UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2022

OR

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

For the transition period from ________ and __________

Commission file number 001-31968

APPLIED BLOCKCHAIN, INC.
(Exact name of registrant as specified in its charter)

Nevada	**95-4863690**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3811 Turtle Creek, Blvd., Suite 2125, Dallas, TX	**75219**
(Address of Principal Executive Offices)	(Zip Code)

(214) 556-2465
Registrant's telephone number, including area code
(Former name, former address and former fiscal year, if changed since last report)

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 Stock, par value $0.001 per share	APLD	Nasdaq Global Select 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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an 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	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
		Emerging growth company	o

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. o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 12, 2022, 94,238,937 shares of Common Stock, $0.001 par value, were outstanding.

APPLIED BLOCKCHAIN, INC. AND SUBSIDIARIES
Consolidated Financial Statements
Periods Ended August 31, 2022, and 2021

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Part I - Financial Information

Item 1. Financial Statements

APPLIED BLOCKCHAIN, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
(In thousands, except number of shares and par value data)

	August 31, 2022	May 31, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 40,830	$ 46,299
Accounts receivable	50	227
Prepaid expenses and other current assets	1,500	1,336
Total current assets	42,380	47,862
Property and equipment, net	95,095	64,260
Right of use asset, net	6,995	6,408
Utility deposits	1,450	1,450
TOTAL ASSETS	$ 145,920	$ 119,980
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 13,456	$ 13,260
Current portion of lease liability	1,371	1,004
Current portion of term loan	2,587	1,333
Customer deposits	14,111	9,524
Current deferred revenue	17,142	3,877
Total current liabilities	48,667	28,998
Deferred tax liability	572	540
Long-term deferred revenue	2,051	—
Long-term portion of lease liability	5,620	5,310
Long-term term loan	12,109	5,897
Total liabilities	$ 69,019	$ 40,745
Commitments and contingencies (Note 12)		
Shareholders' equity (deficit):		
Common stock, $0.001 par value, 166,666,667 shares authorized, 92,872,271 shares issued and 92,835,974 shares outstanding at August 31, 2022, and 97,837,703 shares issued and outstanding at May 31, 2022	$ 93	$ 98
Additional paid in capital	128,877	128,293
Treasury stock, 36,300 shares at August 31, 2022 and May 31, 2022, at cost	(62)	(62)
Accumulated deficit	(60,601)	(56,070)
Total stockholders' equity attributable to Applied Blockchain, Inc.	68,307	72,259
Noncontrolling interest	8,594	6,976
Total Stockholders' equity (deficit) including noncontrolling interest	$ 76,901	$ 79,235
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 145,920	$ 119,980

See Accompanying Notes to the Financial Statements

APPLIED BLOCKCHAIN INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three Months Ended	
	August 31, 2022	August 31, 2021
Revenues:		
Hosting revenue	$ 6,924	$ —
Cost of revenues	$ 6,093	$ —
Gross profit	831	—
Costs and expenses:		
Selling, general and administrative	$ 4,131	$ 698
Stock-based compensation	579	12,337
Depreciation and amortization	298	3
Total costs and expenses	$ 5,008	$ 13,038
Operating loss	$ (4,177)	$ (13,038)
Other income (expense):		
Interest Expense	$ (356)	$ —
Gain on extinguishment of accounts payable	—	40
Loss on extinguishment of debt	(94)	(1,342)
Total other expense, net	(450)	(1,302)
Net loss from continuing operations before income tax expenses	(4,627)	(14,340)
Income tax expenses	(32)	—
Net loss from continuing operations	(4,659)	(14,340)
Net gain from discontinued operations, net of income taxes	—	243
Net loss including noncontrolling interests	(4,659)	(14,097)
Net loss attributable to noncontrolling interest	(128)	—
Net loss attributable to Applied Blockchain	$ (4,531)	$ (14,097)
Basic and diluted net (loss) gain per share:		
Continuing Operations	$ (0.05)	$ (0.32)
Discontinued Operations	$ —	$ 0.01
Basic and diluted net loss per share	$ (0.05)	$ (0.31)
Basic and diluted weighted average number of shares outstanding	93,105,835	44,937,269

See Accompanying Notes to the Financial Statements

APPLIED BLOCKCHAIN INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders’ Equity (Unaudited)
(In thousands, except share data)

Three Months Ended August 31, 2022

	Common Stock		Additional Paid in Capital	Treasury Stock	Accumulated deficit	Total Shareholders Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance, May 31, 2022	97,837,703	98	128,293	(62)	(56,070)	72,259	6,976	79,235
Stock based compensation	—	—	579	—	—	579	—	579
Capital contribution to noncontrolling interest	—	—	—	—	—	—	1,746	1,746
Stock Cancellation	(4,965,432)	(5)	5			—	—	—
Net Loss	—	—	—	—	(4,531)	(4,531)	(128)	(4,659)
Balance, August 31, 2022	92,872,271	93	128,877	(62)	(60,601)	68,307	8,594	76,901

Three Months Ended August 31, 2021

	Series C Convertible Redeemable Preferred Stock		Series D Convertible Redeemable Preferred Stock		Total Mezzanine Equity	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Treasury Stock	Accumulated Deficit	Total Shareholders Equity	Total Equity
	Shares	Amount	Shares	Amount	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, May 31, 2021	660,000	15,135	—	—	15,135	27,195	3,370	17,087	1,849	1,511,061	1	13,882	(62)	(21,623)	(2,583)	12,552
Extinguishment of Debt	—	—	—	—	—	—	—	—	—	5,083,828	5	3,473	—	—	3,478	3,478
Issuance of Dividends to Preferred Stock	—	—	—	—	—	60,822	6,082	29,772	2,979	—	—	—	—	(8,946)	115	115
Conversion of Preferred Stock	—	—	—	—	—	(88,017)	(9,452)	(46,859)	(4,828)	28,765,308	29	14,251	—	—	—	—
Service agreement stock compensation	—	—	—	—	—	—	—	—	—	18,036,723	18	12,319	—	—	12,337	12,337
Issuance of Preferred Stock	—	—	1,304,000	32,600	32,600	—	—	—	—	—	—	—	—	—	—	32,600
Issuance Costs of Preferred Stock	—	—	—	(2,698)	(2,698)	—	—	—	—	—	—	—	—	—	—	(2,698)
Net Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(14,097)	(14,097)	(14,097)
Balance, August 31, 2021	660,000	15,135	1,304,000	29,902	45,037	—	—	—	—	53,396,920	$ 53	43,925	(62)	(44,666)	(750)	44,286

See Accompanying Notes to the Financial Statements

APPLIED BLOCKCHAIN INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
(In thousands of dollars)

	Three Months Ended	
	August 31, 2022	August 31, 2021
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss attributable to Applied Blockchain	$ (4,531)	$ (14,097)
Net gain from discontinued operations, net of income taxes	—	(243)
Net Loss attributable to noncontrolling interest	(128)	—
Net Income (loss) from continuing operations	(4,659)	(14,340)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and Amortization	1,136	3
Gain on extinguishment of accounts payable	—	(40)
Loss on extinguishment of debt	94	1,342
Stock-Based Compensation	579	12,337
Deferred Tax	32	—
Changes in assets and liabilities:		
Accounts receivable	177	—
Utility Deposits	—	(773)
Prepaid expenses and other current assets	(164)	(770)
Customer deposits	4,587	—
Deferred revenue	15,316	—
Accounts payable and accrued liabilities	196	368
Net cash provided by (used in) operating activities of continuing operations	17,294	(1,870)
Net cash provided by operating activities of discontinued operations	—	435
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	17,294	(1,435)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(31,673)	(988)
Deposit on equipment	—	(10,300)
Net cash used in investing activities of continuing operations	(31,673)	(11,288)
Net cash used in investing activities of discontinued operations	—	—
NET CASH USED IN INVESTING ACTIVITIES	(31,673)	(11,288)
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of preferred stock	—	32,600
Repayment of finance leases	(209)	—
Preferred stock issuance costs	—	(2,698)
Term loan paydown	(7,056)	—
Proceeds from issuance of term loan	15,000	—
Term Loan Issuance Costs	(140)	—
Loan principal payments	(432)	—
Equity contributions to subsidiaries	1,747	—
Net cash provided by financing activities of continuing operations	8,910	29,902
Net cash provided by financing activities of discontinued operations	—	—
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	8,910	29,902
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,469)	17,179
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	46,299	11,750
CASH AND CASH EQUIVALENTS, END OF PERIOD	40,830	28,929
Less: cash and cash equivalents of discontinued operations	—	—
Cash and cash equivalents of continuing operations	$ 40,830	$ 28,929
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 356	$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Right-of-use asset obtained by lease obligation	$ 922	$ 1,291
Fixed assets in accounts payable	$ 8,352	$ 4,391

See Accompanying Notes to the Financial Statements

APPLIED BLOCKCHAIN INC. AND Subsidiaries
Notes to Consolidated Financial Statements
For the Three Month Periods Ended August 31, 2022

1. BUSINESS AND ORGANIZATION

Applied Blockchain, Inc. (the "Company") is a builder and operator of next-generation data centers across North America, which provide substantial computing power to blockchain infrastructure and support Bitcoin mining. The Company has a colocation business model where customers place hardware they own into the Company's facilities and the Company provides full operational and maintenance services for a fixed fee. The Company typically enters into long term fixed rate contracts with its customers.

During the three month period ended August 31, 2022, the Company formed ELN-01, LLC, which is a Delaware limited liability company formed to build and operate a co-hosting facility.

Reverse Stock Split

The Company's board of directors approved a reverse split of shares of the Company's common stock on a one-for-six (1:6) basis, which was effected on April 12, 2022 (the "Reverse Stock Split"). All references to Common Stock, options to purchase common stock, restricted stock units, share data, per share data and related information contained in the condensed consolidated financial statements have been retrospectively adjusted to reflect the effect of the Reverse Stock Split for all periods presented. No fractional shares of the Company's common stock were issued in connection with the Reverse Stock Split. Any fractional share resulting from the Reverse Stock Split was rounded down to the nearest whole share and the affected holder received cash in lieu of such fraction share.

2. LIQUIDITY AND FINANCIAL CONDITION

As of August 31, 2022, the Company had approximate cash and cash equivalents of $40.8 million and negative working capital of $6.3 million. Historically the Company has incurred losses and has relied on equity financings to fund its operations. Based on analysis of cash flows, current net working capital, and expected operations revenue, the Company believes its current cash on hand is sufficient to meet its operating and capital requirement for at least next twelve months from the date these financial statements are issued.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The accompanying interim Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements on Form 10-K have been condensed or omitted. The Condensed Consolidated Balance Sheet as of May 31, 2022 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required for audited annual financial statements. For further information, please refer to and read these interim Consolidated Financial Statements in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2022 filed with the SEC on August 29, 2022.

Significant Accounting Policies and Use of Estimates:

There were no material changes in the Company's significant accounting policies for the three months ended August 31, 2022 as compared to the year ended May 31, 2022. See Note 3 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year-ended May

31, 2022, as filed with the SEC, for additional information regarding the Company's significant accounting policies and use of estimates.

The preparation of the consolidated financial statements in conformity with GAAP 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 balance sheet and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ significantly from those estimates. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates associated with asset valuations, and the valuation allowance associated with the Company's deferred tax assets.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. The Company's cash equivalents in excess of federally insured limits potentially subject us to concentrations of credit risk, although the Company believes it is subject to minimal risk.

The Company has restricted cash related to its letter of credit totaling $7.5 million. The company is required to keep this balance in a separate account for the duration of the letter of credit agreement, which lasts through January 2024. The following tables reconciles cash and cash equivalents and restricted cash to presentation on the balance sheet as of August 31, 2022, and May 31, 2022.

(in thousands)	**August 31, 2022**	**May 31, 2022**
Net Cash & Equivalents	$ 33,330	$ 38,798
Restricted Cash	$ 7,500	$ 7,501
Total Cash & Cash Equivalents	$ 40,830	$ 46,299

Recent Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its consolidated financial statements and assures that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change.

In August 2020, the FASB issued *ASU No. 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, and it also simplifies the diluted earnings per share calculation in certain areas. This ASU is effective for annual reporting periods beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company has adopted ASU and determined that the adoption had no material impact on its financial statements and related disclosures.

In September 2016, the FASB issued *ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, ASU 2016-13 eliminates the probable initial recognition threshold in current GAAP; and instead requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, this ASU requires that credit losses be presented as an allowance rather than as a write-down. ASU 2016-13 affects companies holding financial assets and net investment in leases that are not accounted for at fair value through net income. The ASU 2016-13 amendments affect loans, debt securities, trade receivables, net investments in leases, off balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 was originally effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. In November 2019, the FASB approved a delay of the required implementation date of ASU 2016-13 for smaller reporting companies, including the Company, resulting in a required implementation date for the Company of June 1, 2023. Early adoption will continue to be permitted. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements and related disclosures.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of August 31, 2022, and May 31, 2022:

(in thousands)	Estimated Useful Life	August 31, 2022	May 31, 2022
Hosting Equipment			
Electric Generation and Transformers	15 years	4,376	4,338
Other Equipment and Fixtures	5 years-7 years	588	588
Construction in Progress		46,086	18,305
Information Systems and Software	5 years	9,675	9,608
Land & Building			
Land		2,125	1,074
Land Improvements	15 years	1,259	1,180
Building	39 years	32,833	30,176
Total cost of property and equipment		96,942	65,269
Accumulated Depreciation		(1,847)	(1,009)
Property Plant and Equipment, Net		$ 95,095	$ 64,260

Depreciation expense from continuing operations totaled $838,000 and $3,000 for the three-month periods ended August 31, 2022 and 2021, respectively.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue when promised services are transferred to customers in an amount that reflects the consideration to which the Company expects to be received in exchange for those services. The Company notes all revenue recognized from continuing operations during the quarter was received through hosting revenue.

Below is a summary of the Company's revenue concentration by major customer for the three-month periods ended August 31, 2022 and 2021, respectively.

	Three Months Ended August 31,	
Customer	**2022**	**2021**
Customer A	35.5 %	— %
Customer B	21.0 %	— %
Customer C	16.5 %	— %
Customer D	14.4 %	— %
Customer E	12.6 %	— %

Remaining Performance Obligations
As of August 31, 2022, the Company had $19.2 million in deferred revenue, which represents the Company's remaining performance obligations. The Company expects to recognize $17.1 million within the next 12 months.

Deferred Revenue
Changes in the Company's deferred revenue balances from hosting operations for the three-month periods ended August 31, 2022 and 2021, respectively, are shown in the following table:

Balance at May 31, 2022	$	3,877	**Balance at May 31, 2021**	$	—
Advance billings		22,240	Advance billings		—
Revenue recognized		(6,924)	Revenue recognized		—
Other adjustments	$	—	**Other adjustments**	$	—
Balance at August 31, 2022	$	19,193	**Balance at August 31, 2021**	$	—

Customer Deposits
Changes in the Company's customer deposits balances for the three-month periods ended August 31, 2022 and 2021, respectively, are shown in the following table:

Balance at May 31, 2022	$	9,524	**Balance at May 31, 2021**	$	—
Customer deposits received		4,587	Customer deposits received		—
Customer deposits refunded		—	Customer deposits refunded		—
Balance at August 31, 2022	$	14,111	**Balance at August 31, 2021**	$	—

6. RELATED PARTY TRANSACTIONS

Related Party Policy

Parties are considered related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all material related party transactions.

Related Party Note Payable

During the three month period ended August 31, 2021, a related party note payable was held by the CEO of the Company. During this period, the outstanding debt principal of $470,000 and accrued interest of $1.6 million was converted to 5.1 million shares of Common Stock with a fair value of $0.75 per share which resulted in a loss on extinguishment of $1.3 million. Upon the consummation of the Exchange Agreement, the note payable was surrendered and cancelled; all rights including rights to accrued interest due were extinguished.

Related Party Revenue

One of the Company's major customers is an entity that is the parent company of the minority member of the 1.21 Gigawatts joint venture. The Company recognized $2.5 million and no revenue from this customer for the three-month periods ended August 31, 2022 and 2021, respectively. The Company had $2.0 million and no advance billings from this customer and $1.7 million and no deposits from this customer as of August 31, 2022 and May 31, 2022, respectively.

7. DEBT

Letter of Credit

As of August 31, 2022 and May 31, 2022, the Company had a letter of credit totaling $7.5 million. As discussed in Footnote 3, the Company is required to maintain this amount in a separate cash balance, and therefore the cash is restricted. Further, the Company has no unused lines of credit as of August 31, 2022 or May 31, 2022, respectively.

Term Loan

On July 25, 2022, the Company entered into a Loan Agreement with Starion Bank (“Starion Lender”) and the Company as Guarantor (the “Starion Loan Agreement”). The Starion Loan Agreement provides for a term loan (the “Starion Term Loan”) in the principal amount of $15 million with a maturity date of July 25, 2027. The Starion Loan Agreement provides for an interest rate of 6.50% per annum. The Starion Loan Agreement contains customary covenants, representations and warranties and events of default. The Company is not subject to financial covenants until May 31, 2024. At this time, the Company will be subject to a debt service coverage ratio. Deferred financing costs related to the Starion Term Loan totals $142,000. The effective interest rate was 7.0% as of August 31, 2022.

Below is a summary of the term loan balance, including current debt and deferred financing fees as of August 31, 2022 and May 31, 2022.

(in thousands)

	August 31, 2022	**May 31, 2022**
Term Loan Balance	$14,790	$7,324
Less: Deferred Issuance Costs	(140)	(94)
Less: Current portion of Term Loan	(2,587)	(1,333)
Long-term Portion of Term Loan	$12,063	$5,897

Below is a summary of the remaining principal payments due over the life of the Starion Loan Agreement note as of August 31, 2022.

Year		Principal Payments (in thousands)
FY23	$	1,923
FY24		2,726
FY25		2,923
FY26		3,134
FY27		3,361
Thereafter		583
Total Term Loan Remaining Payments	$	14,650

In connection with the Starion Loan Agreement, the Company repaid all of the outstanding balance on the March 11, 2022 agreement between the Company and Vantage Bank Texas. This agreement included a promissory note agreement for $7.5 million for a five year term with an interest rate of 5% per annum.

8. SHAREHOLDERS' EQUITY (DEFICIT)

Common Stock

The Company is authorized to issue 166,666,667 shares of Common Stock at $0.001 par value per share. As of August 31, 2022, 92,872,271 shares of Common Stock were issued and 92,835,974 shares were outstanding and as of May 31, 2022, 97,837,703 shares of Common Stock were issued and outstanding. Note that all shares of Common Stock in this disclosure reflect the one-for-six reverse stock split disclosed in Note 1 - Business and Organization.

Restricted Stock Awards

The Company has granted restricted stock awards to officers and directors. Each of the awards vests upon the completion of service conditions for specified times and a performance condition for the occurrence of an effective registration statement covering the resale of the shares of common stock comprising the stock award with the Securities and Exchange Commission (the "SEC"). The Company will recognize the cost of the restricted stock based on the grant date fair value of the awards over the related vesting terms using a straight-line method when it is probable that the performance condition for the reserved underlying shares will be met.

The following is a summary of the activity and balances for unvested restricted stock awards granted:

	Number of Shares		Weighted Average Grant Date Fair Value Per Share
Outstanding as of May 31, 2022	1,366,665	$	8.04
Granted	—	$	—
Vested	—	$	—
Forfeited	—	$	—
Outstanding as of August 31, 2022	1,366,665	$	8.04

Restricted Stock Units

The Company has granted restricted stock awards to certain consultants, in all cases as compensatory grants for consulting services rendered to the Company which contain performance conditions that affect vesting. The Company will recognize the cost of these RSUs based on the grant date fair value of the awards when it is probable that the performance conditions will be achieved over the related vesting terms.

The following is a summary of the activity and balances for unvested restricted stock units granted:

	Number of Shares		Weighted Average Grant Date Fair Value Per Share
Outstanding as of May 31, 2022	1,791,646	$	8.04
Granted	505,834	$	4.86
Vested	—	$	—
Forfeited	416,650	$	8.04
Outstanding as of August 31, 2022	1,880,830	$	7.18

Stock-Based Compensation Expense

Total stock based compensation expense for the respective periods is listed below

in thousands	As of	
	August 31, 2022	August 31, 2021
Stock-based compensation expense	$579	$12,337

At August 31, 2022, there was $23.9 million of unrecognized stock compensation expense, which the Company expects to recognize over a weighted-average period of 8.5 months as the performance conditions are met.

Share Forfeiture

On June 6, 2022, through an agreement between the Company and Sparkpool, Sparkpool agreed to forfeit to the Company shares of Common Stock that had been issued pursuant to the service agreement executed on March 19, 2021. Sparkpool ceased providing the contracted services for the Company, and agreed to forfeit shares to compensate for future services that will not be rendered. As a result of this agreement, 4,965,432 shares of Common Stock were forfeited and canceled by the Company.

Equity Plan Approval

On October 9, 2021, the Company’s board of directors approved two equity incentive plans, which the Company’s stockholders approved on January 20, 2022. The two plans consist of the 2022 Incentive Plan, previously referred to in the Company’s SEC filings as the 2021 Incentive Plan (the “Incentive Plan”), which provides for grants of various equity awards to the Company’s employees and consultants, and the 2022 Non-Employee Director Stock Plan previously referred to in the Company’s SEC filings as the 2021 Non-Employee Director Stock Plan (the “Director Plan” and, together with the Incentive Plan, the “Plans”), which provides for grants of restricted stock to non-employee directors and for deferral of cash and stock compensation if such deferral provisions are activated at a future date. As of August 31, 2022, no awards had been granted under either plan.

9. LEASES

During the three months ended August 31, 2022, the Company added 11 leases. The Company considered the nature of the leases under ASC 842 *Leases* and determined each of these leases represents finance leases. The weighted average term of the leases is 32 months and the weighted average discount rate of the leases is 7.33%. Total ROU assets and lease liabilities added during the period totaled $922,000.

10. COMMITMENTS AND CONTINGENCIES

Commitments

As of August 31, 2022, the Company has commitments related to its term loan and lease agreements , which have been disclosed in Note 7 - Term Loan and Note 11 - Leases, respectively.

Energy Commitment

The Company also has a commitment of approximately $24.2 million related to the energy services agreement for its first cohosting facility as of August 31, 2022. The minimum term of this agreement is five years, and will remain in effect on a year-to-year basis unless terminated by either party by notice given at least 365 calendar days in advance of termination. The commitment is fully due within the next year, as the company commits to specific power consumption on an annual basis as part of the energy services agreement. The Company purchased approximately $4.9 million and $0 in power under the energy services agreement during the the three-month periods ended August 31, 2022 and 2021, respectively

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of August 31, 2022 and May 31, 2022, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are also no legal proceedings in which any of the Company's management or affiliates is an adverse party or has a material interest adverse to the Company's interest.

11. EARNINGS PER SHARE

Basic net income (loss) per share ("EPS") of Common Stock is computed by dividing the Company's net earnings (loss) by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if the securities or other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in the earnings of the entity.

Potentially dilutive securities are excluded from the computation of diluted net loss per share as their inclusion would be anti-dilutive. Refer to Footnote 9 for details on outstanding classes of preferred shares. The table below shows the calculation for this quarter's earnings per share:

Basic and diluted loss per share:	Quarterly Period Ended	
	August 31, 2022	**August 31, 2021**
Net loss from continuing operations	$ (4,659)	$ (14,340)
Net gain from discontinued operations, net of income taxes	—	243
Net loss including noncontrolling interests	(4,659)	(14,097)
Net loss attributable to noncontrolling interest	(128)	—
Net loss attributable to Applied Blockchain	$ (4,531)	$ (14,097)
Basic and diluted net (loss) gain per share:		
Continuing Operations	$ (0.05)	$ (0.32)
Discontinued Operations	$ —	$ 0.01
Basic and diluted net loss per share	$ (0.05)	$ (0.31)
Basic and diluted weighted average number of shares outstanding	93,105,835	44,937,269

. DISCONTINUED OPERATIONS

During February 2022, the Company implemented plans to cease all cryptomining operations and start the sale process of all cryptomining equipment. The Company ceased all crypto mining operations and completed the sale of the assets shortly during the year ended May 31, 2022. The Company has no plans to return to crypto mining operations in the future as the Company grows. The results of these operations have been displayed as discontinued operations.

Operating results of discontinued operations are summarized below:

	Three Months Ended	
	August 31, 2022	**August 31, 2021**
Cryptoasset mining revenue, net	$ —	$ 6
Cost of sales	—	3
Gross profit	—	2
Impairment of cryptocurrency assets	—	(
Net gain from discontinued operations	$ —	$ 2

As of August 31, 2022 and May 31, 2022, the Company did not hold any cryptoassets.

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

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. In some cases you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “should,” “will,” and “would,” or similar words. Statements that contain these words and other statements that are forward-looking in nature should be read carefully because they discuss future expectations, contain projections of future results of operations or of financial positions or state other “forward-looking” information.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. These statements are based on our management’s beliefs and assumptions, which are based on currently available information. These assumptions could prove inaccurate. You are cautioned not to place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

- labor and other workforce shortages and challenges;
- our dependence on principal customers;
- the addition or loss of significant customers or material changes to our relationships with these customers;
- our ability to timely and successfully build new hosting facilities with the appropriate contractual margins and efficiencies;
- our ability to continue to grow sales in our hosting business;
- concentration of customers in the crypto mining industry, which customer base may decline due to price volatility and uncertainties around regulation policy of cryptoasset prices;
- equipment failures, power or other supply disruptions; and
- the lack of final approval of funding initiatives to be made by the City of Jamestown, North Dakota and Stutsman County’s Economic Development Fund in favor of the Company, the application of which funding initiatives would decrease the interest rate of the Company’s repayment of the Starion Term Loan (as defined below).

You should carefully review the risks described in Item 1A of the Company’s Annual Report on Form 10-K for the year-ended May 31, 2022, which was filed on August 29, 2022, as well as any other cautionary language in this Quarterly Report on Form 10-Q, as the occurrence of any of these events could have an adverse effect, which may be material, on our business, results of operations, financial condition or cash flows.

Executive Overview

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q.

Business Overview

We design, build, and operate Next-Gen datacenters which are designed to provide massive computing power and support high-compute applications. Our first facility was constructed in North Dakota with 100 Megawatts (“MW”) of capacity. We signed an energy services agreement with a utility to power this facility. We provide energized space for customers to host computing equipment. Initially, these datacenters primarily hosted servers securing the Bitcoin network, but these facilities can also host hardware for other applications such as artificial intelligence, protein sequencing, drug discovery, machine learning and additional blockchain networks and applications. We are mid-construction on our second facility in Garden City, Texas, and are in the development stage of the Company's third facility, also located in North Dakota. We have a colocation business model where our customers place hardware they own into our facilities and we provide full operational and maintenance services for a fixed fee. We typically enter into long-term fixed rate contracts with our customers.

Trends and Other Factors Affecting Our Business

Regulatory Environment

We have a material concentration of customers in the crypto mining industry. Our customers' businesses are subject to extensive laws, rules, regulations, policies and legal and regulatory guidance, including those governing securities, commodities, cryptoasset custody, exchange and transfer, data governance, data protection, cybersecurity and tax. Many of these legal and regulatory regimes were adopted prior to the advent of the Internet, mobile technologies, cryptoassets and related technologies. As a result, they do not contemplate or address unique issues associated with the crypto economy, are subject to significant uncertainty, and vary widely across U.S. federal, state and local and international jurisdictions. These legal and regulatory regimes, including the laws, rules and regulations thereunder, evolve frequently and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another. Moreover, the complexity and evolving nature of our business and the significant uncertainty surrounding the regulation of the crypto economy requires us to exercise our judgement as to whether certain laws, rules and regulations apply to us or our customers, and it is possible that governmental bodies and regulators may disagree with our or our customers' conclusions. To the extent we or our customers have not complied with such laws, rules and regulations, we could be subject to significant fines and other regulatory consequences, which could adversely affect our business, prospects or operations. As cryptoassets have grown in popularity and in market size, the Federal Reserve Board, U.S. Congress and certain U.S. agencies (e.g., the Commodity Futures Trading Commission, the SEC, the Financial Crimes Enforcement Network and the Federal Bureau of Investigation) have begun to examine the operations of cryptoasset networks, cryptoasset users and cryptoasset exchange markets. Other countries around the world are likewise reviewing and, in some cases, increasing regulation of the cryptoasset industry. For instance, on September 24, 2021, China imposed a ban on all crypto transactions and mining.

Ongoing and future regulatory actions could effectively prevent our customers' mining operations and our ongoing or planned co-hosting operations, limiting or preventing future revenue generation by us or rendering our operations and crypto mining equipment obsolete. Such actions could severely impact our ability to continue to operate and our ability to continue as a going concern or to pursue our strategy at all, which would have a material adverse effect on our business, prospects or operations.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 3 – Basis of Presentation and Significant Accounting Policies, of the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2022 filed with the SEC on August 29, 2022

Hosting Operation Highlights

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

The facility began energizing in late January 2022 and had over 90 MW online as of June 2022. As previously reported in a Current Report on Form 8-K filed by the Company on July 18, 2022, there was an unexpected equipment failure at the substation powering the facility, resulting in a partial outage of approximately 50%. The power provider completed the required repairs in mid-August, fully restoring power capacity to Jamestown ahead of the schedule for early September. The Jamestown facility was not damaged and remains fully operational and capable of hosting the entire 100 MW of capacity.

On July 12, 2022, the Company entered into a five-year hosting contract with Marathon Digital Holdings, Inc. ("Marathon") for 200 MW of mining capacity. As a result of this arrangement, the Company will supply Marathon with 90 MW of hosting capacity at its facility in Texas and at least 110 MW of hosting capacity at its second facility in North Dakota. As part of this agreement, the Company has also provided Marathon with the option to increase hosting capacity utilizing up to an additional 70 MW in North Dakota, which would increase the total amount of hosting across all of the Company's facilities to 270 megawatts if the option is exercised.

Discontinued Operations

On March 9, 2022, the Company ceased all crypto mining operations and completed the sale of all crypto mining equipment in service. The Company has no plans to return to crypto mining operations in the future as we grow our co-hosting operations. The results of the crypto mining operations are accounted for as discontinued operations in our consolidated financial statements.

Expansion Opportunities

On November 24, 2021, we entered into a letter of intent to develop a facility in Texas using 200 MW of wind power. On April 13, 2022, the Company entered into a 99-year ground lease in Garden City, TX, with the intent to build our second datacenter facility on this site. On April 25, 2022 the Company began construction on this site. This facility is collocated with a wind farm and upon completion is expected to provide 200 MW of power to hosting customers. The facility is expected to begin operating in calendar fourth quarter of 2022 and the 200 MW capacity is fully contracted with our customers.

On August 8, 2022, the Company completed the purchase of 40 acres of land ("the Land") in Ellendale, North Dakota, for a total cost of $1 million. The Company took possession of the Land on August 15, 2022, and plans to build a 200 MW datacenter on the Land, with completion scheduled for the first quarter of calendar 2023.

As our hosting operations expand, we believe our business structure will become conducive to a REIT structure, comparable to Digital Realty Trust (NYSE: DLR) and Equinix, Inc. (NASDAQ: EQIX), each of which is a traditional datacenter operator and Innovative Industrial Properties, Inc. (NYSE: IIPR), a specialty REIT that similarly services a new growth industry. We have begun to investigate the possibility, costs and benefits of converting to a REIT structure.

Changes to Equity

The Company’s board of directors approved a reverse split of shares of the Company’s common stock on a one-for-six basis, which was effected on April 12, 2022 (the “Reverse Stock Split”). All references to Common Stock, options to purchase common stock, restricted stock units, share data, per share data and related information contained in the condensed consolidated financial statements have been retrospectively adjusted to reflect the effect of the Reverse Stock Split for all periods presented. No fractional shares of the Company’s common stock were issued in connection with the Reverse Stock Split. Any fractional share resulting from the Reverse Stock Split was rounded down to the nearest whole share and the affected holder received cash in lieu of such fraction share. Any fractional share resulting from the Reverse Stock Split was rounded down to the nearest whole share.

On June 6, 2022, through an agreement between the Company and Sparkpool, Sparkpool agreed to forfeit to the Company shares of Common Stock that had been issued pursuant to the service agreement executed on March 19, 2021. Sparkpool ceased providing the contracted services for the Company, and agreed to forfeit shares to compensate for future services that will not be rendered. As a result of this agreement, 4,965,432 shares of Common Stock were forfeited and canceled by the Company.

Results of Operations Comparative Results for the Three Months Ended August 31, 2022 and 2021:

The following table sets forth key components of the results of operations (in thousands) of Applied Blockchain during the three months ended August 31, 2022 and 2021.

		Three Months Ended		
		August 31, 2022		**August 31, 2021**
Revenues:				
Hosting revenue	$	6,924	$	—
Cost of revenues	$	6,093	$	—
Gross profit		831		—
Costs and expenses:				
Selling, general and administrative	$	4,131	$	698
Stock-based compensation		579		12,337
Depreciation and amortization		298		3
Total costs and expenses	$	5,008	$	13,038
Operating loss	$	(4,177)	$	(13,038)
Other income (expense):				
Interest Expense	$	(356)	$	—
Gain on extinguishment of accounts payable		—		40
Loss on extinguishment of debt		(94)		(1,342)
Total other expense, net		(450)		(1,302)
Net loss from continuing operations before income tax expenses		(4,627)		(14,340)
Income tax expenses		(32)		—
Net loss from continuing operations		(4,659)		(14,340)
Net gain from discontinued operations, net of income taxes		—		243
Net loss including noncontrolling interests		(4,659)		(14,097)
Net loss attributable to noncontrolling interest		(128)		—
Net loss attributable to Applied Blockchain	$	(4,531)	$	(14,097)
Adjusted Amounts (a)				
Adjusted Operating Loss from Continuing Operations	$	(2,896)	$	601
as a percentage of revenues		(42)%		— %
Adjusted Net Loss from Continuing Operations	$	(3,378)	$	(701)
as a percentage of revenues		(49)%		— %
Other Financial Data (a)				
EBITDA	$	(3,135)	$	(14,337)
as a percentage of revenues		(45)%		— %
Adjusted EBITDA	$	(1,854)	$	(698)
as a percentage of revenues		(27)%		— %
Adjusted Gross Profit	$	1,667	$	—
as a percentage of revenues		24 %		— %

(a) Adjusted Amounts and Other Financial Data are non-GAAP performance measures. A reconciliation of reported amounts to adjusted amounts can be found in the section titled "Non-GAAP Measures and Reconciliation".

Revenues

Hosting revenues increased from $0 to $6.9 million, from the three month period ended August 31, 2021 to the three month period ending August 31, 2022. The increase in hosting revenues was driven by our completion of our first hosting facility in Jamestown, North Dakota, which was brought online in phases during the six months ended May 31, 2022.

Cost of Revenues

Cost of revenues increased from $0 to $6.1 million, from the three month period ended August 31, 2021 to the three month period ending August 31, 2022. The increase in cost of revenues was primarily driven by the initiation of our co-hosting business in late fiscal year ended May 31, 2022, which represents all of our continuing operations. Cost of revenues for the three month period ending August 31, 2022 consists of $836,000 of depreciation and amortization expense attributable to the property, plant and equipment at our Jamestown, ND hosting facility, $4.9 million of energy costs used to generate our hosting revenues, and $360,000 of personnel expenses for employees directly working at the hosting facility.

Operating Expenses

Selling, general and administrative expenses increased by $3.4 million, or 492%, from $698,000 for the three month period ended August 31, 2021 to $4.1 million for the three month period ending August 31, 2022. The two primary drivers of Selling, general and administrative expense are $1.3 million of employee salaries and benefits expense, and $1.4 million of professional service expenses incurred to support the growth of the business.

Stock-based compensation for service agreement decreased $11.8 million, or 95%, from $12.3 million for the three month period ended August 31, 2021 to $579,000 for the three month period ending August 31, 2022. The expense was related to our service agreements with strategic partners, who provided advisory and consulting services in exchange for shares of common stock we issued to them. These services were fully rendered within the three month period ending August 31, 2021. The Company did recognize expenses related to stock compensation agreements for the three month period ending August 31, 2022, but the number of shares granted under these agreements, and therefore the related expense, was much smaller relative to the number of shares granted under the service agreements as described above.

Depreciation and amortization expense not attributable to costs of sales increased $295,000 or 9,838%, from $3,000 for the three month period ended August 31, 2021 to $298,000 for the three month period ending August 31, 2022. The change was driven by a significant increase in assets placed in service between periods to support the growth of the business.

Other Expense

Interest expense increased from $0 to $356,000, from the three month period ended August 31, 2021 to the three month period ending August 31, 2022. This increase was driven by the increase in finance leases and change in the company's debt obligations between periods, as the Company has entered into the Starion Loan agreement in the three month period ending August 31, 2022, and previously entered into a term loan agreement with Vantage Bank, which was subsequently extinguished. The Starion Loan Agreement provides for an interest rate of 6.50% per annum. The City of Jamestown, North Dakota and Stutsman County's Economic Development Fund provides a multimillion-dollar economic development program, available to assist with expanding or relocating businesses. As part of financial packages, the Jamestown Stutsman Development Corporation (JSDC) makes direct loans, equity investments, and interest buy-downs to businesses. Contingent upon such incentives, the Company expects the effective interest rate of the Starion Term Loan to be less than 6.50% per annum after different state funds are applied to the Loan, pending final approval.

The Loan is secured by a mortgage on the Property, and a security interest in substantially all of the assets of the Company as set forth in the Security Agreement dated as of July 25, 2022 by and between Hosting and the Starion Lender and a security interest in the form of a collateral assignment of the Company's rights and interests in a master hosting agreement related to the Property and records and data relating thereto as set forth in the Security Agreement dated as of July 25, 2022 by and among Hosting, the Company as Grantor and the Starion Lender. In addition, the Company unconditionally guaranteed the Company's obligations to the Starion Lender, including under the Starion Term Loan, pursuant to an Unlimited Commercial Corporate Guaranty of the Company dated as of July 25, 2022.

Loss on extinguishment of debt decreased $1.25 million, or (93)% from the three month period ended August 31, 2021 to the three month period ended August 31, 2022. This decrease was driven by the extinguishment of our related party notes payable by conversion to common stock during the three month period ended August 31, 2021, compared to a smaller extinguishment of debt that was recognized in the three month period ended August 31, 2022.

Income tax expense

Income tax expense increased from $0 to $32,000 from the three month period ended August 31, 2021 to the three month period ending August 31, 2022. This increase was driven by a change in valuation allowance for three month period ending August 31, 2022.

Gain from Discontinued Operations

Beginning in the quarter ended August 31, 2021 (the first quarter of fiscal year ended May 31, 2022), we began cryptoasset mining operations, using Nvidia GPU miners which we hosted at a facility operated by Coinmint. In fiscal year ended May 31, 2022, we made the strategic decision to discontinue our mining operations and focus on hosting operations in the future. As a result of this strategic shift, our mining operations were reclassified as discontinued operations.

Gain from discontinued operations decreased $243,000 or 100% from the three month period ended August 31, 2021 to the three month period ending August 31, 2022. The decrease was due to the fact that the Company no longer generates revenues from mining operations.

Non-GAAP Measures and Reconciliation

The reconciliations of (1) adjusted operating loss from continuing operations to operating loss from continuing operations, (2) adjusted net loss from continuing operations to net loss from continuing operations, (3) EBITDA and Adjusted EBITDA to net loss from continuing operations, and (4) adjusted gross profit to gross profit, is as follows:

$ in thousands	Three Months Ended August 31, 2022	Three Months Ended August 31, 2021
Adjusted operating loss		
Operating Loss from Continuing Operations (GAAP)	$ (4,177)	$ (13,038)
Add: Stock-based compensation for service agreement	579	12,337
Add: Gain on Extinguishment of Accounts Payable	—	(40)
Add: Loss on Extinguishment of Debt	94	1,342
Add: Non-recurring professional service costs	408	
Add: Other non-recurring expenses	200	—
Adjusted Operating Loss from Continuing Operations (Non-GAAP)	$ (2,896)	$ 601
Adjusted operating margin from Continuing Operations	(41.8)%	— %
Adjusted net loss		
Net Loss from Continuing Operations (GAAP)	(4,659)	(14,340)
Add: Stock-based compensation for service agreement	579	12,337
Add: Gain on Extinguishment of Accounts Payable	—	(40)
Add: Loss on Extinguishment of Debt	94	1,342
Add: Non-recurring professional service costs	408	
Add: Other non-recurring expenses	200	—
Adjusted net loss from Continuing Operations (Non-GAAP)	$ (3,378)	$ (701)
EBITDA and Adjusted EBITDA		
Net Loss from Continuing Operations (GAAP)	$ (4,659)	$ (14,340)
Add: Interest Expense	356	—
Add: Income Tax Expense	32	—
Add: Depreciation	1,136	3
EBITDA (Non-GAAP)	$ (3,135)	$ (14,337)
Add: Stock-based compensation for service agreement	579	12,337
Add: Gain on Extinguishment of Accounts Payable	—	(40)
Add: Loss on Extinguishment of Debt	94	1,342
Add: Non-recurring professional service costs	408	
Add: Other non-recurring expenses	200	—
Adjusted EBITDA (Non-GAAP)	$ (1,854)	$ (698)
Adjusted Gross Profit		
Gross profit (GAAP)	$ 831	$ —
Add: Depreciation in cost of revenues	836	—
Adjusted Profit (Non-GAAP)	$ 1,667	$ —

Adjusted Operating Loss and Adjusted Net Loss

"Adjusted Operating Loss" and "Adjusted Net Loss" are non-GAAP measures that represents operating loss and net loss, respectively, from continuing operations excluding stock-based compensation and nonrecurring expenses. We believe these are useful metrics as they provide additional information regarding factors and trends affecting our business and provide perspective on results absent one-time or significant non-cash items. However, Applied Blockchain's presentation of these measures should not be construed as an inference that its future results will be unaffected by unusual or non-recurring items. Applied Blockchain's computation of Adjusted Operating Loss and Adjusted Net Loss may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted Operating Loss and Adjusted Net Loss in the same fashion.

Because of these limitations, Adjusted Operating Loss and Adjusted Net Loss should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. Applied Blockchain compensates for these limitations by relying primarily on its GAAP results and using Adjusted Operating Loss and Adjusted Net Loss on a supplemental basis. You should review the reconciliation of operating loss to Adjusted Operating Loss and net loss to Adjusted Net Loss above and not rely on any single financial measure to evaluate Applied Blockchain's business.

EBITDA and Adjusted EBITDA

"EBITDA" is defined as earnings before interest, taxes, and depreciation and amortization. "Adjusted EBITDA" is defined as EBITDA adjusted for stock-based compensation, gain on extinguishment of accounts payable, loss on extinguishment of debt, and one-time professional service costs not directly related to the company's offering and therefore not deferred under the guidance in ASC 340 and SAB Topic 5A. These costs have been adjusted as they are not indicative of business operations. Adjusted EBITDA is intended as a supplemental measure of Applied Blockchain's performance that is neither required by, nor presented in accordance with, GAAP. Applied Blockchain believes that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing its financial measures with those of comparable companies, which may present similar non-GAAP financial measures to investors. We also believe EBITDA and Adjusted EBITDA are useful metrics to investors because they provide additional information regarding factors and trends affecting our business, which are used in the business planning process to understand expected operating performance, to evaluate results against those expectations, and because of their importance as measures of underlying operating performance, as the primary compensation performance measure under certain programs and plans. However, you should be aware that when evaluating EBITDA and Adjusted EBITDA, Applied Blockchain may incur future expenses similar to those excluded when calculating these measures. In addition, Applied Blockchain's presentation of these measures should not be construed as an inference that its future results will be unaffected by unusual or non-recurring items. Applied Blockchain's computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted EBITDA in the same fashion.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. Applied Blockchain compensates for these limitations by relying primarily on its GAAP results and using EBITDA and Adjusted EBITDA on a supplemental basis. You should review the reconciliation of net loss to EBITDA and Adjusted EBITDA above and not rely on any single financial measure to evaluate Applied Blockchain's business.

Adjusted Gross Profit

"Adjusted Gross Profit" is a non-GAAP measure that represents gross profit adjusted for depreciation expense within cost of revenues. We believe this is a useful metric as it provides additional information regarding gross profit aside from significant non-cash expense in depreciation. However, Applied Blockchain's presentation of this measure should not be construed as an inference that its future results will be unaffected by other factors within cost of revenues. Applied Blockchain's computation of Adjusted Gross Profit may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted Gross Profit in the same fashion.

Because of these limitations, Adjusted Gross Profit should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. Applied Blockchain compensates for these limitations by relying primarily on its GAAP results and using Adjusted Gross Profit on a supplemental basis. You should review the reconciliation of gross profit to Adjusted Gross Profit above and not rely on any single financial measure to evaluate Applied Blockchain's business.

The Sources of Liquidity

We have primarily generated cash in the last 12 months from the proceeds of our term loan, proceeds from our initial public offering, and the receipt of contractual deposits and revenue prepayments from hosting customers. On April 18, 2022, we received $36 million in net proceeds from the issuance of 8 million shares of the Company's Common Stock in conjunction with the closing of our initial public offering. On July 25, 2022, the Company entered into a Loan Agreement with Starion Bank ("Starion Lender") and the Company as Guarantor (the "Starion Loan Agreement"). The Starion Loan Agreement provides for a term loan (the "Starion Term Loan") in the principal amount of $15 million with a maturity date of July 25, 2027. The Starion Loan Agreement contains customary covenants, representations and warranties and events of default. The Starion Loan Agreement provides for an interest rate of 6.50% per annum. A portion of the proceeds were used to pay down the Vantage term loan that was entered into on March 11, 2022. The remaining proceeds of the term loan will be used for working capital needs for the operation of Phase I of the hosting facility in Jamestown, North Dakota. See Note 7 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for more information on the Starion Term Loan.

During the three month period ended August 31, 2022, we received $22.2 million in payments for future hosting services. During fiscal year ended May 31, 2022, we generated revenue from crypto mining and co-hosting, but we have incurred net losses from operations. As of August 31, 2022 and May 31, 2022, we had cash of $40.8 million and $46.3 million respectively, and an accumulated deficit of $60.6 million and $56.1 million, respectively.

Funding Requirements

We have experienced net losses through our fiscal year ended May 31, 2022. Our transition to profitability is dependent on the successful operation of our co-hosting facilities. We believe that amounts we received from our proceeds from our term loan, proceeds from our initial public offering, and revenue payments we have begun to achieve in our co-hosting operations since our first co-hosting facility was brought online in February 2022, after planned expenditures with respect to the items described in the section titled "*Expansion Opportunities" above*, will be sufficient to meet our working capital needs for at least the next 12 months and all of the Company's known requirements and plans for cash.

We expect that our general and administrative expenses and our operating expenditures will continue to increase as we continue to expand our operations and as we bear the costs of being a public company. We expect significant increases in our investment in property and equipment as we expand our co-hosting capacity. We also expect that our revenues will increase as we continue to bring online additional capacity at our Jamestown, ND, Garden City, TX, and Ellendale, ND locations. We expect to need additional capital to fund continued growth, which we may obtain through one or more equity offerings, debt financings or other third-party funding. Because of the numerous risks and uncertainties associated with the Company's concentration of customers in the crypto mining industry, we are unable to estimate the amount of increased capital we may need to raise to continue to build additional co-hosting facilities and we may use our available capital sooner that we currently expect.

We believe that our existing cash, together with the anticipated revenues from current operations and debt funding opportunities, will enable us to fund our operating expense requirements through at least 12 months as well as all of the Company's known requirements and plans for cash. We have based our estimates as to how long we expect we will be able to fund our operations on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect, in which case, we would be required to obtain additional financing sooner than currently projected, which may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy.

Summary of Cash Flows

The following table provides information about Applied Blockchain's net cash flow (in thousands) for the three months ended August 31, 2022 and 2021.

	Three Months Ended	
$ in thousands	**August 31, 2022**	**August 31, 2021**
Net cash provided by operating activities	$ 17,294	$ (1,435)
Net cash used in investing activities	(31,673)	(11,288)
Net cash provided by financing activities	8,910	29,902
Net change in cash and cash equivalents	(5,469)	17,179
Cash and cash equivalents at beginning of year	46,299	11,750
Cash and cash equivalents at end of period	$ 40,830	$ 28,929

The net cash generated by operating activities of $17.3 million for the three month period ending August 31, 2022 consisted primarily of an increase in customer deposits of $4.6 million and an increase in deferred revenue of $15.3 million, offset by a loss from continuing operations of $4.7 million. Both customer deposits and deferred revenue increased during the three month period ending August 31, 2022 due to prepayments from new contracts as well as more cash being received than revenue recognized during the period.

The net cash used in operating activities of $1.4 million for the three month period ending August 31, 2021 consisted primarily of non-cash expenses of stock based compensation charges of $12.3 million and loss on extinguishment of debt of $1.3 million, as well as an increase in accounts payable of $0.4 million, offset by losses from continuing operations of $14.3 million.

The net cash used in investing activities of $31.7 million for the three month period ending August 31, 2022 represents purchases of property and equipment.

The net cash used in investing activities of $11.3 million for the three month period ending August 31, 2021 represents purchases of property and equipment.

The net cash provided by financing activities of $8.9 million for the three month period ending August 31, 2022 is primarily driven by the proceeds from the Starion term loans which total $15.0 million, as well as by equity contributions to 1.21 Gigawatts, a subsidiary of the Company, by noncontrolling interest of $1.7 million , partially offset by the extinguishment of the Vantage term loan totaling $7.1 million

The net cash provided by financing activities of $29.9 million for the three month period ending August 31, 2021 represents proceeds from the issuance of preferred stock $32.6 million offset by issuance costs of $2.7 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, and as a result of the material weaknesses described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of August 31, 2022, our disclosure controls and procedures were not effective at the reasonable assurance level.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be detected or prevented on a timely basis.

In connection with our initial public offering, we identified a material weakness in the design of our internal controls, which could adversely affect our ability to record, process, summarize and report financial data. We have not yet designed and implemented user access controls to ensure appropriate segregation of duties that would adequately restrict user and privileged access to the financially relevant systems and data to appropriate personnel. We also do not have a properly designed internal control system that identifies critical processes and key controls.

In order to remediate these material weaknesses, we are taking the following steps, among others:

1. continued hiring of additional qualified accounting and financial reporting personnel to support division of responsibilities;

2. improving and updating our systems;

3. developing IT general controls to manage access and program changes across our key systems and the execution of improvements to application controls within our systems; and

4. implementing processes and controls to better identify and manage segregation of duties.

We will not be able to fully remediate the material weaknesses until these steps have been completed and have been operating effectively for a sufficient period of time.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the three month period ended August 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

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

On June 6, 2022, through an agreement between the Company and Sparkpool, Sparkpool agreed to forfeit to the Company shares of Common Stock that had been issued pursuant to the service agreement executed on March 19, 2021. Sparkpool ceased providing the contracted services for the Company, and agreed to forfeit shares to compensate for future services that will not be rendered. As a result of this agreement, 4,965,432 shares of Common Stock were forfeited and canceled by the Company.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Second Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the SEC on August 29, 2022)
3.2	Amended and Restated Bylaws, as amended from time to time (Incorporated by reference to Exhibit 3.2 to the Company's Form S-1 (Registration No. 333-258818), filed with the SEC on August 13, 2021)
10.1	Letter between Applied Blockchain, Inc. and Xsquared Holding Limited dated June 6, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 8, 2022)
10.2	Loan Agreement, dated as of July 25, 2022, by and among APLD Hosting, LLC, Starion Bank, and Applied Blockchain, Inc. as Guarantor (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 12, 2022)
10.3	Security Agreement, dated as of July 25, 2022, by and between APLD Hosting, LLC and Starion Bank (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on August 12, 2022)
10.4	Security Agreement, dated as of July 25, 2022, by and among APLD Hosting, LLC, Applied Blockchain, Inc. as Grantor, and Starion Bank (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on August 12, 2022)
10.5	Unlimited Commercial Corporate Guaranty of Applied Blockchain, Inc. dated as of July 25, 2022 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on August 12, 2022)
10.6*	Hosting Agreement, dated as of July 12, 2022, by and between Marathon Digital Holdings, Inc. and Applied Blockchain, Inc.
31.1*	Chief Executive Officer's Certificate Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer's Certificate Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
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.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.
** Furnished herewith.

Signatures

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

APPLIED BLOCKCHAIN, INC.

Date: October 12, 2022	By:	/s/ Wesley Cummins
		Wesley Cummins Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
Date: October 12, 2022	By:	/s/ David Rench
		David Rench Chief Financial Officer (Principal Financial Officer)

Applied Blockchain, Inc. - Master Services Agreement

This Master Hosting Agreement (this "**Agreement**"), dated July 12th, 2022 is between Applied Blockchain, Inc. ("**APLD**") with address at 3811 Turtle Creek Blvd, Suite 2100 Dallas, TX 75219 and Marathon Digital Holdings, Inc. ("**Customer**") with address at Tower One, 101 NE Third Avenue, Suite 1200, Fort Lauderdale, FL 33301. In consideration of the promises set forth below, the parties agree as follows:

1. **Services.** Subject to the terms and conditions of this Agreement, APLD shall provide, and Customer shall pay for, the energized space, management and other services for Customer's equipment listed on Exhibit A hereto, as approved by APLD and Customer in advance (the "**Equipment**").

2. **Energized Space and Services.**

2.1. Energized Space and Services. APLD will provide an energized space or cryptocurrency mining facility; including rack space, electrical power, filtered ambient air, internet connectivity, and physical security ("**Services**") for the Equipment at the Applied Blockchain Hosting Facility – ND and TX (the "**Facility**").

2.2. Transfer of Equipment. Customer shall provide prompt written notice to APLD if it transfers legal title to any Equipment to an entity, firm, or corporation that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with Customer (the "**Customer Affiliates**") or any other third party. In the event ofsuch a transfer, Customer shall remain obligated to pay APLD the Monthly Service Fees for the transferred Equipment for the remainder of the Term unless and until such Equipment is placed into service under, and issubject to, a master services agreement between the acquiring third party and APLD, which shall be at APLD's reasonable discretion.

2.3. Transfer of Services. Other than to any other party within the Customer Affiliates, Customer may not sublicense, assign, delegate, resell, or otherwise transfer its receipt of Services or any other rights under this Agreement to any third party without APLD's express written consent, which may not be unreasonably withheld or delayed.

2.4. Service Level. APLD will use its commercially reasonable efforts to ensure that the following metrics are met in the provision of Services to Customer:

(a) A/C power to the outbound port on Customer's serving power distribution unit (PDU) shall be available 95% of the time in a calendar year;

(b) Network infrastructure based on redundant fiber optic internet connection;

(c) Filtered ambient air; and

(d) Monitoring and remote trouble shooting on a twenty-four hours per day, seven days a week basis. Machines that cannot be returned to full service remotely will be rebooted, and if necessary, removed from the shelf for repair within 8 hours from first reported downtime. Miner will be evaluated by technician and either repaired or shipped to external maintenance facility within 48 hours from removal from shelf at Customer's expense.

2.5. Hashrate and True-Up. Hashrate per machine shall not fall below 95% of expected performance on an annual basis. Machines that have been reported as offline or that are being actively serviced will not count for purposes of measuring this service level. In the event that the hashrate falls below such level there will be a true-up in payments as set forth on Exhibit D.

3. Term and Termination.

3.1. Term. This Agreement shall be effective as of the date on which (i) it has been executed by both APLD and Customer and (ii) no less than 200 (Two Hundred) Megawatts (MW) of power are available at the Facility (the "Effective Date"), and shall remain in effect for Five (5) years from the Effective Date (the "Term"). The Term may be extended for an additional twenty-four (24) months under the fee structure set forth herein upon 90 days prior notice and agreement of both parties, subject to Section 4.8 hereof.

3.2. Contract Volume. The contracted volume ("Contract Volume") is the sum of the Miner Load and Aux Load. Measured as the highest metered load recorded in the prior six months ("Miner Load") and the proportional site auxiliary load ("Aux Load"). Aux Load will be calculated as the overall site load less the load consumed by all miners, multiplied by the customer Miner Load divided by the total Miner Load on site. APLD will use the best available meter data to determine Miner Load and Aux Load, and may estimate load using commercially reasonable methodologies where needed.

3.3. Equipment Return/Pick-Up. Upon Customer's written request, and provided Customer has paid all amounts then due and owing under this Agreement, APLD shall decommission the corresponding Equipment to Customer upon the expiration of the Term, at Customer's expense, asprovided in Section 8.4. It shall be Customer's responsibility to pick-up such Equipment, as well as any Equipment owned by Customer that is non-repairable or obsolete, at the Facility or arrange for its return or disposal, as applicable, at Customer's sole cost and expense.

3.4. Termination by APLD. APLD may terminate this Agreement upon 90 days prior written notice to Customer in the event that APLD determines that the provision of the Services at the Facility can no longer be provided in an economic manner, as determined by APLD in its reasonable discretion (an "**APLD Termination**"). In the event of an APLD Termination, APLD agrees to give Customer a right of first refusal to contract with APLD for the Services to be provided at a different facility, if available (a "**Back-up Facility**"), and APLD will bear all reasonable costs and expenses of shipping customer-owned Equipment to such Back-up Facility. If there is no APLD facility available APLD will bear all reasonable costs and expenses of shipping customer-owned Equipment to a location of the Customers choosing within the domestic United States.

3.5. Termination for Default by Customer. APLD may terminate this Agreement for cause immediately upon written notice to Customer if Customer: (a) fails to make any payment(s) due pursuant to this Agreement within 30 days of the date due; (b) violates, or fails to perform or fulfill any covenant or provision of this Agreement, and any such matter is not cured within ten business (10) days after written notice from APLD; or (c) enters into bankruptcy, dissolution or insolvency, which is not dismissed within 30 days from date of original petition (each, a "**Customer Default**").

3.6. Termination for Default by APLD. Customer may terminate this Agreement for cause immediately upon written notice to APLD if: (a) the availability of power to the Customer drops below 80% for thirty (30) days or greater and/or (b) network availability drops below 80% for thirty (30) days or greater (each, an "**APLD Default**"), provided availability decrease is not due to a Force Majeure Event by either APLD or the service provider (power or network) and/or (c) violates, or fails to perform or fulfill any covenant or provision of this Agreement and any such matter is not cured within ten (10) days after written notice from Customer; or (d) enters into bankruptcy, dissolution or insolvency which is not dismissed within 30 days from date of original petition (each, an "APLD Default").

4. Fees and Payment.

4.1. Initial Fees. An initial setup of fee equal to [redacted] per machine that will be set up (the "**Initial Setup Fee**") shall be due and payable upon execution of this Agreement, and installation of the Equipment will not begin until the Initial Setup Fee is received. In addition, a packaging disposal fee equal to [redacted] per machine that is shipped by Customer to the Facility (the "**Disposal Fee**") shall be due and payable upon receipt of each such machine; provided, however, that if Customer pays for the return shipment of such packaging for each machine, no Disposal Fee shall be due.

4.2. A non-refundable initial security deposit equal [redacted] shall be contingent upon execution of this Agreement. The Initial Deposit is due upon arrival of equipment at the facility. The Initial Pre-Payment Deposit shall be an obligation to APLD effective upon commencement of the energized space site being online. The payment schedule can be reviewed in "Exhibit E". Upon receipt of the Initial Deposit and Initial Pre-Payment Deposit by APLD, Customer agrees to deploy the Equipment at the Facility, and in the event that such Equipment is not deployed at the Facility or Customer does not maintain the Equipment at the Facility for the entire Term, for any reason, Customer shall forfeit its Initial Deposit. The Initial Setup Fee and Initial Deposit are non-transferrable under any circumstance. The Initial Deposit will be credited back at the termination of the agreement. The Initial Pre-Payment Deposit shall be credited by APLD in equal pro rata amounts against the first twelve (12) months of invoicing from APLD to Customer.

4.3. Monthly Fees. Customer shall pay APLD a monthly service fees equal to [redacted] per MW for 200 MW of energized space per month (the "**Monthly Service Fees**"). Monthly Service Fees will be invoiced monthly beginning on the date of installation of the Equipment and the commencement of the Services, and are due monthly in advance upon receipt of invoices submitted by APLD. Payments not made by the 1st of each month will be considered late and subject to a late fee of 1.0% of the amount late on the 5h of each month. Additionally, late payments will incur interest at the lesser of 1.0% per month (12% annum) or the maximum amount allowed under applicable law.

4.4. Included Maintenance. APLD shall include automated and manual rebooting of non-responsive machines in the Monthly Service Fees described in section 4.2. APLD will configure Customer miners pool settings via APLD's control center software. APLD will provide Customer with access to APLD's control center software to view details about Customer's miners.

4.5. Additional Maintenance. APLD shall provide space in the Facility for Customer to make repairs to the Equipment and store a reasonable amount and number of back-up machines and equipment. Customer shall have the right, in its discretion, to (i) make repairs to customer-owned Equipment and/or (ii) request that APLD make repairs to customer-owned Equipment and pay APLD an hourly rate of [redacted] per hour for such repairs. Customer shall pay APLD for any parts and consumables used in APLD-made repairs at the rates as shown in Exhibit B, which will be modified from time-to-time based on pricing changes from suppliers of parts or other market conditions. If any changes have been made to pricing since the time of this Agreement or any subsequent notice of price changes, APLD will provide updated pricing prior to commencing any repairs. In addition, Customer shall be solely responsible for the shipping, transportation and other logical costs incurred by APLD in the event that any customer-owned Equipment is required to be transported to an offsite location for repair. If Customer requests APLD to arrange for any transportation, Customer shall pay an administrative fee of 5% of costs of transportation whether APLD or Customer pays the costs directly plus reimburse APLD for any costs incurred.

4.6. Taxes. All amounts payable by Customer under this Agreement are exclusive of, and Customer shall solely be responsible for paying, all taxes, duties and fees, including federal, state and local taxes on manufacture, sales, gross income, receipts, occupation and use, not based on APLD's income or other taxes legally required to be paid by APLD that arise out of this Agreement.

4.7. Payment Method. All payments due and owing under this Agreement shall be made through wire transfer from the Customer to APLD pursuant to wire transfer instructions provided by APLD to Customer from time to time. All wire transfers shall be made within seven (7) days of the invoice date, unless Customer notifies APLD within five (5) days of the invoice date of an error in the invoice, which shall be resolved by the parties within three (3) days of the written notice.

4.8. Escalation. The power prices payable by Customer under this Agreement and the Power Price Limit (as defined below) shall escalate or de-escalate quarterly at the greater of zero and the quarterly change of the cost incurred by APLD to provide power to the Facility; provided, however, that (i) in no event shall the Monthly Service Fees be less than [redacted] and (ii) in the event that, due to escalation permitted pursuant to this Section 4.8, the power prices under this Agreement or the Power Price Limit exceed [redacted] (the "Maximum Power Rate"), APLD and Customer shall split any amounts above the Maximum Power Rate (the "Additional Power Cost"), with 80% of the Additional Power Cost paid by Customer and 20% of the Additional Power Cost paid by APLD. In the event that the Monthly Service Fees paid by Customer exceeds [redacted] per MW of energized space per month as adjusted pursuant to this Section 4.8 on average over a one-year period ("Power Price Limit"), Customer may terminate this Agreement upon 60 days' prior notice to APLD.

5. **Security Interest; Redirecting.** Customer hereby grants a security interest in the Equipment in favor of APLD to secure the obligations of Customer under this Agreement in the event of a Customer Default that is not satisfied by the Initial Deposit, to be stored or deployed by APLD as it may see fit, acting reasonably. Customer represents and warrants that it has not granted a security interest in the Equipment in favor of a third-party priority over the security interest granted to APLD herein. Alternatively, Customer hereby agrees that, in lieu of a security interest in the Equipment to secure the obligations of Customer under this Agreement in the event of a Customer Default that is not satisfied by the Initial Deposit, APLD may elect to redirect Customer generated hashing from customer-owned Equipment to a mining pool selected by APLD its in sole discretion and receive the proceeds generated from such mining until such Customer Default has been satisfied.

6. **Site Access.**

6.1. Access. Only those persons specifically authorized by APLD in writing may access the Facility. APLD may reasonably deny or suspend Customer's access to the Equipment based on APLD's then-current Security Policies and Procedures, which include, but are not limited to:

(a) All access into the Facility must be supervised by an APLD representative at all times;

(b) Customer shall provide one (1) day' written notice to APLD prior to any maintenance or repair of the Equipment;

(c) Customer shall perform Equipment maintenance and repairs during normal business hours (Monday-Friday, 7AM – 6PM Central Time);

(d) Customer may request immediate or after-hour access to the Facility to perform emergency maintenance. APLD will make every reasonable attempt to accommodate Customer's after-hour emergency access requests.

(e) For security purposes, Customer will have severely limited Internet access while at the Facility.

(f) Customer will not have VPN access to the facility at any time and any control or monitoring of Customer's equipment will be performed via APLD's control center software only.

(g) Customer may arrange for separate work space to complete any repairs or request APLD to provide separate work space for customer to use at Customer's sole expense. If Customer requests APLD to provide a separate work space for Customer, Customer will pay APLD an administrative fee equal to 20% of the cost of such space.

Customer shall be solely responsible for any damage or loss caused by anyone acting for or on its behalf while at the Facility only to the extent of its own negligence or gross negligence.

6.2. Access to Equipment Configurations. Customer's access to configure machines shall be through software provided by APLD and not through any VPN, local access to the network, etc.

7. Shipping; Removals and Relocation of Equipment.

7.1. Shipping. APLD's preferred shipping provider is Compass Logistics & Marine LLC, or such other provider of similar size and reputation in the industry as Customer may select upon notice to APLD ("**Preferred Shipper**"). In the event that Customer does not use the Preferred Shipper, and the shipment of the Equipment to the Facility does not arrive in an orderly manner, APLD reserves the right to charge Customer the reasonable additional cost of labor needed to receive such shipment.

7.2. Relocation. With Customer approval, APLD may reasonably request the relocation of Customer's Equipment within the Facility or to another APLD facility upon twenty (20) days' prior written notice to Customer, provided that the site of relocation shall afford comparable environmental and economic conditions for the Equipment and comparable accessibility to the Equipment. Notwithstanding the foregoing, APLD shall not arbitrarily or capriciously require Customer to relocate the Equipment. If the Equipment is relocated according to this Section, the reasonable costs ofrelocating the Equipment and improving the Facility to which the Equipment will be relocatedshall be borne by APLD. Any relocation will be completed by APLD's staff.

7.3. Interference. If the Equipment is operating in a manner that it causes unacceptable interference to existing or prospective APLD customers or their Equipment in APLD's commercially-reasonable opinion, APLD may require Customer to alter, remove or relocate the Equipment at Customer's sole expense. APLD may take any action necessary such as powering down Customer equipment, removing network connectivity, or removing Equipment to protect its Facility, Equipment, or other Customer equipment. If Customer is unable to cure such interference within five (5) calendar days, APLD may terminate this Agreement without further obligation to Customer under this Agreement.

7.4. Emergency. In the event of an emergency, as determined in APLD's reasonable discretion, APLD may rearrange, remove, or relocate the Equipment without any liability to APLD. Notwithstanding the foregoing, in the case of emergency, APLD shall provide Customer, to the extent practicable, reasonable notice prior to rearranging, removing, or relocatingthe Equipment.

7.5. Equipment Return. Provided that Customer has paid all amounts then due and owing under this Agreement and this Agreement terminates as contemplated herein, APLD shall decommission and make the corresponding Equipment available to Customer for pickup at, or shipment from, the Facility within sixty (60) business days of Customer's written request. APLD shall work to uninstall and prepare for pickup all Equipment of Customer at the Facility based on a mutually-agreeable schedule for deinstallation. Customer shall arrange for pickup within thirty (30) days of APLD notifying Customer that the Equipment is or will be ready for pickup. Customer shall be responsible for all reasonable, documented pickup, delivery, transportation and deinstallation costs associated with removing the Equipment including, but not limited to, adequate shipping materials such as boxes, padding, insulation, tape, pallets, crates, shipping containers, or other materials required to ship the Equipment at Customer's sole expense. If Customer does not remove the Equipment as provided herein within 30 days, Customer agrees that APLD may charge Customer for storage of such Equipment from the date of notice that the Equipment is ready for pickup. Customer shall remain liable to APLD for all amounts due for the remainder of the Term. If Customer does not remove the Equipment as provided herein within 60 days of such notification, the Equipment will be considered abandoned and Customer will be liable for any cost associated with disposal, removal, or relocation of the Equipment.

8. Customer Responsibilities.

8.1. KYC/AML. Customer agrees to provide APLD with all information reasonably necessary for APLD to complete anti-money laundering and "know-your-client" due diligence on Customer. APLD reserves the right to accept or reject any customer in its sole discretion based on the results of such due diligence.

8.2. Compliance with Laws. Customer's use of the Facility and the Equipment located at the Facility must at all times conform to all applicable laws, including international laws, the lawsof the United States of America, the laws of the states in which Customer is doing business, and the laws of the city/township, county, and state where the Facility is located.

8.3. Licenses and Permits. Customer shall be responsible for obtaining any licenses, permits, consents, and approvals from any federal, state, and local governments that may be necessary to install, possess, own, or operate the Equipment.

8.4. Insurance. Customer acknowledges that APLD is not an insurer and Equipment is not covered by any insurance policy held by APLD. Customer is solely responsible for obtaining insurance coverage for the Equipment, including shipping insurance. Customer shall have commercial general liability insurance for the following occurrence types of at least (i) $1 million for Bodily Injury & Property Damage Bodily Injury / Property Damage Combined Single Limit Per Occurrence, (ii) $2 million Premises Operations Annual Aggregate, and (iii) $2 million Products/Completed Operations Annual Aggregate. Customer shall also have property and casualty insurance for the replacement value of the Equipment at the Facility. This insurance shall be maintained by Customer throughout the Term of this Agreement.

8.5. Equipment in Good Working Order. Customer shall be responsible for delivering the Equipment to the Facility in good working order and suitable for use in the Facility pursuant to commercially reasonable industry standards. Customer shall be responsible for any and all costs associated with the troubleshooting and repair of Equipment received in non-working order, including parts and labor at APLD's then-current rates. APLD is not responsible in any way for installation delays or loss of profits as a result of Equipment deemed not to be in good working order upon arrival at Facility.

8.6. Modification or Overclocking of Equipment. Customer shall notify and obtain prior written approval from APLD before any material modifications, alternations, firmware adjustments, over- or under-clocking, or other changes are made to Equipment ("**Modified Equipment**") that is intended to or might cause the Equipment's performance to deviate fromthe standard or factory specifications. If APLD determines that any Equipment has been materially altered or modified without APLD's prior written approval ("**Non- Compliant Equipment**"), it shall be a Customer Default. In addition to any other right or remedy it might have, a Customer Default pursuant to this Section shall subject Customer to a Non-Compliant Equipment fee equal to twenty-five percent (25%) of the Monthly Service Fees for such Equipment for each month Equipment was non-compliant. Each piece of Customer's Equipment must not use more than 100W of power when in sleep mode.

8.7. Representations. Each party represents and warrants that (i) it is properly constituted and organized, (ii) it is duly authorized to enter into and perform this Agreement, and (iii) the execution and delivery of this Agreement and its performance of its duties hereunder will not violate the terms of any other agreement to which it is a party by which it is bound.

9. **Common Carrier.** APLD and Customer agree that APLD is acting solely as a common carrier in its capacity of providing the Service hereunder and is not a publisher of any materialor information. Furthermore, APLD has no right or ability to censor materials or information traversed through APLD's networks.

10. **Warranty and Disclaimer**. CUSTOMER MAKES NO WARRANTY, REPRESENTATION OR PROMISE NOT EXPRESSLY SET FORTH IN THIS AGREEMENT. EXCEPT AS SET FORTH IN THIS AGREEMENT REGARDING, AMONG OTHER THINGS, POWER PERCENTAGE THRESHOLDS, APLD DISCLAIMS AND EXCLUDES ANY AND ALL IMPLIED WARRANTIES, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

11. **Limitation of Liability.**

11.1. APLD guarantees a minimum of 95% uptime in the provision of the Services at the Facility ("**Uptime**"), except due to a Force Majeure Event. If Uptime falls below 95%, Customer will be entitled to claim credits against the billing periods monthly fees. Such credits will be calculated as a proportionate reduction in the period's monthly fee applied the following billing period based on the Uptime deficiency that is below 95%. All such credits hereunder are deemed to be liquidated damages for lost revenue by Customer and shall not be deemed to be a penalty.

11.2. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY OR ANY OTHER PERSON, FIRM, OR ENTITY IN ANY RESPECT, INCLUDING, WITHOUT LIMITATION, FOR ANY INDIRECT, CONSEQUENTIAL, SPECIAL, INCIDENTAL OR PUNITIVE DAMAGES, INCLUDING LOSS OF PROFITS OF ANY KIND OR NATURE WHATSOEVER, ARISING OUT OF MISTAKES, NEGLIGENCE, ACCIDENTS, ERRORS, OMISSIONS, INTERRUPTIONS, OR DEFECTS IN TRANSMISSION, OR DELAYS, INCLUDING, BUT NOT LIMITED TO, THOSE THAT MAY BE CAUSED BY REGULATORY OR JUDICIAL AUTHORITIES ARISING OUTOF OR RELATING TO THIS AGREEMENT OR

THE OBLIGATIONS OF A PARTY PURSUANT TO THIS AGREEMENT.

12. Indemnification. Each party to this Agreement shall indemnify, hold harmless and defend the other party, its subsidiaries, employees, agents, directors, owners, executives, representatives, and subcontractors fromany and all third-party liability, claim, judgment, loss, cost, expense or damage, including reasonable attorneys' fees and legal expenses, arising out of or relating to such parties performance of its obligations hereunder, or any injuries or damages sustained by any person or property due to any direct or indirect act, omission, negligence or misconduct of such party, its agents, representatives, employees, contractors and their employees and subcontractors and their employees, including due to a breach of this Agreement by such party. Such party shall not enter into any settlement or resolution with a third party under this section without the other party's prior written consent, which shall not be unreasonably withheld or delayed.

13. Miscellaneous.

13.1. Lease Agreement. APLD may lease certain premises in the Facility from the Facility's owner ("**Leaser**") pursuant to a lease agreement (**"Lease"**). Customer is not a party to or a beneficiary under such Lease, if any, and has no rights thereunder, except with the full rights, title and ownership to any of its assets and/or other property which such assets and/or other property are located on such leased premises; however, Customershall be required to adhere to any and all rules of operation established by Leaser for the Facility. Whether owned or leased by APLD, Customer acknowledges and agrees that it does not have, has not been granted, and will not own or hold any real property interest in the Facility, that it is a licensee and not a tenant, and that it does not have any of the rights, privileges or remedies that a tenant or lessee would have under a real property lease or occupancy agreement, except as set forth above.

13.2. Entire Agreement. This Agreement, including any documents referencedherein, constitutes the parties' entire understanding regarding its subject and supersedes all prior or contemporaneous communications, agreements and understanding between them relating thereto. Each party acknowledges and agrees that it has not, and will not, rely upon any representations, understandings, or other agreements not specifically set forth in this Agreement. This Agreement shall not be superseded, terminated, modified, or amended except by express written agreement of the parties that specifically identifies this Agreement.

13.3. Waiver, Severability. The waiver of any breach or default does not constitute the waiver of any subsequent breach or default. If any provision of this Agreement is held to be illegal or unenforceable, it shall be deemed amended to conform to the applicable laws or regulations, or, if it cannot be so amended without materially altering the intention of the parties, it shall be stricken and the remainder of this Agreement shall continue in full force and effect.

13.4. Assignment. Neither this Agreement nor any right or obligation arising under this Agreementmay be assigned by either party in whole or in part, without the prior written consent, which consent shall not be unreasonably withheld. Subject to the restrictions on assignment of this Agreement, this Agreement shall be binding upon and inure to the benefit of the parties, their legal representatives, successors, and assigns.

13.5. Force Majeure. In no event shall either party to this Agreement be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces partially or solely beyond its control, including, without limitation, earthquake, flood, embargo, riot, pandemic, governmental act, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) or internet services (a, "Force Majeure Event"); it being understood that such party shall use reasonable efforts which are consistent with accepted practices in the hosting industry to resume performance as soon as practicable under the circumstances.

13.6. Governing Law. This Agreement shall be governed by and interpreted in accordance with thelaws of the State of Nevada, without giving effect to principles of conflicts of laws. Any action arising out of or relating to this Agreement shall be brought only in the state or federal courts located in Clark County, State of Nevada, and both APLD and Customer consent to the exclusive jurisdiction and venue of such courts. An action by a party to enforce any provision of this Agreement shallnot relieve the other party from any of its obligations under this Agreement, and no failure to enforce any provision of this Agreement shall constitute a waiver of any future default or breach of that or any other provision. Both parties to this Agreement waive the right to trial by jury for any dispute arising hereunder.

13.7. Relationship of the Parties. The parties agree that their relationship hereunder is in the nature of independent contractors. Neither party shall be deemed to be the agent, partner, joint venturer, or employee of the other, and neither shall have any authority to make any agreements or representations on the other's behalf. Each party shall be solely responsiblefor the payment of compensation, insurance and taxes of its own personnel, and such personnel are not entitled to the provisions of any employee benefits from the other party. Neither party shall have any authority to make any agreements or representations on the other's behalf without the other's written consent. Additionally, neither party shall be responsible for any costs and expenses arising from the other party's performance of its duties and obligations pursuant to this Agreement.

13.8. Non-Solicitation. Customer covenants that it will not recruit or solicit for employment or consulting any person who is employed or engaged by APLD during the Term and for a period of twelve (12) months after termination of this Agreement for any reason. APLD covenants that it will not recruit or solicit for employment or consulting any person who is employed or engaged by Customer during the Term and for a period of twelve (12) months after termination of this Agreement for any reason.

13.9. Use of Name. Each party agrees that it will not use the name, logos, trademarks, or other marks of the other party or its affiliates or subsidiaries in any marketing, advertising or other written publication without the other party's prior written consent.

13.10. Third-Party Beneficiaries. Nothing in this Agreement is intended, nor shall anything herein be construed to confer any rights, legal or equitable, in any person or entity other than the parties hereto and their respective successors and permitted assigns.

13.11. Construction; Interpretation. Unless the context otherwise requires, words in the singular include the plural, and in the plural include the singular; masculine words include the feminine and neuter; "or" means "either or both" and shall not be construed as exclusive; "including" means "including but not limited to"; "any" and "all" shall not be construed as terms of limitation; and, a reference to a thing (including any right or other intangible asset) includes any part or the whole thereof. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply to the interpretation and construction of this Agreement, and this Agreement shall be construed as having been jointly drafted by the parties. The titles and headings for particular paragraphs, sections and subsections of this Agreement have been inserted solely for reference purposes and shall not be used to interpret or construe the terms of this Agreement.

13.12. Disputes. Any dispute arising between the Parties out of or in connection with the provisions of this Agreement will be referred to the senior management representatives of each Party. If such senior management representatives cannot resolve the dispute within 30 days after the date on which notice of the dispute is issued, either Party may bring legal action as set forth in Section 13.6 above.

13.13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but which together shall constitute one and the same document.

IN WITNESS WHEREOF, the parties have executed this Agreement in a manner appropriate to each and with the corporate authority to do so as of the date set forth in the preamble to this Agreement.

Applied Blockchain, Inc.

DocuSigned by:
Wes Cummins
By:_CF62545D199242B... ______________

Name: Wes Cummins

Title: CEO

Marathon Digital Holdings, Inc.

DocuSigned by:
By:_D012329B8B834E9... ______________

Name: Fred Thiel

Title: CEO

Exhibit A – Equipment

Exhibit B – Repair

Exhibit C – Customer Acknowledgement

Customer will be charged a monthly invoice with an added administration fee for managing the services listed below for any additional service requests which include.

1. Office Space (Rented Mobile Unit), which includes:
    1.1 Office Furniture
    1.2 Generator
    1.3 Fuel Expenses
2. Other transfer over items include:
    2.1 Storage Space
    2.2 Logistic Expenses for Repair shipments
    2.3 Handing Expenses on Site

Exhibit D – True-Up Assessment

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

DocuSign Envelope ID: 9C17BE95-23E4-4A93-97A7-8A962BFAAFD3

Exhibit E – Security Deposit and Prepayment

[redacted]

Exhibit No. 31.1

CERTIFICATION

I, Wesley Cummins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended August 31, 2022 of Applied Blockchain, Inc.;

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: October 12, 2022	By: /s/ Wesley Cummins Wesley Cummins, Chief Executive Officer, Treasurer, Chairperson of the Board and Director (Principal Executive Officer)

Exhibit No. 31.2

CERTIFICATION

I, David Rench, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended August 31, 2022 of Applied Blockchain, Inc.;

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: October 12, 2022

By: /s/ David Rench

David Rench, Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit No. 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 on Form 10-Q for the quarter ended August 31, 2022 of Applied Blockchain, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"),Wesley Cummins, Chief Executive Officer of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	October 12, 2022	By:	/s/ Wesley Cummins
			Chief Executive Officer, Treasurer, Chairperson of the Board and Director (Principal Executive Officer)

Exhibit No. 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 on Form 10-Q for the quarter ended August 31, 2022 of Applied Blockchain, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Rench, Chief Financial Officer of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	October 12, 2022	By:	/s/ David Rench
			Chief Financial Officer Chief Financial Officer (Principal Financial and Accounting Officer)