it will increase or decrease the processing power of its machines and/or fleet (i.e., for repairs or when power costs are excessive) the service provided to the customer will be adjusted.

The transaction consideration the Company receives is noncash consideration in the form of Bitcoin, which the Company measures at fair value at contract inception, midnight UTC time. The noncash consideration is variable, since the amount of block reward earned depends on the amount of hash calculation services, the amount of transaction fees awarded and operator fees over the same period. The Company does not constrain this variable consideration because it is probable that a significant reversal in the amount of revenue recognized from the contract will not occur when the uncertainty is subsequently resolved and recognizes the noncash consideration on the same day that control is transferred, which is the same day as contract inception. The fair value used to calculate the noncash consideration is based on the Bitcoin spot price in our principal market at the beginning of the day (midnight UTC time) at contract inception.

Expenses associated with running the Bitcoin mining operations, such as hosting, operating supplies, utilities, and monitoring services are recorded as cost of revenues.

Comprehensive Income (Loss)

Comprehensive income (loss) and its components encompass all changes in equity other than those arising from transactions with shareholders, including net income (loss) and foreign currency translation adjustments, and is disclosed in a separate condensed consolidated statement of comprehensive income (loss).

Share-based Compensation

The Company accounts for share-based awards, and similar equity instruments, granted to employees, non-employee directors, and consultants in accordance with the authoritative guidance for share-based compensation. Share-based compensation award types may include stock options and restricted stock units ("RSUs") and restricted stock awards ("RSAs"). Share-based compensation expense is recognized on a straight-lined basis over the requisite service period (usually the vesting period) except for options with graded vesting which is recognized pursuant to an accelerated method. Forfeitures are recognized as a reduction in share-based compensation expense as they occur.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding the method to allocate resources and assess performance. Through the period ended December 28, 2023, the Company had two operating segments. On December 28, 2023, the Company sold its service and product segment. As of January 1, 2024, the Company has one operating segment and one reporting segment.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") that are adopted by the Company as of the specified effective date. If not discussed, the Company believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures,* which requires more detailed income tax disclosures. The guidance requires entities to disclose disaggregated information about their effective tax rate reconciliation as well as expanded information on income taxes paid by jurisdiction. The disclosure requirements will be applied on a prospective basis, with the option to apply them retrospectively. The standard is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is evaluating the disclosure requirements related to the new standard.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities with a single reportable segment to provide all the disclosures required by this standard and all existing segment disclosures in Topic 280 on an interim and annual basis, including new requirements to disclose significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within the reported measure(s) of a segment's profit or loss, the amount and composition of any other segment items, the title and position of the CODM, and how the CODM uses the reported measure(s) of a segment's profit or loss to assess performance and decide how to allocate resources. The guidance is effective for annual periods beginning after December 15, 2023, and interim periods beginning after December 15, 2024, applied retrospectively with early adoption permitted. The Company is evaluating the impact of adoption of this standard on its consolidated financial statements and disclosures.

Recently Adopted Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-08, *Intangibles - Goodwill - and Other - Crypto Assets (Subtopic* 350-60)*: Accounting For and Disclosure of Crypto Assets* ("ASU 2023-08"), which requires that an entity measure cryptocurrency at fair value in the statement of financial position each reporting period and recognize changes from remeasurement in net income. The amendments also require that an entity provide enhanced disclosures for both annual and interim reporting periods to provide investors with relevant information to analyze and assess the exposure and risk of significant individual crypto asset holdings. In addition, fair value measurement aligns the accounting required for holders of cryptocurrency with the accounting for entities that are subject to certain industry-specific guidance and eliminates the requirement to test those assets for impairment, thereby reducing the associated cost and complexity of applying the current guidance. The Company's digital assets are within the scope of the new guidance and the transition requires a cumulative-effect adjustment as of the beginning of the current fiscal year for any difference between the carrying amount of the Company's digital assets and fair value. Effective January 1, 2024, the Company early adopted ASU 2023-08 and recorded a $20,000 decrease to the opening balance of accumulated deficit and an increase to digital assets.

3. Fair Value Measurements

The authoritative guidance for fair value measurements establishes a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company's consolidated financial instruments include cash equivalents, investment in equity securities, accounts payable, accrued liabilities, and warrant liabilities. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The carrying amount of cash equivalents, accounts payable and accrued liabilities are generally considered to be representative of their respective fair values because of the short-term nature of those instruments.

The following tables provide a summary of the assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	September 30, 2024			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investment in equity securities	$ 6,950	$ 6,950	$ —	$ —
Bitcoin	79	79	—	—
Total	$ 7,029	$ 7,029	$ —	$ —
Liabilities:				
Warrant liabilities	$ 32	$ —	$ —	$ 32

	December 31, 2023			
	Fair Value	Level 1	Level 2	Level 3
Liabilities:				
Warrant liabilities	$ 205	$ —	$ —	$ 205

The Company's investments are in publicly held equity securities which have readily determinable fair values. For the three and nine months ended September 30, 2024, the Company recognized an unrealized loss of $0.4 million and gain of $4.1 million, respectively, within other income (expense) in its consolidated statements of operations related to the fair value change of the investment in equity securities. For the three and nine months ended September 30, 2024, the Company recognized a realized gain of $2.9 million and $3.4 million, respectively, within other income (expense) in its consolidated statements of operations related to the sale of equity securities.

The fair value of the warrant liabilities was measured using a Black Scholes valuation model with the following assumptions:

	September 30, 2024	December 31, 2023
Common share price	$ 0.93	$ 3.47
Expected volatility	120.0 %	120.0 %
Risk-free interest rate	3.8 %	4.2 %

The following table presents the activities of warrant liabilities that are measured at fair value (in thousands):

Warrant liability as of January 1, 2024	$ 205
Change in fair value LDA warrant	(129)
Warrant liability as of March 31, 2024	76
Change in fair value LDA warrant	(32)
Warrant liability as of June 30, 2024	44
Change in fair value LDA warrant	(12)
Warrant liability as of September 30, 2024	$ 32

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The Company's non-financial assets such as property and equipment and intangible assets are recorded at fair value when an impairment is recognized or at the time acquired in an asset acquisition or business combination measured using significant unobservable inputs (Level 3). As discussed in *Note 6 - Certain Balance Sheet Items*, for the nine months ended September 30, 2024, the Company recorded impairment charges associated with property and equipment and reduced the carrying amount of such assets subject to the impairment to their estimated fair value.

4. Digital Assets

The following table presents the activities of Bitcoin (in thousands):

Balance at January 1, 2024	$	986
Cumulative effect upon adoption of ASU 2023-08		20
Revenue recognized from Bitcoin mined		13,967
Proceeds from sale of Bitcoin		(15,051)
Bitcoin issued for services		(538)
Change in fair value of Bitcoin		695
Balance at September 30, 2024	$	79

The following table presents Bitcoin holdings (in thousands except for number of Bitcoin):

		September 30, 2024
Number of Bitcoin held		1.3
Carrying basis of Bitcoin	$	82

For the three and nine months ended September 30, 2024, the Company had a realized gain of approximately $2,000 and $630,000, respectively, on the sale of Bitcoin.

All additions of Bitcoin were the result of Bitcoin generated by the Company's Bitcoin mining operations. All dispositions of Bitcoin were the result of sales on the open market and used to fund the Company's operations. The Company's Bitcoin holdings are not subject to sale restrictions and do not serve as collateral for any agreements. As of September 30, 2024 and December 31, 2023, the Company held no other cryptocurrency.

5. Note Receivable

Rainmaker Promissory Note

In September 2020, the Company entered into a Senior Secured Convertible Promissory Note with Rainmaker Worldwide Inc. (the "Rainmaker Note"), pursuant to which the Company loaned Rainmaker Worldwide Inc. ("Rainmaker") the principal amount of $3.1 million. The Rainmaker Note is secured as a registered lien under the Uniform Commercial Code and the Personal Property Security Act (Ontario) against the assets of Rainmaker and bears interest at the rate of 10.0% per annum. In July 2024, the Company and Rainmaker entered into Amendment No. 3 to the Rainmaker Note and the principal amount was revised to $4.4 million and the due date was extended to January 14, 2025, at which time all principal and accrued interest is due and payable. The Company has the right, at any time, to convert all or any portion of the then outstanding and unpaid Rainmaker Note and interest into shares of Rainmaker common stock at the conversion price as defined in the Rainmaker Note. All amounts related to the Rainmaker Note have been fully reserved in prior periods.

6. Certain Balance Sheet Items

The following table summarizes other current assets (in thousands):

	September 30, 2024	December 31, 2023
Prepaid mining hosting services	$ 1,129	$ 980
Prepaid insurance	964	575
Prepaid services	224	193
Bitcoin mining hosting deposit	—	10,000
Other	205	190
Total other current assets	$ 2,522	$ 11,938

The December 31, 2023 Bitcoin mining hosting deposit was settled by shares of Core Scientific's common stock issued to the Company, and is included in investment in equity securities at September 30, 2024.

The following table summarizes property and equipment, net (in thousands):

	September 30, 2024	December 31, 2023
Mining equipment	$ 32,155	$ 30,122
Construction in progress	500	—
Total	32,655	30,122
Accumulated depreciation	(9,264)	(5,956)
Property and equipment, net	$ 23,391	$ 24,166

Depreciation expense for property and equipment was $1.4 million and $1.3 million for the three months ended September 30, 2024 and 2023, respectively. Depreciation expense for property and equipment was $4.3 million and $2.9 million for the nine months ended September 30, 2024 and 2023, respectively.

For the nine months ended September 30, 2024 and 2023, the Company sold 450 and 2,925 miners, respectively, that were included in mining equipment, for proceeds of $0.2 million and $4.1 million, respectively. The Company had a loss on the sale of miners of nil and $0.7 million during the three and nine months ended September 30, 2024. The Company had a loss on the sale of miners of $0.3 million and $0.6 million during the three and nine months ended September 30, 2023, respectively.

Impairment of Property and Equipment

For the nine months ended September 30, 2024, the Company recorded an impairment to property and equipment related to idle mining equipment not expected to return to use. The Company compared the indicated fair value to the carrying value of the mining equipment, and as a result of the analysis, an impairment charge of $0.9 million was recorded for the nine months ended September 30, 2024. The estimated fair value of the Company's mining equipment is classified in Level 3 of the fair value hierarchy. The Company incurred no property and equipment impairment charges for the three and nine months ended September 30, 2023.

The following table summarizes other non-current assets (in thousands):

	September 30, 2024	December 31, 2023
Prepaid mining hosting services	$ 2,892	$ 3,402
Other	4	4
Total other non-current assets	$ 2,896	$ 3,406

7. Intangible Assets

The following table summarizes intangible assets, net (in thousands):

	September 30, 2024	December 31, 2023
Supplier agreements	$ 37,525	$ 37,525
Capitalized development costs	103	103
	37,628	37,628
Accumulated amortization:		
Supplier agreements	(34,058)	(32,944)
Capitalized development costs	(103)	(103)
	(34,161)	(33,047)
Total finite-lived intangible assets, net	$ 3,467	$ 4,581

Amortization expense for intangible assets was $0.4 million and $0.8 million for the three months ended September 30, 2024 and 2023, respectively. Amortization expense for intangible assets was $1.1 million and $1.6 million for the nine months ended September 30, 2024 and 2023, respectively.

Estimated amortization expense for intangible assets is approximately $0.4 million for the remainder of 2024 and $1.5 million, $1.5 million, and $0.1 million in fiscal year 2025, 2026, and 2027, respectively.

8. Preferred Shares

Series H Preferred Shares

On October 1, 2021, the Company filed articles of amendment to create a series of preferred shares, being, an unlimited number of Series H Preferred Shares and to provide for the rights, privileges, restrictions and conditions attaching thereto. The Series H Preferred Shares are convertible provided (and only if and to the extent) that prior shareholder approval of the issuance of all Sphere 3D common shares issuable upon conversion of the Series H Preferred Shares has been obtained in accordance with the rules of the Nasdaq Stock Market, at any time from time to time, at the option of the holder thereof, into 142.857 Sphere 3D common shares for every Series H Preferred Share. Each holder of the Series H Preferred Shares, may, subject to prior shareholder approval, convert all or any part of the Series H Preferred Shares provided that after such conversion the common shares issuable, together with all the common shares held by the shareholder in the aggregate would not exceed 9.99% of the total number of outstanding common shares of the Company. Each Series H Preferred Share has a stated value of $1,000. The Series H Preferred Shares are non-voting and do not accrue dividends. These features include, in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, deemed liquidation or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, the Series H Preferred Shares shall entitle each of the holders thereof to receive an amount equal to the Series H subscription price per Series H Preferred Share, as defined in the agreement, to be paid before any amount is paid or any assets of the Company are distributed to the holders of its common shares.

In November 2022, the Company entered into the Modified Hertford Agreement. The Modified Hertford Agreement provides for certain resale restrictions applicable to the common shares that are issuable upon the conversion of the remaining Series H Preferred Shares during the two-year period ending on December 31, 2024, which are different from the restrictions contained in the Hertford Agreement. Commencing January 1, 2024 and terminating on December 31, 2024, holders of Series H Preferred Shares are permitted to (a) convert Series H Preferred Shares in an aggregate amount up to or equal to 10.0% of the aggregate number of Series H Preferred Shares outstanding on the first day of each such month and (b) sell the resulting number (and no greater number) of such converted common shares within such month.

In August 2023, the Company entered into an Amended and Restated Agreement (the “Hertford Amendment”) with Hertford Advisors Ltd. and certain other parties listed in the Hertford Amendment (together, the “Hertford Group”), which amends and restates in its entirety the purchase agreement between the Company and Hertford Advisors Ltd. dated July 31, 2021, as modified by the amendment to such agreement dated November 7, 2022 (together, the “Original Hertford Agreement”). As an inducement to enter into the Hertford Amendment, the Company issued to Hertford 1,376 Series H Preferred Shares and 800,000 warrants with an aggregate fair value of $1.0 million. Pursuant to the Hertford Amendment, Hertford exchanged 14,980 Series H Preferred Shares for Series H Preferred Shares held by other persons (the “Exchanged Series H Preferred Shares”).

The Hertford Group shall not be permitted to sell more than that number of common shares equal to 20% of the previous trading day's volume for common shares traded on the principal exchange upon which the common shares are listed and, for any subsequent trading day, the shares sold by the Hertford Group on the previous trading day shall be excluded when calculating the day's volume. Beginning on January 1, 2025, the Hertford Group shall not be prohibited, restrained or otherwise limited from converting its Series H Preferred Shares or selling any common shares converted from Series H Preferred Shares, subject to applicable laws, exchange requirements and the terms and conditions of the Series H Preferred Shares.

In August 2023, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) pursuant to which the Company issued to two investors a total of 13,764 of the Company’s Series H Preferred Shares and a total of 1,966,293 common share purchase warrants (the “Warrants”), each of which entitled the holder to purchase one common share of the Company (the “Warrant Shares”). Pursuant to the terms of the Purchase Agreement, the Company received gross proceeds of $3.0 million. The Company issued a total of 1,377 Series H Preferred Shares and 196,629 warrants as a finder’s fee for the transaction with an aggregate fair value of $0.5 million. Pursuant to the terms of the Purchase Agreement, the Company will reserve for issuance the maximum aggregate number of common shares that are issuable upon exercise in full of the Warrants at any time.

The Warrants issued in connection with the Hertford Amendment and the Purchase Agreement are exercisable beginning February 12, 2024 and February 23, 2024, respectively, at an initial exercise price of $2.75 per share and have a term of three years from the date of issuance. The exercise price of the Warrants are subject to adjustment for certain stock splits, stock combinations and dilutive share issuances.

In accordance with the authoritative guidance for distinguishing liabilities from equity, the Company has determined that its Series H preferred shares carry certain redemption features beyond the control of the Company. Accordingly, the Series H Preferred Shares are presented as temporary equity. For the nine months ended September 30, 2024 and 2023, the Company issued 4,626,133 and 4,130,419 common shares for the conversion of 32,383 and 28,913 Series H Preferred Shares, respectively.

9. Share Capital

On April 17, 2023, the Company entered into a Securities Purchase Agreement (the “LDA Purchase Agreement”) as amended April 25, 2023, pursuant to which the Company issued to an investor, LDA Capital Limited (the “Investor”) a common share purchase warrant (the “LDA Warrant”) to purchase up to 455,927 common shares of the Company (the “LDA Warrant Shares”). The LDA Warrant is exercisable at an exercise price of $1.342 per share and expires three years from the date of issuance or earlier if the closing of a Fundamental Transaction occurs (defined as merger or consolidation, any sale of substantially all of the Company’s assets, any tender offer or exchange offer pursuant to which common shareholders can tender or exchange their shares for other securities, cash or property, as well as any reclassification of common shares into other securities, cash or property). The exercise price of the LDA Warrant is subject to adjustment for certain stock splits, stock combinations and dilutive share issuances. Pursuant to the terms of the LDA Purchase Agreement, the Company will reserve for issuance 200% of the maximum aggregate number of common shares as are issuable upon exercise in full of the LDA Warrant at any time.

The LDA Warrant contains a contingent put option. In the event of a Fundamental Transaction, the Investor may, at the Investor's option, require the Company to purchase the LDA Warrant for an amount of cash equal to the Black Scholes value of the remaining unexercised portion of the warrant on the date of consummation of such Fundamental Transaction. The Company has recorded the warrant as a liability and will adjust the warrant liability to fair value each reporting period until settled.

Unlimited authorized shares of common shares at no par value are available to the Company. At September 30, 2024, the Company had the following outstanding warrants to purchase common shares:

Date issued	Contractual life (years)	Exercise price	Number outstanding	Expiration
July 2021	3	$28.00	285,716	December 22, 2024
September 2021	5	$66.50	1,614,299	September 8, 2026
October 2021	3	$42.00	121,429	October 1, 2024
February 2022	5	$28.00	14,286	February 7, 2027
February 2022	5	$35.00	14,286	February 7, 2027
February 2022	5	$42.00	14,286	February 7, 2027
April 2023	3	$1.34	73,556	April 17, 2026
August 2023	3	$2.75	800,000	August 11, 2026
August 2023	3	$2.75	2,162,922	August 23, 2026
			5,100,780	

10. Equity Incentive Plan

Stock Options

The fair value of option awards are estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility was based on historical volatility of the Company's common shares. The expected term of options granted was based on the simplified formula. The risk-free interest rate was based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The dividend yield assumption was based on the expectation of no future dividend payments. Option awards can be granted for a maximum term of up to 10 years. The assumptions used in the Black-Scholes model were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Expected volatility	—	81.8%	124.3-126.1%	81.8-84.0%
Expected term (in years)	—	0.5	3.5	0.5
Risk-free interest rate	—	5.52%	4.09-4.61%	5.27-5.52%
Dividend yield	—	—	—	—

The following table summarizes option activity:

	Shares Subject to Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding — January 1, 2024	395,241	$ 6.34		
Granted	371,465	$ 2.16		
Exercised	—	$ —		
Forfeited	(323,536)	$ 3.21		
Options outstanding — September 30, 2024	443,170	$ 5.11	4.5	$ —
Vested and expected to vest — September 30, 2024	443,170	$ 5.11	4.5	$ —
Exercisable — September 30, 2024	200,985	$ 7.59	3.8	$ —

The weighted average grant date fair values of options granted for the nine months ended September 30, 2024 and 2023 was $1.67 and $0.58 per share, respectively.

Restricted Stock Units

The following table summarizes RSU activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding — January 1, 2024	58,929	$ 9.51
Granted	1,757,250	$ 1.72
Vested and released	(741,184)	$ 1.88
Forfeited	—	$ —
Outstanding — September 30, 2024	1,074,995	$ 2.04
Vested and unreleased — September 30, 2024	199,219	$ 1.90

The estimated fair value of RSUs was based on the market value of the Company's common shares on the date of grant. RSUs typically vest over a period of 12 months to three years from the original date of grant. The total grant date fair value of RSUs vested for the nine months ended September 30, 2024 and 2023 was approximately $1.8 million and $0.6 million, respectively. The fair value of RSUs vested for the nine months ended September 30, 2024 and 2023 was approximately $1.3 million and $0.2 million, respectively.

Restricted Stock Awards

The Company grants RSAs to employees and consultants in lieu of cash payment for services performed. The estimated fair value of the RSA is based on the market value of the Company's common shares on the date of grant. For the nine months ended September 30, 2024, the Company granted 199,597 fully vested RSAs with a weighted average per share price of $1.28 and a fair value of $0.3 million. For the nine months ended September 30, 2023, the Company granted 44,450 fully vested RSAs with a weighted average per share price of $1.44 and a fair value of $0.1 million.

Share-Based Compensation Expense

The Company recorded the following compensation expense related to its share-based compensation awards (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Sales and marketing	$ —	$ 35	$ —	$ 86
General and administrative	511	721	2,369	1,874
Total share-based compensation expense	$ 511	$ 756	$ 2,369	$ 1,960

Total unrecognized estimated compensation cost by type of award and the weighted-average remaining requisite service period over which such expense is expected to be recognized (in thousands, unless otherwise noted):

	September 30, 2024	
	Unrecognized Expense	Remaining Weighted-Average Recognition Period (years)
RSUs	$ 1,368	1.1
Stock options	$ 160	0.5

11. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) applicable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution of securities that could share in the earnings of an entity. The calculation of diluted net income (loss) per share gives effect to common share equivalents; however, potential common shares are excluded if their effect is anti-dilutive. Common share purchase warrants, preferred shares issued and outstanding, and options and RSUs outstanding are considered common share equivalents and are only included in the calculation of diluted earnings per common share when net income is reported and their effect is dilutive.

A reconciliation of the numerators and denominators is as follows (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income (loss) available to common shareholders	$ 104	$ (6,307)	$ (2,249)	$ (14,639)
Denominator:				
Weighted average common shares outstanding for basic income (loss) per share	20,733,022	12,653,413	18,681,399	11,340,973
Net effect of dilutive common share equivalents	1,590,284	—	—	—
Weighted average common shares outstanding for diluted net income (loss) per share	22,323,306	12,653,413	18,681,399	11,340,973
Net income (loss) per share:				
Basic	$ 0.01	$ (0.50)	$ (0.12)	$ (1.29)
Diluted	$ 0.005	$ (0.50)	$ (0.12)	$ (1.29)

Anti-dilutive common share equivalents excluded from the computation of diluted net income (loss) per share were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Common share purchase warrants	5,100,780	6,042,354	5,100,780	6,042
Preferred shares issued and outstanding	—	6,800,565	1,590,284	6,800
Options and RSUs outstanding	1,518,165	932,294	1,518,165	932

12. Commitments and Contingencies

Service Agreements

On October 18, 2023, the Company entered into a Hosting Agreement with Joshi Petroleum, LLC (the "Joshi Hosting Agreement") for rack space, network services, electrical connections, routine facility maintenance, and technical support of certain of the Company's mining equipment. The Joshi Hosting Agreement has an initial term of three years with subsequent one year renewal periods until either party provides written notice to the other party of its desire to avoid and given renewal term at least 30 days in advance of the conclusion of the prior initial term or renewal period. As required by the Joshi Hosting Agreement, the Company paid a deposit of $0.3 million representing the last two months of estimated service fees. For the three months ended September 30, 2024 and 2023, the Company incurred costs under the Joshi Hosting Agreement of $0.4 million and nil, respectively. For the nine months ended September 30, 2024 and 2023, the Company incurred costs under the Joshi Hosting Agreement of $1.2 million and nil, respectively.

On April 4, 2023, the Company entered into a Master Hosting Services Agreement with Rebel Mining Company, LLC (the “Rebel Hosting Agreement”) for rack space, network services, electrical connections, routine facility maintenance, and technical support of certain of the Company’s mining equipment. The Rebel Hosting Agreement has a term of three years with subsequent one year renewal periods. As required by the Rebel Hosting Agreement, the Company paid deposits of $2.6 million representing the last two months of estimated service fees. For the three months ended September 30, 2024 and 2023, the Company incurred costs under the Rebel Hosting Agreement of $0.7 million and $1.8 million, respectively. For both the nine months ended September 30, 2024 and 2023, the Company incurred costs under the Rebel Hosting Agreement of $3.0 million.

On February 8, 2023, the Company entered into a Hosting Agreement with Lancium FS 25, LLC (the “Lancium Hosting Agreement”) for rack space, network services, electrical connections, routine facility maintenance, and technical support of certain of the Company’s mining equipment. The Lancium Hosting Agreement has a term of two years with subsequent one year renewal periods. As required by the Lancium Hosting Agreement, the Company paid a deposit of $0.2 million representing a partial payment towards the last two months of estimated service fees. For the three months ended September 30, 2024 and 2023, the Company incurred costs under the Lancium Hosting Agreement of $0.8 million and $0.7 million, respectively. For the nine months ended September 30, 2024 and 2023, the Company incurred costs under the Lancium Hosting Agreement of $2.5 million and $1.2 million, respectively.

In the first quarter of 2024, Marathon Digital Holdings acquired GC Data Center Granbury Equity Holdings, LLC and assumed the GC Data Center master agreement, (“GC Data Center MA”). The GC Data Center MA has a term of five years beginning December 2022. The monthly service fee is payable based on the actual hash rate performance of the equipment per miner type per location as a percentage of the anticipated monthly hash rate per miner type. As required by the service agreement, the Company paid a deposit of $0.5 million representing the last two months of estimated service fees. For the three months ended September 30, 2024 and 2023, the Company incurred costs under the GC Data Center MA of $0.3 million and $1.1 million, respectively. For the nine months ended September 30, 2024 and 2023, the Company incurred costs under the GC Data Center MA of $2.7 million and $3.6 million, respectively. On August 28, 2024, the Company and GC Data Center Granbury, LLC (the “Host”) mutually entered into a termination agreement effective August 31, 2024, and the Host paid a termination fee to the Company of $3.0 million, included within other income (expense) in its consolidated statements of operations, to settle all matters pertaining to the GC Data Center MA including all services and deposit prepayment for estimated services fees.

Hosting Sub-License

On October 5, 2021, the Company entered into a Sub-License and Delegation Agreement (“Hosting Sub-Lease”) by and between Gryphon Digital Mining, Inc. (“Gryphon”) and the Company, which assigned to the Company certain Master Services Agreement, dated as of September 12, 2021 (the “Core Scientific MSA”), by and between Core Scientific, Inc. (“Core Scientific”), and Gryphon and Master Services Agreement Order #2 (“Order 2”). The agreement allowed for approximately 230 MW of carbon neutral digital mining hosting capacity to be managed by Core Scientific as hosting partner.

On January 16, 2024, the Company reached a settlement agreement (the “Settlement Agreement”) with Core Scientific, which was approved by a United States Bankruptcy Judge on January 16, 2024 as part of Core Scientific’s emergence from bankruptcy, for $10.0 million of Core Scientific’s equity. The Settlement Agreement includes access to potential additional funds for interest as well as an additional equity pool if the value of Core Scientific’s equity decreases below plan value in the 18 months after the date of the Settlement Agreement commensurate with the other unsecured creditors. On January 23, 2024, the Company received 2,050,982 shares of Core Scientific Inc. common stock trading under the Nasdaq symbol CORZ, which was included in investment in equity securities.

Letters of credit

During the ordinary course of business, the Company provides standby letters of credit to third parties as required for certain transactions initiated by the Company. As of September 30, 2024, the Company has no standby letters of credit outstanding.

Litigation

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business. The Company cannot predict the final outcome of such proceedings. Where appropriate, the Company vigorously defends such claims, lawsuits and proceedings. Paid expenses related to the defense of such claims are recorded by the Company as incurred and paid. Based on current information, the Company does not believe there is a reasonable possibility that a material loss, if any, will result from any claims, lawsuits and proceedings to which the Company is subject to either individually, or in the aggregate.

On April 7, 2023, the Company filed a suit against Gryphon in the U.S. District Court for the Southern District of New York. The Company alleges, among other things, that Gryphon materially breached its obligations to the Company, both its contractual duties under the Gryphon Master Services Agreement (the "Gryphon MSA") dated August 19, 2021, and its fiduciary duties, including as a custodian of the Company's assets. On August 22, 2023, Gryphon asserted counterclaims alleging breach of contract, breach of the implied covenant of good faith and fair dealing, negligence in managing its computer systems, and defamation. On November 7, 2023, Gryphon voluntarily dismissed its defamation claim. Gryphon has amended its complaint several times, and on December 14, 2023, added a second breach of contract claim predicated on another alleged breach of the Gryphon MSA. On February 2, 2024, the Company filed a partial motion to dismiss the second breach of contract claim, the negligence claim, and the breach of the implied covenant claim for failure to state a claim. On February 16, 2024, the court so-ordered a stipulation agreed to by the parties dismissing the second breach of contract claim, the negligence claim, and the breach of the implied covenant claim with prejudice. The so-ordered stipulation expressly preserves the Company's ability to seek the recovery of its costs and attorney's fees incurred in connection with the dismissed claims. The Company disputes the allegations against it and intends to vigorously defend itself and to vigorously pursue its claims against Gryphon. At this preliminary stage, the Company believes that Gryphon's claims lack merit; however, because this litigation is still at this early stage, the Company cannot reasonably estimate the likelihood of an unfavorable outcome or the magnitude of such an outcome, if any.

On March 19, 2024, the Company filed a separate lawsuit against Gryphon in the U.S. District Court for the Southern District of New York. The Company alleged that Gryphon converted certain digital assets of Sphere's after the termination of the Gryphon MSA. After the Company filed the lawsuit, Gryphon returned proceeds stemming from the sale of Bitcoin. The Company subsequently dismissed the suit without prejudice. In March 2024, the Company received $1.5 million in proceeds from the sale of Bitcoin, which are included in the statements of cash flows within investing activities.

13. Segment Information

In the prior year, the Company had two operating segments, (1) Bitcoin Mining and (2) Service and Product. The segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. On December 28, 2023, the Company sold its Service and Product segment. As of January 1, 2024, the Company has one operating segment and one reporting segment.

The Bitcoin Mining segment generates revenue through its Bitcoin mining activities. The Company generates its Bitcoin mining revenue from two mining pool operators. The Company's revenue from Bitcoin mining is generated in the United States.

The Service and Product segment generated revenue from customer contracts for service and extended service contract and the sale of products related to the Company's data storage product line. The Company's revenue from service and product was generated in the United States.

Summary information by segment (in thousands):

Three months ended September 30, 2023	**Bitcoin Mining**	**Service and Product**	**Unallocated**	**Total Consolidated**
Revenue	$ 5,102	$ 622	$ —	$ 5,724
Segment gross profit	$ 810	$ 401	$ —	$ 1,211
Segment loss from operations	$ (1,569)	$ (124)	$ (4,711)	$ (6,404)
Interest expense	$ —	$ —	$ 10	$ 10
Depreciation and amortization	$ 1,999	$ 3	$ 26	$ 2,028

Nine months ended September 30, 2023	**Bitcoin Mining**	**Service and Product**	**Unallocated**	**Total Consolidated**
Revenue	$ 12,592	$ 1,624	$ —	$ 14,216
Segment gross profit	$ 2,261	$ 896	$ —	$ 3,157
Segment loss from operations	$ (2,281)	$ (866)	$ (11,693)	$ (14,840)
Capital expenditures	$ 1,561	$ —	$ —	$ 1,561
Interest expense	$ —	$ —	$ 1,183	$ 1,183
Depreciation and amortization	$ 4,330	$ 20	$ 78	$ 4,428

Service and product had the following customers that represented more than 10% of segment revenue.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2024	**2023**	**2024**	**2023**
Customer A	—	19.1 %	—	22.2 %
Customer B	—	12.0 %	—	13.5 %
Customer C	—	13.3 %	—	11.8 %
Customer D	—	17.3 %	—	—

14. Subsequent Events

Subsequent to September 30, 2024, the Company issued 297,713 common shares for the conversion of 2,084 Series H Preferred Shares.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following quarterly management’s discussion and analysis (“MD&A”) should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes of Sphere 3D Corp. (the “Company”) for the three and nine months ended September 30, 2024. The condensed consolidated financial statements have been presented in United States (“U.S.”) dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Unless the context otherwise requires, any reference to the “Company,” “Sphere 3D,” “we,” “our,” “us” or similar terms refers to Sphere 3D Corp. and its subsidiaries. Unless otherwise indicated, all references to “$” and “dollars” in this discussion and analysis mean U.S. dollars.

This report includes forward-looking statements that are subject to risks and uncertainties. This forward-looking information includes, but is not limited to, statements with respect to management’s expectations regarding the future growth, results of operations, performance and business prospects of Sphere 3D. This forward-looking information relates to, among other things, future business plans and business planning process, uses of cash, and may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions. The words “could”, “expects”, “may”, “will”, “anticipates”, “assumes”, “intends”, “plans”, “believes”, “estimates”, “guidance”, and similar expressions are intended to identify statements containing forward-looking information, although not all forward-looking statements include such words. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management’s expectations, estimates and projections regarding future events.

Many factors could cause actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, but not limited to: the inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market; the impact of competition; the investment in technological innovation; the retention or maintenance of key personnel; the possibility of significant fluctuations in operating results; the ability of Sphere 3D to maintain business relationships; financial, political or economic conditions; financing risks; future acquisitions; volatility in the market price for the common shares of the Company; compliance by Sphere 3D with financial reporting and other requirements as a public company; conflicts of interests; future sales of common shares by Sphere 3D’s directors, officers and other shareholders; dilution and future sales of common shares. For more information on these risks, you should refer to the Company’s filings with the securities regulatory authorities, including the Company’s most recently filed Annual Report on Form 10-K, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov. In evaluating such statements, we urge you to specifically consider various factors identified in this report, any of which could cause actual results to differ materially from those indicated by such forward-looking statements. Forward-looking statements speak only as of the date of this report and we undertake no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this report. Actual events or results may differ materially from such statements.

Overview

In January 2022, we commenced operations of our Bitcoin mining business and are dedicated to becoming a leader in the Blockchain and Crypto Industry. We have established and continue to grow an enterprise-scale mining operation through the procurement of mining equipment and partnering with experienced service providers. In addition to Bitcoin mining, through December 28, 2023, we delivered data management and desktop and application virtualization solutions through hybrid cloud, cloud and on premise implementations by its reseller network. We achieved this through a combination of containerized applications, virtual desktops, virtual storage and physical hyper-converged platforms. On December 28, 2023, we sold our service and product segment which included HVE ConneXions and Unified ConneXions.

We obtain Bitcoin as a result of our mining operations, and we sell Bitcoin to support our operations and strategic growth. We currently mine Bitcoin in Missouri, Texas and Iowa, which these states do not have any material state-specific regulatory restrictions on the mining of Bitcoin. However, it is possible that these states or other states in which we may seek to operate may create laws that would impede Bitcoin mining. We do not currently plan to engage in regular trading of Bitcoin other than sales to convert our Bitcoin into U.S. dollars. Decisions to hold or sell Bitcoins are currently determined by management by analyzing forecasts and monitoring the market in real time. We have a hybrid treasury strategy to hold Bitcoin when possible, and sell to fund working capital requirements.

We are strategizing for our future growth by refreshing a significant portion of our fleet with newer-generation machines to bolster efficiency. We expect this to lead to greater gross profits given that more efficient machines typically use less power and generate more Bitcoin. As a result of our strategic changes, during the third quarter of 2024 mining production decreased as we focused on our long-term strategic goals of transitioning to lower-cost hosting sites and refreshing our fleet with newer-generation machines. The decrease in the third quarter of 2024 also reflects a significant change at one hosting site, where the hosting provider bought out our contract. We are currently evaluating machines from this site and are actively exploring more affordable hosting options.

As of September 30, 2024, we owned approximately 15,000 miners, of which approximately 6,400 were in service. We do not have scheduled downtime for our miners. During the third quarter of 2024, we have started the process of removing our older machines and replacing them with newer generation machines, and expect this to continue through the first quarter of 2025. In addition, we plan to continue to acquire new generation miners as we expand our exahash. We periodically perform both scheduled and unscheduled maintenance on our miners, but such downtime has not historically been significant. Depending on the type of repair, the miner may run at a reduced speed or be taken offline. We use multiple software programs to monitor the performance of our machines. The miners owned as of September 30, 2024 have a range of energy efficiency (joules per terahash – "J/th") of 21.5 to 38 J/th with an average energy efficiency of 28.4 J/th. The miner efficiency is an indication of how efficient we can earn Bitcoin and minimize cost to run the miner. At this time, we intend only to mine Bitcoin and we hold no other cryptocurrency other than Bitcoin. We do not have any power purchase agreements for the supply of power.

We currently have service agreements with Foundry Digital LLC and Luxor Technology Corporation, each a cryptocurrency mining pool operator, to provide a service to perform hash calculations. In exchange for providing the service, we are entitled to Full Pay Per Share ("FPPS"), which is a fractional share of the fixed Bitcoin award the applicable mining pool operators receives, plus a fractional share of the transaction fees attached to that blockchain, less net cryptocurrency fees due to the mining pool operators over the measurement period, as applicable. The pay-outs that we receive are based on the expected value from the block reward plus the transaction fee reward, regardless of whether the applicable mining pool operators successfully records a block to the blockchain. Our fractional share is based on a contractual formula, which primarily calculates the hash rate provided to the mining pool as a percentage of total network hash rate and other inputs. The service agreements are terminable at any time by either party without compensation, and our enforceable right to compensation only begins when we begin providing hash calculation services to the applicable mining pool operators, which occurs daily at midnight Universal Time Coordinated ("UTC time").

As of September 30, 2024, we held approximately 1.3 Bitcoin. The fair value of our Bitcoin as of September 30, 2024 was approximately $0.1 million on our consolidated balance sheet. We account for our Bitcoin as indefinite-lived intangible assets. Effective January 1, 2024, we early adopted ASU 2023-08, *Intangibles* - *Goodwill* - *and Other* - *Crypto Assets (Subtopic* 350-60)*: Accounting For and Disclosure of Crypto Assets* ("ASU 2023-08") and recorded a $20,000 decrease to the opening balance of accumulated deficit and an increase to digital assets. The new guidance requires Bitcoin to be valued at fair value each reporting period with changes in fair value recorded in operating expenses in the consolidated statement of operations. The fair value of Bitcoin is measured using the period-end closing price from the Company's principal market. When Bitcoin is sold, the gains and losses from such transactions are measured as the difference between the cash proceeds and the carrying basis of the Bitcoin as determined on a first in-first out ("FIFO") basis and are recorded within the same line item, Change in fair value of Bitcoin, in the consolidated statements of operations.

Recent Key Events

- Subsequent to September 30, 2024, we have deployed approximately an additional 350 Q4 Bitmain Antminer S21s, as well, we have 1,000 XP miners acquired in September 2024, which we anticipate to be energized in the fourth quarter of 2024, adding 0.21 EH/s to our overall hash rate and expanding our fleet with the latest generation of high-efficiency miners. The total miner fleet now includes a significant number of Bitmain S21 and S21 Pro machines, contributing close to 0.2 EH/s in additional hash rate.
- On October 10, 2024, we received a letter from the Nasdaq Listing Qualifications department of The Nasdaq Stock Market LLC notifying us that we were not in compliance with the requirement of Nasdaq Marketplace Rule 5550(a)(2) for continued inclusion on the NASDAQ Capital Market as a result of the closing bid price for our common shares being below $1.00 for 30 consecutive business days. This notification has no effect on the listing of our common shares at this time. In accordance with the Nasdaq Marketplace Rules, we were provided an initial period of 180 calendar days to regain compliance, which required a closing bid price for our common shares above $1.00 for a minimum of 10 consecutive business days. On November 14, 2024, our common shares closing bid price was above $1.00 for 20 consecutive business days.
- In September 2024, Sphere 3D Corp. and Simple Mining LLC ("Simple Mining") entered into a letter of intent to acquire a 12.5 MW site in Iowa featuring average sub 4c energy. We have partnered with Simple Mining to engineer, develop, and operate the site. Additionally, we will enter into a Managed Service Agreement ("MSA") with Simple Mining to operate the site on our behalf. The MSA is expected to be a three-year contract, with the option to renew or terminate annually.
- In August 2024, we received a termination fee of $3.0 million to settle all matters pertaining to a terminated hosting agreement including all services and deposit prepayments for estimated services fees.
- In the first nine months of 2024, we issued 4,626,133 common shares for the conversion of 32,383 Series H Preferred Shares. Subsequent to September 30, 2024, we issued 297,713 common shares for the conversion of 2,084 Series H Preferred Shares.

Results of Operations

The Third Quarter of 2024 Compared with the Third Quarter of 2023

Revenue

We generated revenues of $2.4 million and $5.7 million during the third quarter of 2024 and 2023, respectively. The $3.3 million decrease in revenue is primarily due to one of our hosting providers taking approximately 3,300, or 22%, of our mining machines offline in the third quarter of 2024 to relocate them and such machines are pending redeployment. In addition, beginning the third quarter of 2024, we are in the process of removing our older mining equipment and replacing it with newer generation machines. This is expected to be an ongoing process through the first quarter of 2025 which may result in fluctuations in exahash. There was also a decrease in revenues of $0.6 million related to our former Service and Product segment which was sold in December 2023. During the third quarter of 2024, all of our revenue was derived from Bitcoin mining.

Operating Expenses

Cost of Revenue (exclusive of depreciation and amortization expense)

Direct cost of revenues during the third quarter of 2024 and 2023 were $2.7 million and $4.5 million, respectively, representing a decrease of $1.8 million primarily due to lower hosting fees due to machines being taken offline to be relocated and the transition of removing older mining machines and replacing them with newer generation machines, as well the prior year disposal of our Service and Product segment.

Sales and Marketing Expense

Sales and marketing expenses were nil and $0.2 million for the third quarter of 2024 and 2023, respectively. The decrease of $0.2 million was due to the sale of our Service and Product segment in December 2023 and we no longer have sales and marketing expenses.

Research and Development Expense

Research and development expenses were nil and $0.4 million for the third quarter of 2024 and 2023, respectively. The decrease of $0.4 million was due to the sale of our Service and Product segment in December 2023 and we no longer have research and development expense.

General and Administrative Expense

General and administrative expenses were $3.0 million and $3.4 million for the third quarter of 2024 and 2023. The decrease of $0.4 million was due to a decrease of $0.3 million associated with outside services related to our expansion into the cryptocurrency industry, a $0.2 million decrease in share-based compensation, a $0.2 million decrease related to operating costs for our former special purpose acquisition company which no longer exists for 2024, and a $0.1 million decrease in director fees due to the reduction in number of board members. These decreases were partially offset by an increase of $0.4 million primarily associated with legal fees.

Depreciation and Amortization Expense

Depreciation and amortization expense was $1.7 million and $2.0 million for the third quarter of 2024 and 2023, respectively. The decrease of $0.3 million was primarily due to lessor depreciation related to our Bitcoin mining machines due to current year sales of machines and the impairment in the second quarter of 2024, resulting in a lower cost basis to be depreciated over the remaining useful life.

Impairment of Acquired Intangible Assets

Impairment of acquired intangible assets was nil and $1.2 million for the third quarter of 2024 and 2023, respectively. The impairment was due to an adverse change in the business climate which indicated that an impairment triggering event occurred for one supplier agreement, and we determined the carrying value of the finite-lived intangible asset exceeded its estimated fair value.

Loss on Disposal of Property and Equipment

Loss on disposal of property and equipment was nil and $0.3 million for the third quarter of 2024 and 2023, respectively, and the prior year related to the sale of mining equipment.

Change in Fair Value of Bitcoin

Change in fair value of Bitcoin was $8,000 and nil for the third quarter of 2024 and 2023, respectively. Effective January 1, 2024, we early adopted ASU 2023-08 and recorded a $20,000 decrease to the opening balance of accumulated deficit and an increase to digital assets. The loss in the third quarter of 2024 is the change in fair value of the Bitcoin held, as well as the gains and losses from when the Bitcoin was sold. Sale transactions are measured as the difference between the cash proceeds and the carrying basis of the Bitcoin as determined on a FIFO basis.

Realized Gain on Sale of Bitcoin

Realized gain on sale of Bitcoin was nil and $0.1 million for the third quarter of 2024 and 2023, respectively. The third quarter of 2023 is due to the sale of Bitcoin and the difference between the sales proceeds from the Bitcoin and the carrying amount. Typically gains are higher when Bitcoin prices are increasing over a holding period. Effective January 1, 2024, we early adopted ASU 2023-08, and in accordance with the new guidance we no longer report impairment of Bitcoin and realized gain on sale of Bitcoin separately. Instead, current period comparable information is reported in the line item Change in fair value of Bitcoin in the consolidated statement of operations.

Impairment of Bitcoin

Impairment of Bitcoin was nil and $0.2 million for the third quarter of 2024 and 2023, respectively. Effective January 1, 2024, we early adopted ASU 2023-08, and in accordance with the new guidance we no longer report impairment of Bitcoin and realized gain on sale of Bitcoin separately. Instead, current period comparable information is reported in the line item Change in fair value of Bitcoin in the consolidated statement of operations.

Non-Operating Income and Expenses

Unrealized Loss on Investment in Equity Securities

Unrealized loss on investment in equity securities was $0.4 million and nil for the third quarter of 2024 and 2023, respectively. The loss was related to our equity investment in Core Scientific Inc., a publicly traded company.

Other Income, Net

Other income, net was $5.8 million and $0.1 million for the third quarter of 2024 and 2023, respectively. The third quarter of 2024 other income, net, primarily related to a realized gain of $2.9 million on the partial sale of our equity investment in Core Scientific Inc., and $3.0 million for the early termination of a hosting agreement. The third quarter of 2023 other income, net, primarily related to a $0.2 million fair value adjustment for warrant liabilities offset by $0.1 million for extinguishment of debt.

The First Nine Months of 2024 Compared with the First Nine Months of 2023

Revenue

We generated revenues of $14.0 million and $14.2 million during the first nine months of 2024 and 2023, respectively. The $0.2 million decrease in revenue is primarily due to an increase of $1.4 million in revenues from our Bitcoin mining operation for the first nine months of 2024 compared to 2023, offset by a decrease of $1.6 million related to our former Service and Product segment which was sold in December 2023. In July 2024, one of our hosting providers took approximately 3,300, or 22%, of our mining machines offline to relocate them and such machines are pending redeployment. In addition, beginning the third quarter of 2024, we are in the process of removing our older mining equipment and replacing it with newer generation machines. This is expected to be an ongoing process through the first quarter of 2025 which may result in fluctuations in exahash. During the first nine months of 2024, all of our revenue was derived from Bitcoin mining.

Operating Expenses

Cost of Revenue (exclusive of depreciation and amortization expense)

Direct cost of revenues during the first nine months of 2024 and 2023 were $11.0 million and $11.1 million, respectively, representing a decrease of $0.1 million primarily due to the prior year disposal of our Service and Product segment, and the decrease in miners deployed as we refresh our fleet by removing older mining machines and replacing them with newer generation machines.

Sales and Marketing Expense

Sales and marketing expenses were nil and $0.8 million for the first nine months of 2024 and 2023, respectively. The decrease of $0.8 million was due to the sale of our Service and Product segment in December 2023 and we no longer have sales and marketing expenses.

Research and Development Expense

Research and development expenses were nil and $0.9 million for the first nine months of 2024 and 2023, respectively. The decrease of $0.9 million was due to the sale of our Service and Product segment in December 2023 and we no longer have research and development expense.

General and Administrative Expense

General and administrative expenses were $9.5 million and $10.5 million for the first nine months of 2024 and 2023, respectively. The decrease of $1.0 million was primarily due to a decrease of $0.9 million related to operating costs for our former special purpose acquisition company which no longer exists for 2024, a $0.7 million decrease associated with outside services related to our expansion into the cryptocurrency industry, an aggregate $0.2 million decrease in legal fees associated with our Bitcoin mining operation and insurance cost, and a $0.2 million decrease in investor relations. These decreases were offset by an increase of $0.5 million in share-based compensation primarily related to awards to certain executives, an increase of $0.2 million for employee and related expenses, and a $0.2 million increase in costs related to strategic business growth.

Depreciation and Amortization Expense

Depreciation and amortization expense was $5.4 million and $4.4 million for the first nine months of 2024 and 2023, respectively. The increase of $1.0 million was primarily due to depreciation related to our Bitcoin mining machines.

Impairment of Property and Equipment

Impairment of property and equipment was $0.9 million and nil for the first nine months of 2024 and 2023, respectively, and related to idle mining equipment not expected to return to use.

Impairment of Acquired Intangible Assets

Impairment of acquired intangible assets was nil and $1.2 million for the first nine months of 2024 and 2023, respectively. The impairment was due to an adverse change in the business climate which indicated that an impairment triggering event occurred for one supplier agreement, and we determined the carrying value of the finite-lived intangible asset exceeded its estimated fair value.

Loss on Disposal of Property and Equipment

Loss on disposal of property and equipment was $0.7 million and $0.6 million for the first nine months of 2024 and 2023, respectively, and related to the sale of mining equipment.

Change in Fair Value of Bitcoin

Change in fair value of Bitcoin was $0.7 million and nil for the first nine months of 2024 and 2023, respectively. Effective January 1, 2024, we early adopted ASU 2023-08 and recorded a $20,000 decrease to the opening balance of accumulated deficit and an increase to digital assets. The gain in the first nine months of 2024 is the change in fair value of the Bitcoin held, as well as the gains and losses from when the Bitcoin was sold. Sale transactions are measured as the difference between the cash proceeds and the carrying basis of the Bitcoin as determined on a FIFO basis.

Realized Gain on Sale of Bitcoin

Realized gain on sale of Bitcoin was nil and $0.9 million for the first nine months of 2024 and 2023, respectively. The first nine months of 2023 is due to the sale of Bitcoin and the difference between the sales proceeds from the Bitcoin and the carrying amount. Typically gains are higher when Bitcoin prices are increasing over a holding period. Effective January 1, 2024, we early adopted ASU 2023-08, and in accordance with the new guidance we no longer report impairment of Bitcoin and realized gain on sale of Bitcoin separately. Instead, current period comparable information is reported in the line item Change in fair value of Bitcoin in the consolidated statement of operations.

Impairment of Bitcoin

Impairment of Bitcoin was nil and $0.5 million for the first nine months of 2024 and 2023, respectively. Effective January 1, 2024, we early adopted ASU 2023-08, and in accordance with the new guidance we no longer report impairment of Bitcoin and realized gain on sale of Bitcoin separately. Instead, current period comparable information is reported in the line item Change in fair value of Bitcoin in the consolidated statement of operations.

Non-Operating Income and Expenses

Unrealized Gain on Investment in Equity Securities

Unrealized gain on investment in equity securities was $4.1 million and nil for the first nine months of 2024 and 2023, respectively. The gain was related to our equity investment in Core Scientific Inc., a publicly traded company.

Other Income, Net

Other income, net was $6.5 million and $1.5 million of income, net, for the first nine months of 2024 and 2023, respectively. The first nine months of 2024 other income, net, primarily related to a $3.4 million realized gain on the partial sale of our equity investment in Core Scientific Inc., $3.0 million for the early termination of a hosting agreement, and a $0.2 million fair value adjustment for warrant liabilities. The first nine months of 2023 other income, net, primarily related to a $1.1 million fair value adjustment for warrant liabilities, $0.2 million for cancellation of warrant liabilities, and $0.2 million in interest income from restricted funds held in trust.

Interest Expense

Interest expense was nil and $1.2 million for the first nine months of 2024 and 2023, respectively. The first nine months of 2023 interest expense was primarily $1.0 million for warrants issued with our LDA convertible debt and $0.2 million of debt costs.

Liquidity and Capital Resources

We have recurring year to date losses from operations. Our primary source of cash flow is generated from Bitcoin mining revenue. At September 30, 2024, we had cash and cash equivalents of $5.0 million compared to cash and cash equivalents of $0.6 million at December 31, 2023. As of September 30, 2024, we had working capital of $11.0 million reflecting an increase of $2.8 million since December 31, 2023 primarily related to an increase in cash and the unrealized gain on our investment in equity securities. Cash management continues to be a priority and we are phasing out high-cost hosting contracts, leveraging our access to capital, and reducing our overall mining costs.

Management has projected that based on our recurring losses, negative cash flows from operating activities, and our hashing rate at September 30, 2024, cash on hand may not be sufficient to allow us to continue operations and there is doubt about our ability to continue as a going concern within 12 months from the date of issuance of the financial statements if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Included in our working capital is an investment in equity securities that we can liquidate as needed to assist in funding our operations. Our ability to raise additional funds for working capital through equity or debt financings or other sources may depend on the financial success of our business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. If we require additional capital and are unsuccessful in raising that capital at a reasonable cost and at the required time, or at all, we may not be able to continue our business operations in the cryptocurrency mining industry or we may be unable to advance our growth initiatives, either of which could adversely impact our business, financial condition and results of operations. In an effort to mitigate these risks we expect to take steps to lower our cost of mining and also refresh our mining fleet to increase our mining efficiency.

Significant changes from our current forecasts, including but not limited to: (i) shortfalls from projected mining earning levels; (ii) increases in operating costs; (iii) decreases in the value of cryptocurrency; and (iv) we do not maintain compliance with the requirements of the NASDAQ Capital Market and/or we do not maintain our listing with the NASDAQ Capital Market could have a material adverse impact on our ability to access the level of funding necessary to continue our operations at current levels. These factors, among others, should they occur may result in our inability to continue as a going concern within 12 months from the date of issuance of the financial statements. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from the outcome of this uncertainty.

The following table shows a summary of our cash flows (used in) provided by operating activities, investing activities, and financing activities (in thousands):

	Nine Months Ended September 30,	
	2024	2023
Net cash used in operating activities	$ (3,064)	$ (6,024)
Net cash provided by investing activities	$ 7,428	$ 2,437
Net cash provided by financing activities	$ —	$ 2,859

Net cash used in operating activities. The use of cash during the first nine months of 2024 was primarily a result of our net loss of $2.2 million, offset by $1.5 million in non-cash items, which primarily included an unrealized gain on investment in equity securities, realized gain on investment in equity securities, depreciation and amortization, share-based compensation expense, impairment of property and equipment, loss on disposal of property and equipment, change in fair value of Bitcoin, Bitcoin issued for services, and change in fair value of warrant liabilities.

Net cash provided by investing activities. During the first nine months of 2024, we received $10.5 million from proceeds from the sale of investment in equity securities and $1.5 million from proceeds from the sale of Bitcoin, offset by $4.6 million of payments for the purchase of property and equipment consisting of newer generation mining machines. During the first nine months of 2023, we sold 2,925 miners originally included in mining equipment, for cash proceeds of $4.1 million, our SPAC received $10.3 million from the redemption of the trust account and paid $10.4 million for the redemption of the redeemable non-controlling interest related to MEOA, and we paid $1.6 million towards digital asset mining machines and shipping costs.

Net cash provided by financing activities. For the first nine months of 2023, we received $3.0 million of proceeds from the issuance of preferred shares and warrants, $0.8 million, net, from the issuance of a convertible note, and $0.3 million from the exercise of stock options. These inflows were offset by $1.3 million of payments made on our convertible debt which was paid in full in August 2023.

Off-Balance Sheet Information

During the ordinary course of business, we may provide standby letters of credit to third parties as required for certain transactions initiated by us. As of September 30, 2024, we have no standby letters of credit outstanding.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. The accounting estimates that are most critical to a full understanding and evaluation of our reported financial results are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. There were no material changes to our critical accounting estimates during the nine months ended September 30, 2024.

Recent Accounting Pronouncements

Refer to *Note 2 - Summary of Significant Accounting Policies* to our condensed consolidated financial statements for a discussion of recent accounting pronouncements and their effect, if any, on us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) or 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective to give reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized, and reported on a timely basis as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

For a discussion of our legal proceedings, see Note 12. *Commitments and Contingencies* to our Consolidated Financial Statements.

Item 1A. Risk Factors.

An investment in our Company involves a high degree of risk. In addition to the risk factors and other information included or incorporated by reference to this report, you should carefully consider each of the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the risks occur, our business and financial results could be harmed and the trading price of our common shares could decline.

Changing environmental regulation and public energy policy may expose our business to new risks.

Our Bitcoin mining operations require a substantial amount of power and can only be successful, and ultimately profitable, if the costs we incur, including for electricity, are lower than the revenue we generate from our operations. As a result, any mine we establish can only be successful if we can obtain sufficient electrical power for that mine on a cost-effective basis, and our establishment of new mines requires us to find locations where that is the case. For instance, our plans and strategic initiatives for expansion are based, in part, on our understanding of current environmental and energy regulations, policies, and initiatives enacted by regulators, and any such regulations that may be adopted in the future. Although we are not currently subject to environmental and energy regulations, policies or initiatives in Missouri, Texas or Iowa, the states in which we currently mine Bitcoin, related to our Bitcoin mining operations, if new regulations in these jurisdictions are imposed, or if we begin mining Bitcoin in other jurisdictions that do have such regulations, policies or initiatives, the assumptions we made underlying our plans and strategic initiatives may be inaccurate, and we may incur additional costs to adapt our planned business, if we are able to adapt at all, to such regulations.

There continues to be a lack of consistent climate legislation, which creates economic and regulatory uncertainty for our business because the Bitcoin mining industry, with its high energy demand, may become a target for future environmental and energy regulation. New legislation and increased regulation regarding climate change could impose significant costs on us and our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and reporting, and other costs to comply with such regulations. Further, any future climate change regulations could also negatively impact our ability to compete with companies situated in areas not subject to such limitations. For example, the recently passed legislation in the state of New York imposing a two-year moratorium on certain Bitcoin mining operations that run carbon-based power.

Given the political significance and uncertainty around the impact of climate change and how it should be addressed, we cannot predict how legislation and regulation will affect our financial condition and results of operations. Further, even without such regulation, increased awareness and any adverse publicity in the global marketplace about potential impacts on climate change by us or other companies in our industry could harm our reputation. Any of the foregoing could result in a material adverse effect on our business and financial condition.

Bitcoin mining activities are energy-intensive, which may restrict the geographic locations of miners and have a negative environmental impact. Government regulators may potentially restrict the ability of electricity suppliers to provide electricity to mining operations, such as ours, or even fully or partially ban mining operations.

Mining Bitcoin requires large amounts of electrical power, and electricity costs are expected to account for a significant portion of our overall costs. The availability and cost of electricity may restrict the geographic locations of our mining activities. Any shortage of electricity supply or increase in electricity costs in any location where we plan to operate may negatively impact the viability and the expected economic return for Bitcoin mining activities in that location and may negatively impact our business model. While the increase in cost of power is mitigated by our fixed price contracts, we are unable to control power outages due to factors such as inclement weather or state requests to curtail our use of power may impact our gross profit. Although we do not have any power purchase contracts directly with any utilities, we have been advised by our hosting partners that they have such contracts. In most cases we have a fixed cost of power built into our contracts with our hosting partners.

Further, our business model can only be successful and our mining operations can only be profitable if the costs, including electrical power costs, associated with Bitcoin mining are lower than the price of Bitcoin itself. As a result, any mining operation we establish can only be successful if we can obtain sufficient electrical power for that site on a cost-effective basis, and our establishment of new mining data centers requires us to find sites where that is the case. Even if our electrical power costs do not increase, significant fluctuations in, and any prolonged periods of, low Bitcoin prices will decrease our gross profit and may also cause our electrical supply to no longer be cost-effective.

Furthermore, there may be significant competition for suitable cryptocurrency mining sites, and government regulators, including local permitting officials, may potentially restrict our ability to set up cryptocurrency mining operations in certain locations. They can also restrict the ability of electricity suppliers to provide electricity to mining operations in times of electricity shortage, or may otherwise potentially restrict or prohibit the provision of electricity to mining operations. In addition, if cryptocurrency mining becomes more widespread, government scrutiny related to restrictions on cryptocurrency mining facilities and their energy consumption may significantly increase. The considerable consumption of electricity by mining operators may also have a negative environmental impact, including contribution to climate change, which could set the public opinion against allowing the use of electricity for Bitcoin mining activities or create a negative consumer sentiment and perception of Bitcoin. This, in turn, could lead to governmental measures restricting or prohibiting cryptocurrency mining or the use of electricity for Bitcoin mining activities. Any such development in the jurisdictions where we plan to operate could increase our compliance burdens and have a material adverse effect on our business, prospects, financial condition, and operating results. Government regulators in other countries may also ban or substantially limit their local cryptocurrency mining activities, which could have a material effect on our supply chains for mining equipment or services and the price of Bitcoin. It could also increase our domestic competition as some of those cryptocurrency miners or new entrants in this market may consider moving their cryptocurrency mining operations or establishing new operations in the United States.

Additionally, our mining operations could be materially adversely affected by power outages and similar disruptions. Given the power requirements for our mining equipment, it would not be feasible to run this equipment on back-up power generators in the event of a government restriction on electricity or a power outage. If we are unable to receive adequate power supply and are forced to reduce our operations due to the availability or cost of electrical power, it would have a material adverse effect on our business, prospects, financial condition, and operating results.

As cryptocurrencies may be determined to be investment securities, we may inadvertently violate the Investment Company Act of 1940 and incur large losses as a result and potentially be required to register as an investment company or terminate operations and we may incur third-party liabilities.

In general, novel or unique assets such as Bitcoin may be classified as securities if they meet the definition of investment contracts under U.S. law. In recent years, the offer and sale of digital assets other than Bitcoin, most notably Kik Interactive Inc.'s Kin tokens and Telegram Group Inc.'s TON tokens, have been deemed to be investment contracts by the SEC. The SEC has also sued Genesis Global Capital LLC and Gemini Trust Company LLC over their crypto-lending program that allegedly violated investor-protection laws. While we believe that Bitcoin is unlikely to be considered an investment contract, and thus a security under the investment contract definition, we cannot provide any assurances that Bitcoin we mine or otherwise acquire or hold for our own account will never be classified as a security under U.S. law. Our determination that Bitcoin is not a security is a risk-based assessment, not a legal standard binding on any regulatory body or court, and such determination does not preclude legal or regulatory action. If Bitcoin were to be classified as a security under U.S. law, we would be obligated to comply with registration and other requirements by the SEC, which would cause us to incur significant, non-recurring expenses which would materially and adversely impact your investment.

We believe that we are not engaged in the business of investing, reinvesting, or trading in securities, and we do not hold ourself out as being engaged in those activities. However, under the Investment Company Act of 1940 (the "Investment Company Act"), a company may be deemed an investment company under section 3(a)(1)(C) thereof if the value of its investment securities is more than 40% of its total assets (exclusive of government securities and cash items) on an unconsolidated basis.

As a result of our investments and our mining activities, the investment securities we hold could exceed 40% of our total assets, exclusive of cash items and, accordingly, we could determine that we have become an inadvertent investment company. The cryptocurrency that we own, acquire or mine may be deemed an investment security by the SEC, and although we do not believe any of the cryptocurrency we own, acquire or mine are securities, any determination we make regarding whether cryptocurrencies are a security is a risk-based assessment, not a legal standard binding on a regulatory body or court, and does not preclude legal or regulatory action. An inadvertent investment company can avoid being classified as an investment company if it can rely on one of the exclusions under the Investment Company Act. One such exclusion, Rule 3a-2 under the Investment Company Act, allows an inadvertent investment company a grace period of one year from the earlier of (a) the date on which an issuer owns securities and/or cash having a value exceeding 50% of the issuer's total assets on either a consolidated or unconsolidated basis and (b) the date on which an issuer owns or proposes to acquire investment securities having a value exceeding 40% of the value of such issuer's total assets (exclusive of government securities and cash items) on an unconsolidated basis. As of the date of this proxy statement/prospectus, we do not believe we are an inadvertent investment company. We may take actions to cause the investment securities held by us to be less than 40% of our total assets, which may include acquiring assets with our cash and cryptocurrency on hand or liquidating our investment securities or cryptocurrency or seeking a no-action letter from the SEC if we are unable to acquire sufficient assets or liquidate sufficient investment securities in a timely manner.

As the Rule 3a-2 exception is available to a company no more than once every three years, and assuming no other exclusion were available to us, we would have to keep within the 40% limit for at least three years after we cease being an inadvertent investment company. This may limit our ability to make certain investments or enter into joint ventures that could otherwise have a positive impact on our earnings. In any event, we do not intend to become an investment company engaged in the business of investing and trading securities.

Classification as an investment company under the Investment Company Act requires registration with the SEC. If an investment company fails to register, it would have to stop doing almost all business, and its contracts would become voidable. Registration is time consuming and restrictive and would require a restructuring of our operations, and we would be very constrained in the kind of business we could do as a registered investment company. Further, we would become subject to substantial regulation concerning management, operations, transactions with affiliated persons and portfolio composition, and would need to file reports under the Investment Company Act regime. The cost of such compliance would result in us incurring substantial additional expenses, and the failure to register if required would have a materially adverse impact to conduct our operations.

Regulatory changes or actions in one or more countries or jurisdictions may alter the nature of an investment in us or restrict the use of cryptocurrency in a manner that adversely affects our business, prospects or operations.

As cryptocurrency has grown in both popularity and market size, governments around the world have reacted differently, with certain governments deeming cryptocurrency illegal, and others allowing their use and trade without restriction. In some jurisdictions, such as in the United States, cryptocurrency is subject to extensive regulatory requirements. Several countries have taken and may continue to take regulatory actions in the future that could severely restrict our right to mine, acquire, own, hold, sell or use cryptocurrency or to exchange for local currency. For example, in China it is illegal to accept payment in Bitcoin and other cryptocurrency for consumer transactions and banking institutions are barred from accepting deposits of cryptocurrency.

Cryptocurrency is viewed differently by different regulatory and standards setting organizations globally as well as in the United States on the federal and state levels. For example, the Financial Action Task Force ("FATF") and the Internal Revenue Service ("IRS") consider a cryptocurrency as currency or an asset or property. Further, the IRS applies general tax principles that apply to property transactions to transactions involving cryptocurrency.

If regulatory changes or interpretations require the regulation of cryptocurrency under the securities laws of the United States or elsewhere, including the Securities Act of 1933, the Exchange Act and the 1940 Act or similar laws of other jurisdictions and interpretations by the SEC, the CFTC, the IRS, Department of Treasury or other agencies or authorities, we may be required to register and comply with such regulations, including at a state or local level. To the extent that we decide to continue operations, the required registrations and regulatory compliance steps may result in extraordinary expense or burdens to us. Should compliance with these laws become overly burdensome and unprofitable we may decide to cease certain operations and change our business model.

Current and future legislation and SEC rule making and other regulatory developments, including interpretations released by a regulatory authority, may impact the manner in which cryptocurrency is viewed or treated for classification and clearing purposes. In particular, cryptocurrency may not be excluded from the definition of "security" by SEC rule making or interpretation requiring registration of all transactions unless another exemption is available, including transacting in cryptocurrency among owners and require registration of trading platforms as "exchanges".

Due to concerns around resource consumption and associated environmental concerns, particularly as such concerns relate to public utilities companies, various countries, states and cities have implemented, or are considering implementing, moratoriums on Bitcoin mining in their jurisdictions. Such moratoriums would impede Bitcoin mining and/or Bitcoin use more broadly. For example, in November 2022, New York imposed a two-year moratorium on new proof-of-work mining permits at fossil fuel plants in the state. Although we do not mine in New York (we currently mine Bitcoin only in Missouri, Texas and Iowa) it is possible that other states may create similar laws that could have a material adverse effect on our business, financial condition and results of operations.

We cannot be certain as to how future regulatory developments will impact the treatment of cryptocurrency under the law. If we fail to comply with such additional regulatory and registration requirements, we may seek to cease certain of our operations or be subjected to fines, penalties and other governmental action. Such circumstances could have a material adverse effect on our ability to continue as a going concern or to pursue its business model at all, which could have a material adverse effect on its business, prospects or operations and potentially the value of any cryptocurrency we plan to hold or expect to acquire for our own account.

It may be illegal now, or in the future, to acquire, own, hold, sell, or use cryptocurrency, participate in blockchains or utilize similar cryptocurrency in one or more countries, the ruling of which would adversely affect us.

As cryptocurrency has grown in both popularity and market size, governments around the world have reacted differently to cryptocurrency; certain governments have deemed them illegal, and others have allowed their use and trade without restriction, while in some jurisdictions, such as in the United States, subject to extensive and evolving regulatory requirements. Until recently, little, or no regulatory attention has been directed toward cryptocurrency by U.S. federal and state governments, foreign governments and self-regulatory agencies. As cryptocurrency has grown in popularity and in market size, the Federal Reserve Board, U.S. Congress, and certain U.S. agencies have begun to examine cryptocurrency in more detail.

One or more countries, including but not limited to China, which have taken harsh regulatory action in the past, may take regulatory actions in the future that could severely restrict the right to acquire, own, hold, sell, or use cryptocurrency or to exchange for fiat currency. In many nations, particularly in China, it is illegal to accept payment in cryptocurrency for consumer transactions and banking institutions are barred from accepting deposits of cryptocurrency. Such restrictions may adversely affect us as the large-scale use of cryptocurrency as a means of exchange is presently confined to certain regions globally. Such circumstances could have a material adverse effect on our ability to continue as a going concern or to pursue our strategy at all, which could have a material adverse effect on our business, prospects, or operations and potentially the value of any Bitcoin that we mine or otherwise acquire or hold for our own account, and harm investors.

If the trading price of our common shares fails to comply with the continued listing requirements of the Nasdaq Capital Market, we would face possible delisting, which would result in a limited public market for our common shares and make obtaining future debt or equity financing more difficult for us.

Companies listed on the Nasdaq Capital Market are subject to delisting for, among other things, failure to maintain a minimum closing bid price of $1.00 per share for 30 consecutive business days pursuant to Nasdaq Listing Rule 5550(a)(2) and 5810(c)(3)(A) (the "Nasdaq Listing Rules").

Although we believe that we are currently in compliance with the Nasdaq Listing Rules, we cannot guarantee that we will continue to comply with the Nasdaq Listing Rules for continued listing on the Nasdaq Capital Market in the future. If we cannot comply with the Nasdaq Listing Rules, our common shares would be subject to delisting and would likely trade on the over-the-counter market. If our common shares were to trade on the over-the-counter market, selling our common shares could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage of us may be reduced. In addition, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in our common shares, further limiting the liquidity of our common shares. As a result, the market price of our common shares may be depressed, and you may find it more difficult to sell our common shares. Such delisting from the Nasdaq Capital Market and continued or further declines in our share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing.

Our business is dependent on a small number of Bitcoin mining equipment suppliers.

Our business is dependent upon Bitcoin mining equipment suppliers providing an adequate supply of new generation Bitcoin mining machines at economical prices to customers intending to purchase our hosting and other solutions. The growth in our business is directly related to increased demand for hosting services and Bitcoin which is dependent in large part on the availability of new generation mining machines offered for sale at a price conducive to profitable Bitcoin mining, as well as the trading price of Bitcoin. The market price and availability of new mining machines fluctuates with the price of cryptocurrency and can be volatile. In addition, as more companies seek to enter the mining industry, the demand for machines may outpace supply and create mining machine equipment shortages. There are no assurances that cryptocurrency mining equipment suppliers will be able to keep pace with any surge in demand for mining equipment. We currently do not have an agreement with our suppliers to purchase additional machines, and therefore there is no guarantee that we will be able to purchase machines on terms acceptable to us. We intend to complete one or more financings to provide liquidity to purchase additional machines, at which point we expect to enter into an agreement with one or more machine suppliers in order to purchase additional machines. Further, manufacturing mining machine purchase contracts are not favorable to purchasers and even if we do enter into agreements with our suppliers, we may have little or no recourse in the event a mining machine manufacturer defaults on its mining machine delivery commitments. If we and our customers are not able to obtain a sufficient number of Bitcoin mining machines at favorable prices, our growth expectations, liquidity, financial condition and results of operations will be negatively impacted.

Bitcoin mining machines rely on components and raw materials that may be subject to price fluctuations or shortages, including ASIC chips that have been subject to a significant shortage.

In order to build and sustain our self-mining operations we will depend on third parties to provide us with ASIC chips and other critical components for our mining equipment, which may be subject to price fluctuations or shortages. For example, the ASIC chip is the key component of a mining machine as it determines the efficiency of the device. The production of ASIC chips typically requires highly sophisticated silicon wafers, which currently only a small number of fabrication facilities, or wafer foundries, in the world are capable of producing. We believe that the previous microchip shortage that the entire industry experienced lead to price fluctuations and disruption in the supply of key miner components. Specifically, the ASIC chips have recently been subject to a significant price increases and shortages.

We do not currently have agreements in place for the supply of ASIC chips. There is a risk that a manufacturer or seller of ASIC chips or other necessary mining equipment may adjust the prices based on fluctuations in cryptocurrency prices or otherwise, and the cost of new machines could become unpredictable and extremely high. As a result, at times, we may be forced to obtain Bitcoin mining machines and other hardware at premium prices, to the extent they are even available. Such events could have a material adverse effect on our business, prospects, financial condition, and operating results.

Cryptocurrency may be subject to loss, theft, or restriction on access.

There is a risk that some or all of any cryptocurrency that we own could be lost or stolen. Cryptocurrency is stored in sites commonly referred to as "wallets" by holders of cryptocurrency which may be accessed to exchange a holder's cryptocurrency. Access to our Bitcoin could also be restricted by cybercrime (such as a denial of service attack). Cold storage refers to any cryptocurrency wallet that is not connected to the Internet. Cold storage is generally more secure than hot storage, but is not ideal for quick or regular transactions and we may experience lag time in our ability to respond to market fluctuations in the price of our Bitcoin. We expect to hold all our cryptocurrency in a combination of insured institutional custody services and multi signature cold storage wallets, and maintain secure backups to reduce the risk of malfeasance, but the risk of loss of our Bitcoin cannot be wholly eliminated. Any restrictions on access to our Bitcoin due to cybercrime or other reasons could limit our ability to convert cryptocurrency to cash, potentially resulting in liquidity issues. Currently, we store our Bitcoin in wallets custodied by Bitgo and Coinbase (each, a "Custodian" and together, the "Custodians"). All of our wallets held by Custodians are cold wallets. Such arrangements are governed by each Custodian's terms of service, and we do not have an agreement with either Custodian other than such terms of service. When we decide to sell Bitcoin, we transfer it from our digital wallets held by the applicable Custodian to our trading account wallet, which is held by us. We do not currently have a specific policy for how or when to sell Bitcoin for fiat currency to fund our operations for growth or through what exchange we do so, or whether we should hold our mining rewards for investment purposes. At this time, our Bitcoin are not held for long periods of time and they are generally sold nearly immediately in order to fund our operations. Transfers through Bitgo over a certain size require video conference verification to ensure that the request came from one of our authorized signors, and that we in fact authorized the transfer in question.

Hackers or malicious actors may launch attacks to steal, compromise or secure cryptocurrency. As we increase in size, we may become a more appealing target of hackers, malware, cyber-attacks, or other security threats. Any of these events may adversely affect our operations and, consequently, our investments and profitability. The loss or destruction of a private key required to access our digital wallets may be irreversible and we may be denied access for all time to our cryptocurrency holdings or the holdings of others held in those compromised wallets. Our loss of access to our private keys or a data loss relating to our digital wallets could adversely affect our investments and assets.

Cryptocurrency is controllable only by the possessor of both the unique public and private keys relating to the local or online digital wallet in which they are held, which wallet's public key or address is reflected in the network's public blockchain. To the extent such private keys are lost, destroyed, or otherwise compromised, we will be unable to access our cryptocurrency rewards and such private keys may not be capable of being restored by any network. Any loss of private keys relating to digital wallets used to store our cryptocurrency could have a material adverse effect on our ability to continue as a going concern or to pursue our new strategy at all, which could have a material adverse effect on our business, prospects, or operations and potentially the value of Bitcoin that we mine or otherwise acquire or hold for our own account.

Bitcoin is subject to halving, and our Bitcoin mining operations may generate less revenue as a result.

At mathematically predetermined intervals, the number of new Bitcoin awarded for solving a block is cut in half, which is referred to as "halving." Bitcoin halving occurred in April 2024, at which time the block rewards for Bitcoin halved from 6.25 to 3.125. While we cannot predict the exact date of the next halving, as it is predicated on factors such as the block height and the network hash rate, halving happens every 210,000 blocks, and the next Bitcoin halving is expected to occur in 2028. While Bitcoin prices have historically increased around these halving events, there is no guarantee that the price change will be favorable or would compensate for the reduction in mining rewards. If a corresponding and proportionate increase in the price of Bitcoin does not follow the upcoming or future halving events, the revenue we earn from our Bitcoin mining operations would see a decrease, which could have a material adverse effect on our results of operations and financial condition.

The maximum number of Bitcoins that may be released into circulation is 21 million, and the number of Bitcoin currently in circulation is approximately 19.7 million. As the number of Bitcoin available to be mined narrows, we expect the fees for Bitcoin transactions to increase. Eventually, once the majority of Bitcoin is mined and in circulation, we expect to see revenue from transaction fees to exceed the revenue from mining Bitcoin. Once this occurs, we may need to find additional ways to increase our revenue, which could include entering into other areas within the cryptocurrency industry.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Filed Herewith	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Certificate and Articles of Amalgamation of the Company		6-K	001-36532	3/25/2015
3.2	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	7/17/2017
3.3	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	10/2/2018
3.4	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/5/2018
3.5	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/14/2018
3.6	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	7/12/2019
3.7	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/8/2019
3.8	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	5/8/2020
3.9	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	9/29/2020
3.10	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	1/7/2021
3.11	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	7/15/2021
3.12	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	10/4/2021
3.13	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	6/28/2023
3.14	By-law No. 1, as Amended		6-K	001-36532	7/17/2017
3.15	By-law No. 1 Amending Agreement		6-K	001-36532	2/1/2022
3.16	By-law No. 1 Amending Agreement		8-K	001-36532	1/13/2023
3.17	By-law No. 2		6-K	001-36532	5/12/2017
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			

Exhibit Number	Description	Filed Herewith	Incorporated by Reference		
			Form	File No.	Date Filed
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X			
101.SCH	Inline XBRL Taxonomy Extension Schema	X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	X			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	X			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase	X			
101.PRE	Inline XBRL Taxonomy Presentation Linkbase	X			
104	Cover Page Interactive Data File (formatted as inline XBRL as contained in Exhibit 101)	X			

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sphere 3D Corp.

Date:	November 14, 2024	By:	*/s/ Patricia Trompeter*
			Patricia Trompeter
			Chief Executive Officer
			(Principal Executive Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patricia Trompeter, Chief Executive Officer of Sphere 3D Corp. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sphere 3D Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

/s/ Patricia Trompeter

Patricia Trompeter
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kurt L. Kalbfleisch, Chief Financial Officer of Sphere 3D Corp. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sphere 3D Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

/s/ Kurt L. Kalbfleisch
Kurt L. Kalbfleisch
Senior Vice-President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION. 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sphere 3D Corp. (the "Registrant") on Form 10-Q for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patricia Trompeter, Chief Executive Officer of the Registrant, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 14, 2024

/s/ Patricia Trompeter

Patricia Trompeter
Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION. 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sphere 3D Corp. (the “Registrant”) on Form 10-Q for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kurt L. Kalbfleisch, Senior Vice-President and Chief Financial Officer of the Registrant, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 14, 2024

/s/ Kurt L. Kalbfleisch
Kurt L. Kalbfleisch
Senior Vice-President and
Chief Financial Officer