J CAPITAL RESEARCH

MARATHON DIGITAL HOLDINGS, INC. (MARA)

March 3, 2023

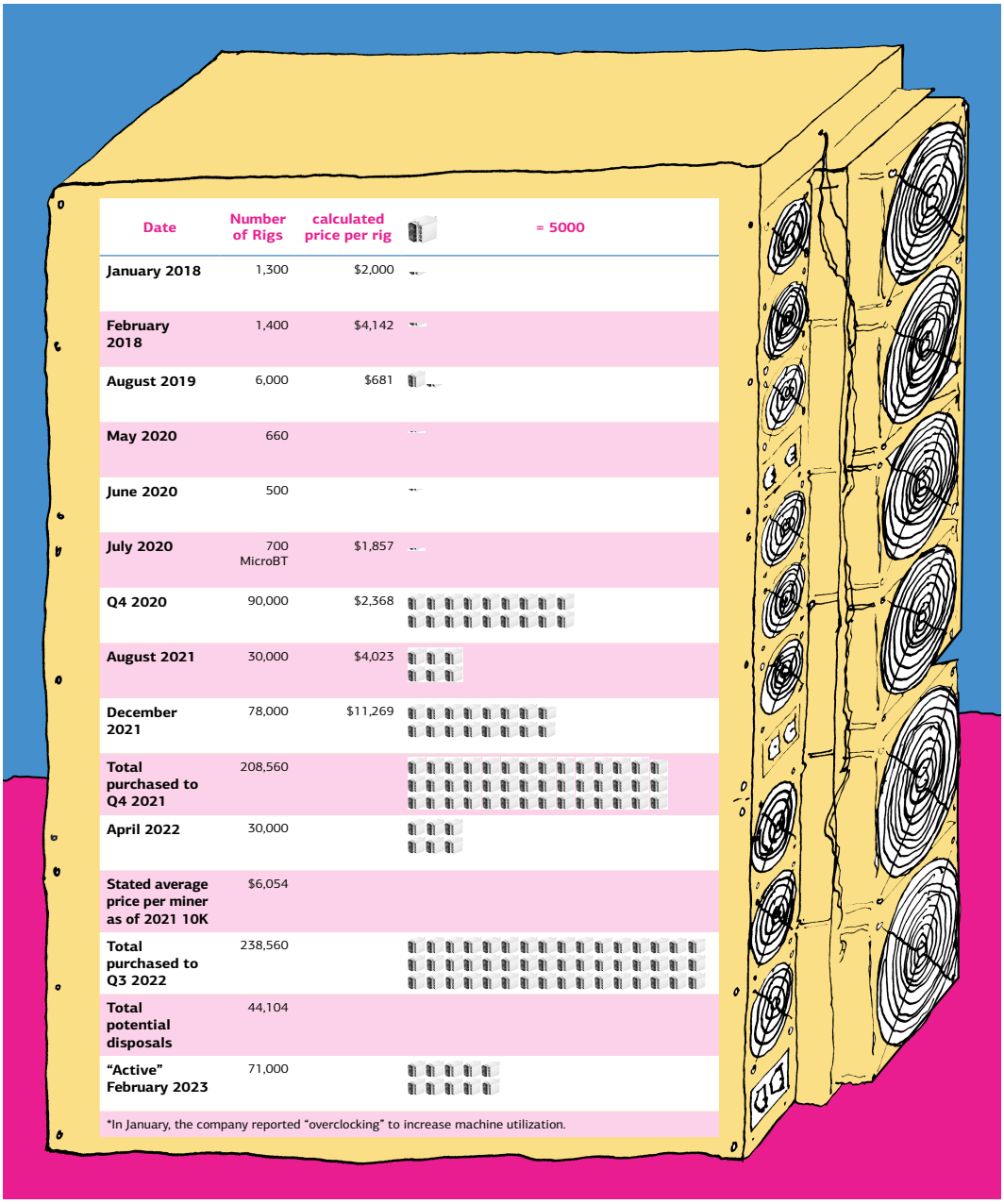
Marathon: Mining Investor Credulity

We conclude that:

- MARA may have taken **at least $250 million** out of the company via overstated purchases of miners. We draw that conclusion based on interviews with mining companies in China.
- About 65% of the mining fleet MARA has ordered and made payments on, **nearly 132,000 machines, are not in use.** The most recent order was 11 months ago.
- **Silvergate Bank,** historically MARA's biggest source of liquidity, just announced that it **can't file its 2022 financials on time** and may not be able to continue as a going concern. Shares fell about 45% on the news. That was just two days after **MARA announced it could not publish its 2022 10K** as scheduled "due to certain accounting errors." Yet the "restatement issues" MARA cited were not among those we discuss in this report. Surely the SEC will sit up and take notice.
- MARA's crypto-mining business did not make money even when Bitcoin **was averaging around $47,500.** When bitcoin prices rise, investors should make money, but potential gains have consistently been lost in stock compensation. In 2021, stock-based compensation was **$161 mln** – more than net revenue – even as MARA lost $13 mln pre-tax. And in 2021, MARA had just 10 employees.
- MARA has made a series of **highly questionable payments,** awarding shares to a company that appears not to exist, paying $35.5 mln to a related party company without disclosing that company's business, making huge deposits with service providers for unclear reasons, and much more.

Mining is the last frontier of crypto fraud. We've had major frauds committed by the exchanges, the crypto banks, liquidity pools, and more. There was the mining fraud Ebang (EBON) that Hindenburg exposed, and now we have a company with all of 25 people that claims to have bought 240,000 miners but somehow has deployed less than one-third of them.

Reported purchases of mining rigs



Date	Number of Rigs	calculated price per rig	= 5000
January 2018	1,300	$2,000	
February 2018	1,400	$4,142	
August 2019	6,000	$681	
May 2020	660		
June 2020	500		
July 2020	700 MicroBT	$1,857	
Q4 2020	90,000	$2,368	
August 2021	30,000	$4,023	
December 2021	78,000	$11,269	
Total purchased to Q4 2021	208,560		
April 2022	30,000		
Stated average price per miner as of 2021 10K	$6,054		
Total purchased to Q3 2022	238,560		
Total potential disposals	44,104		
"Active" February 2023	71,000		

*In January, the company reported "overclocking" to increase machine utilization.

Source: Company reports, J Capital See Appendix for source links.

This report is divided into four parts:

1. **Missing PPE:** There's a gap of over 130,000 machines between the number of rigs MARA claims to have bought and sold and the number it has installed. And MARA claims to have paid a price well above cost estimates for the machines from vendors we interviewed in China. Based on our interviews, we estimate overpayments of at least $250 mln.

2. **Questionable assets:** Excessive write-downs, pre-payments, and dubious investments on MARA's books could be designed to offset the overstated values and machines they may not have. MARA was subpoenaed by the SEC over its relationship with a hosting services company to which it made payments. Pre-payments on the books for machines that are undelivered at least nine months later are over $200 mln dollars.

3. **Company background:** MARA tried out minerals exploration, real estate, and patent management before landing on BTC mining. The company was incubated by a group of financiers who have been accused by the SEC of "pump-and-dump" stock promotion.[1] MARA can't seem to hang onto a CFO and has run through six Tier 3 auditors in a decade.

4. **The raw deal for investors:** Sophisticated investors believe that MARA is a junk-stock company. Short interest in MARA is extremely high, and the debt – held by savvy investors – trades at a 77% discount. Massive share compensation and dilution indicate that shareholders are extremely unlikely to make money from this stock.

1. Missing PPE

Crypto-mining relies on servers that crunch ever-more complex equations to extract digital currency. MARA claims to have gained an edge in this energy-intensive business by deploying more powerful miners with a higher hash rate, thus increasing the likelihood it will earn bitcoin.

Interviews indicate that MARA is paying top dollar for machines that haven't been delivered, and then even writing some down. The main thing that MARA appears to be mining is investor credulity.

MARA buys nearly all its machines from Bitmain, a Beijing-based company. In total, MARA has reported acquiring about 241,080 machines and selling or

1 https://www.sec.gov/litigation/litreleases/2020/lr24765.htm

disposing 44,104. There was a large sale of equipment to a mining center called DCRBN, and to give MARA the benefit of the doubt, we assume that was a sale of 14,404 mining rigs.

Total purchases since 2018

Vendor	Number of machines
Bitmain	237,860
MicroBT	700
GPU servers*	2,520
Total machines	241,080

* Calculated number. See Appendix for detailed announcements and links.

Source: Company disclosures

Total reported disposals

Date	Site	Number of rigs	Source
January 2021	Machines disposed	5,900	2021 10K: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=&year=2020&page=5##document-25032-0001493152-20-004558-2
Q3 2022	Hardin sale	22,000	10Q: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=10-Q&year=2022##document-25323-0001493152-22-031756-2
Q3 2022	Machines disposed	1,800	10Q: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=10-Q&year=2022##document-25323-0001493152-22-031756-2
Q2-Q3 2022	Sale to DCRBN	14,404	Note: The company has never reported how many rigs it sold to DCRBN or, indeed, if they sold mining rigs at all. To give them the benefit of the doubt, we simply divide the gross proceeds - $87.2 mln - by the average cost of a machine that MARA reported in 2021, $6,054. DCRBN transactions are described in the company 10Q issued August 9, 2022: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=10-Q&year=2022##document-25305-0001493152-22-021799-2
Total number of mining machines potentially disposed of			**44,104**
Total machines that should be owned by February 2023			**196,976**

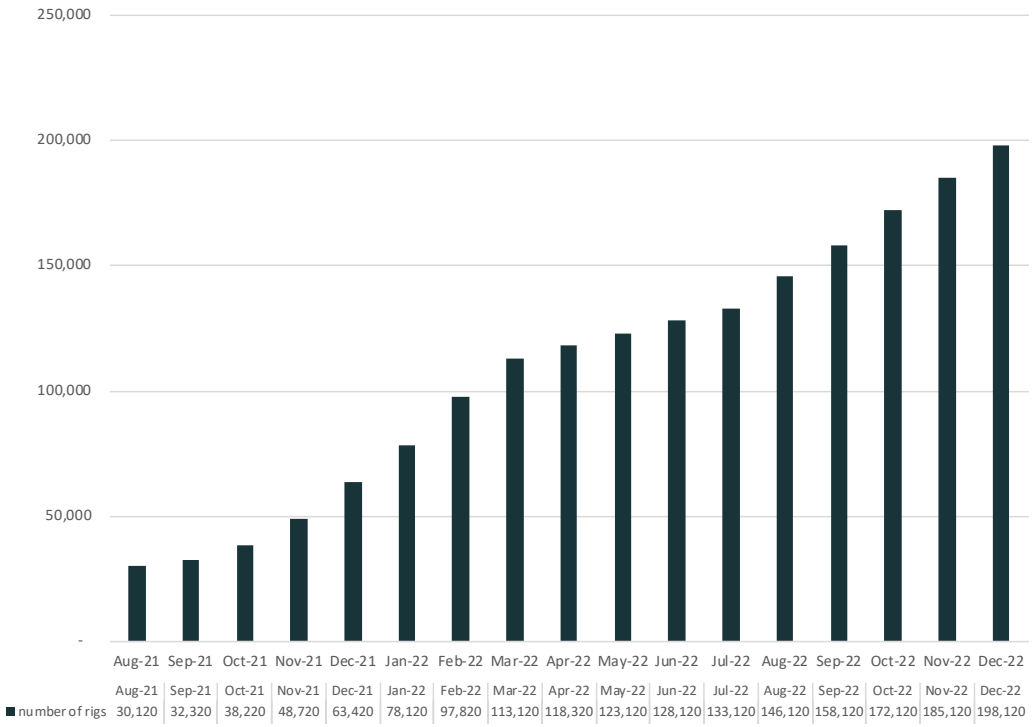
Source: Company disclosures, J Capital

As of February 2, 2023, MARA reported that 71,000 miners were operating. Based on orders, some 65% of the proposed fleet is not yet operating. Two years ago, in March 2021, the company said "Marathon expects all 103,120 of its miners to be deployed by the first quarter of 2022, at which point, the Company will be directing 10.37 EH/s

to the mining pool." Somehow, the company never mentioned that it would miss this target.

Lest someone think the magnitude of this difference is just too great and there must be some mistake, MARA itself keeps telling investors about all the machines. In the 2021 10K, MARA reported that 199,000 miners should be "installed and energized" by early 2023.

Bitmain Miners Shipped



Source: MARA 2021 10K

Company disclosures about miners purchased and deployed are erratic but also either wildly optimistic or else simply exaggerated.

March 2021: The company will have 103,120 miners installed in Q1 2022

Fourth Quarter 2020 and Recent Highlights

- Purchased 90,000 of the industry's most efficient Bitcoin miners during the fourth quarter, increasing the Company's mining fleet to approximately 103,120 miners capable of producing 10.37 EX/s (exahash per second) by the first quarter of 2022

8K March 16, 2021

But in June 2022, the company had 36,830 "active" miners

Prior to the storm, the 30,000 miners Marathon had deployed in *Montana* represented over 75% of the Company's active fleet. With these miners offline, Marathon's bitcoin production is expected to be significantly reduced until repairs to the power generating facility in *Montana* can be completed or

MARA press release June 28, 2022

In January 2023, there were 69,000 miners.

> Currently, the company has approximately 69,000 active miners, capable of producing approximately 7 exahashes per second, according to its update.

MARA statement January 7, 2023

Currently, three months remain before the "middle of the fiscal year 2023," by which time MARA says it expects to triple its active mining capacity.

> Based on current construction and installation schedules provided to the Company by its hosting providers, Marathon currently expects to have enough miners installed to generate 23.3 EH/s in the middle of fiscal year 2023.

PR August 8, 2022

Pre-payments

The lack of installations hasn't stopped MARA from forking over money.

MARA's balance sheet pre-payments for equipment are absolutely massive. It had a whopping advance payment of $687.8 million on its balance sheet by end September 2022 to "vendors" for the receipt of more machines, $482 mln of which was paid in the first nine months of 2022, according to its cash flow statement.

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,339,400	$ 268,555,837
Restricted cash	8,800,000	-
Digital currencies	126,418,098	102,805,980
Digital currencies loaned	-	20,437,284
Digital currencies held in fund	-	223,915,761
Receivable from sale of equipment	1,000,000	-
Deposits	22,533,569	34,458,347
Loan receivable	-	30,000,000
Prepaid expenses and other current assets	26,015,943	8,148,116
Total current assets	240,107,010	688,321,325
Other assets:		
Property and equipment (net of accumulated depreciation of $26,809,659 and $21,311,461, respectively)	403,522,538	276,242,794
Advances to vendors	687,777,200	466,254,623
Investments	36,999,994	3,000,000
Digital currencies, restricted	70,743,342	-
Long term deposits	26,554,033	-
Long term prepaids	8,703,542	13,665,589
Right-of-use assets	1,369,774	-
Intangible assets (net of accumulated amortization of $280,497 at December 31, 2021)	-	931,226
Total other assets	1,235,670,423	760,094,232
TOTAL ASSETS	**$ 1,475,777,433**	**$ 1,448,415,557**

Source: MARA 10Q

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (280,027,638)	$ (47,700,445)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	64,881,323	8,015,801
Amortization of prepaid service contract	22,781,073	-
Gain on sale of assets, net of disposals	(90,115,824)	(8,571)
Deferred tax expense	(200,163)	-
Realized and unrealized losses (gains) on digital currencies held in fund	85,016,208	(59,410,028)
Impairment of digital currencies	153,045,376	18,472,750
Stock based compensation	18,877,144	152,335,353
Amortization of bond issuance costs	2,956,016	-
Impairment of patents	919,363	-
Impairment of assets related to vendor bankruptcy filing	39,000,000	-
Other adjustments from operations, net	897,837	365,026
Changes in operating assets and liabilities:		
Digital currencies	(89,329,986)	(90,124,117)
Deposits	(13,629,429)	-
Prepaid expenses and other assets	(30,583,448)	(28,700,147)
Accounts payable and accrued expenses	8,093,640	2,518,805
Legal reserve payable	21,199,549	-
Accrued interest	1,976,351	(121,596)
Net cash used in operating activities	(84,242,608)	(44,357,170)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to vendors	(482,097,485)	(191,543,484)
Purchase of property and equipment	(19,829,237)	(30,737,688)
Sales of property and equipment	177,370,765	-
Purchase of digital currencies in fund	-	(150,000,000)
Purchase of equity investments	(43,999,820)	-
Sale of digital currencies in investment fund	482,872	500,715
Net cash used in investing activities	(368,072,905)	(371,780,457)

Source: MARA 10Q

A similar generous use of shareholders' funds happened the previous year. At least $205.6 mln of advance payments made by the end of 2021 were for machines that had not been delivered at least nine months later. Some $260.6 mln in pre-payments were reclassified as PPE by end Q3 2022.

Based on disclosures[2], roughly 130,000 rigs should now be on the ocean or in warehouses, but previous MARA statements, plus interviews with Bitmain tell us that Bitmain miners are delivered promptly.

With such a large number of un-utilized machines, was it really necessary to make those extra advance payments?

Agreeing to overpay?

Since 2018, MARA has spent around $1.3 billion on miners purchased from Bitmain, according to company disclosures.

But detailed interviews with Chinese manufacturers of bitcoin miners, including former executives of Bitmain, show that these prices are inflated. Lower prices, they said, were charged at the time, while MARA posted higher numbers in their disclosures. Bitmain formers admitted to drawing up inflated contracts for some clients to display to investors. Even adding in high tariffs and shipping fees, we es-

2 see Appendix for links

timate that MARA could not have paid more than $955 million for the Bitmain machines. That is around a **$250 million discrepancy** compared to company reports. Our estimate is based on interviews with two former Bitmain executives and four other Chinese vendors of mining rigs about the cost and terms of sale of machines from 2018 through 2022..

Someone close to the company told us that Bitmain signs two contracts with most big customers, one at a higher amount for show and one with the real purchase values. "The external contract is drawn up according to the customer's requests," the insider said. "For example, if a listed company is under financial-report pressure, or if it is a purchase contract for the funder, Bitmain will cooperate with them to quote a high price. But the actual transaction is definitely different."

Although there can be discounts offered when the price of miners declines, Bitmain and others in the industry told us that Bitmain generally offers discounts in terms of coupons for future purchases. Those discounts were not included in our $955 mln estimate. It seems very likely that the gap between what MARA claimed to have paid and what it really paid was actually much larger than $250 mln.

The most accurate way to look at price for bitcoin miners is in terms of computing power, ie, the likelihood that the machines will obtain bitcoins. The company discloses 7 Exahash of computing power operating in January 2023. With 69,000 miners operating, that means MARA was paying $59,000 per petahash/s (there are 1,000 Phs per exahash). Currently, the rate has dropped below $17,000 per Ph/s, our interviewees say, but even when the market was much higher, this average looks much too high based on the price estimates we received.

We are not the only one to notice this discrepancy. In MARA's Q2 earnings call, a Jefferies analyst noted MARA appears to be overpaying for its miners. MARA CEO Frederick Thiel did not dispute that MARA had paid too much in the past, saying it did not matter because it would cost less in future to get the miners deployed.

But despite Thiel's optimism that it would all average out in the end, MARA is carrying over-priced and un-delivered machines on its books, raising its average cost per PH/s.

Even BTIG, a sell-side analyst that put a $50 price target on MARA in early 2022, thinks MARA is overpaying for miners. Noting that in contrast to MARA paying around $11,000 each for rigs purchased in December 2021, BTIG wrote: "It is worth noting that backing into an implied cost of an S19 Pro based on the economics of the S19 XP points to a price of about $8.6k per rig."

In other words, MARA would be overpaying by 28% for these 78,000 rigs. Apart from one April 2022 order, the last major orders for machines were in December 2020 and December 2021. If MARA's fully utilized operation is not in place until mid or end 2023, many of these machines will be two years old. With ongoing installation delays as newer models come to market, the book value of these machines may fall while sitting idle.

Sales and write-downs of miners

As of end Q3 2022, only $169 mln in equipment was in use, with another $261 mln classified as "construction in progress." Together with $688 mln of advance payments, un-utilized shareholder capital amounts to some $949 mln. Nearly $1 bln of shareholder capital sitting idly for extended periods plus multiple write-downs and questionable acquisitions is not exactly what an asset-light business model is meant to be about. Based on pre-payments as well as a lack of disclosure about any facility costs, "construction in progress" must consist mostly of purchased machines that are ready to be installed when delivered. We question whether such a large amount of construction in progress really exists thanks to disposals.

After asset sales and write-downs, utilized PPE was $163.9 mln at end December 2021 and only $169.2 mln at end September 2022 on a gross basis, showing no meaningful net increase in utilization despite a massive machine purchase binge in the same period, thanks to disposals and operational disasters.

II. Questionable assets

We've found all sorts of pockets in the financial statements into which MARA has diverted investor cash. Here are a few:

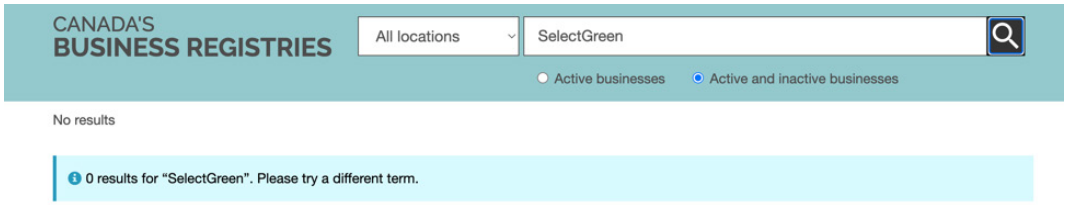
Summary questionable assets ($mln)

SelectGreen Blockchain	$4
Beowulf/Liefern LLC and Lucky Liefern LLC	$11.2
Hardin, MT, accelerated costs & depreciation	$54.2
Compute North write offs to date	$59.0
Auradine	$35.5
Sub-total	**$163.9**
Advance Payments in excess of nine months old	$205.7
Total	**$369.6**

Source: Company disclosures, J Capital

SelectGreen Blockchain: $4 million

In 2019, MARA reported buying 6,000 Antminer machines via an asset purchase agreement with SelectGreen Blockchain Ltd., a British Columbia company. MARA paid 2,335,000 shares in a private placement, valued at a total of about $4 mln. We cannot find any reference to a company called SelectGreen on Google or via historical searches in Canadian corporate databases.



Source: Canada's Business Registries

A report released December 19, 2019 and since removed, for unspecified reasons, claimed that SelectGreen did not exist.

Source:

Beowulf/Liefern LLC and Lucky Liefern LLC: $11.9 million

In October 2020, MARA formed a joint venture with a company called Beowulf to build a data center in Hardin, Montana along with an providing associated power plant services. MARA issued a private placement of shares to Beowulf worth $11 mln. Just five months after completion, the company announced the facility was to be shut down, following a decision to go "carbon neutral". The facility was written off.

In November 2021, MARA disclosed a subpoena from the SEC regarding the Hardin, Montana facility. The subpoena had been issued in the third quarter, but MARA had not disclosed this to investors until after that quarter had ended.

in transactions exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. During the quarter ended September 30, 2021, the Company and certain of its executives received a subpoena to produce documents and communications concerning the Hardin, Montana data center facility described in our Form 8-K dated October 13, 2020. We understand that the SEC

Source: MARA 10Q November 15, 2021

Both Liefern and Lucky Liefern are affiliates of Beowulf. MARA issued 6 mln shares, valued then at $11.2m, to them in 2020 "for the operation and servicing of the Hardin, MT facil-ity." Excluded from our calculations because of inconsistencies in company disclosures, an additional 350,000 shares may have been issued in stages to Beowulf based on reaching facility power targets. In February 2022, MARA issued a prospectus to sell 350,000 shares on behalf of Lucky Liefern LLC, only several weeks before the company announced it would abandon the Hardin facility.

LIEFERN LLC

Company Number	3284350
Incorporation Date	21 July 2020 (over 2 years ago)
Company Type	Domestic Limited Liability Company
Jurisdiction	Delaware (US)
Registered Address	Kent, DE United States
Agent Name	COGENCY GLOBAL INC
Agent Address	850 NEW BURTON ROAD - SUITE 201 - DOVER DE 19904
Directors / Officers	COGENCY GLOBAL INC, agent
Registry Page	https://icis.corp.delaware.gov/Ecorp/...

Source *Delaware Department of State: Division of Corporations, http://www.corp.delaware.gov/, 1 Jul 2020*

Latest Events

- **2020-07-21** Addition of officer COGENCY GLOBAL INC, agent
- **2020-07-21** Incorporated

See all events

Corporate Grouping USER CONTRIBUTED

None known. Add one now?

See all corporate groupings

Similarly named companies

- LUCKY LIEFERN LLC *(Delaware (US), 9 Oct 2020-)*
- branch Liefern LLC *(Montana (US), 29 Sep 2020-)*
- inactive LIEFERN, LLC *(New York (US), 22 Mar 2018-)*

Branches

branch Liefern LLC (Montana (US), 29 Sep 2020-) details

MARA reported issuing shares to operators of the Hardin facility in the 2021 Q3 report. But in the 2022 Q1 call, they were telling investors they had to "transition away" from Hardin.

On October 6, 2020, the Company issued 6,000,000 shares at $1.87 per share pursuant to the Long Term Prepaid Service Contract with Liefern LLC and Lucky Liefern LLC each receiving 3,000,000 shares for the operation and servicing of the Hardin, Montana facility through September 2025.

2021 10K

And so the Hardin facility in April was really limping essentially. It was operating at about 60% of capacity. So hopefully, those issues are kind of behind us, but I don't think we have — believe they were behind us a number of times in the past, and issues keep cropping up. And uptime is very important to us. So we're eager to do this transition away from Hardin and into an environment where we can have much higher performance and uptime.

Q1 2022 conference call transcript

Beowulf and 2P1 provide operation and maintenance services for the Facility pursuant to a Data Facility Services Agreement, in exchange for an initial issuance of3,000,000 shares of Marathon's common stock to each of Beowulf and 2PI valued at the time of execution at $1.87 per share or $11,220,000 in aggregate. Upon completion of Phase I, Marathon issued to Beowulf an additional 150,000 shares of its common stock. During Phase II, Marathon issued to Beowulf an additional350,000 shares of its common stock – 150,000 shares upon reaching 60 MW of Facility load and200,000 at completion of the full 100 MW of Facility load. The cost to maintain and run the Facility will be $0.006/kWh. All shares issued under the Data Facility Services Agreement have issued pursuant to transactions exempt from registration under Section 4(a)(2) of the Securities Act of 1933.

Source: Mara filings Q3 2021

Hardin, MT facility exit: $54.2 mln

For the first three quarters of 2022, hosting and other related costs related to MARA's exit from the Hardin, MT facility were $18.2 mln. A further $36 mln in accelerated infrastructure depreciation was made to vanish from the balance sheet. Just five months after completion, the company announced the facility was to be shut down."

Revenues and Costs of revenue: We generated revenues of $89.3 million during the nine months ended September 30, 2022 compared with $90.2 million during the prior-year period. The $0.9 million decrease is primarily attributable to the impact of lower market prices for bitcoin in the current-year ($21.6 million) mostly offset by the impact of increased production when compared to the prior-year period ($20.7 million). Cost of revenues – energy, hosting and other during the three months ended September 30, 2022 totaled $43 million compared with $11.6 million in the prior-year period. The $31.3 million increase was driven by accelerated cost recognition associated with the early exit from Hardin ($18.2 million) and higher production costs per bitcoin mined ($10.4 million) and to a lesser extent the impact of the higher costs associated with increased production ($2.7 million). Cost of revenues – Depreciation and amortization was $64.9 million in the current-year period compared with $8.0 million in the prior-year period, an increase of $56.8 million . This increase in expense was primarily due to the acceleration of depreciation related to our exit of the Hardin, MT facility ($31.9 million in infrastructure depreciation and $4.1 million in mining server depreciation) and increased depreciation costs associated with a higher number of mining servers in operation in the current-year period.

Total Margin: Total margin was a loss of ($18.5) million in the current-year period compared with income of $70.5 million in the prior-year period, a decline of ($89.0) million. This decline was driven by the factors discussed above, which are summarized in the table below (in millions):

Revenue:		
• Impact of higher production	$	20.7
• Impact of lower bitcoin market prices		(21.6)
Cost of revenue – energy, hosting and other:		
• Impact of higher bitcoin production		(10.4)
• Impact of accelerated cost recognition from Hardin exit		(18.2)
• Other increases		(2.7)
Cost of revenue – depreciation and amortization:		
• Impact of accelerated cost recognition from Hardin exit		(36.0)
• Other, primarily increased mining servers in operation		(20.8)
	$	(89.0)

Source: MARA 10Q Q3 2022

ESG ate my homework: Compute North: $59 mln

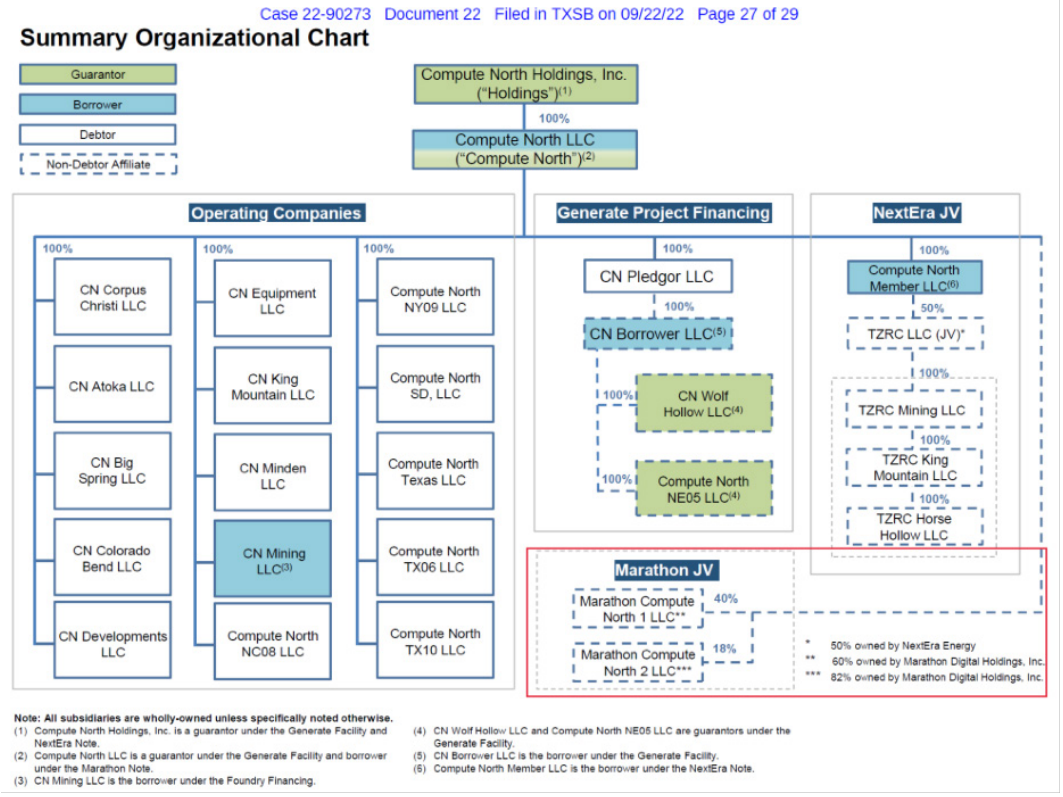
MARA had an $81 mln in exposure to Compute North, a hosting center entity that declared bankruptcy in September 2022. So far, MARA has written off $59 mln of the liabilities; we expect the balance soon to be written off.

MARA invested $10 mln in convertible notes, $21 mln in promissory notes, and $50 mln in operating deposits, totaling $81 mln, in Compute North. The primary Compute North subsidiaries MARA used for hosting centers were a JV with NextEra and Compute North in King Mountain, McCarney, Texas and a hosting center in Wolf Hollow, Granbury, Texas.

In Q3 2022, MARA wrote off $31 mln in convertible and promissory notes, and $8 mln out of a total $50 mln of deposits to Compute North. As of the most recent announcements, MARA expects only $22 mln out of the remaining $42 mln in deposits to be recoverable. That makes a total of $59 mln so far. Further write-downs can be expected.

According to Compute North bankruptcy filings, MARA's own corporate structure at the respective Compute North facilities consists of two joint ventures, one of them 82% owned by Marathon and 18% by Compute North and the other 60-40%.

MARA has not reported any write-off of its shares in the joint ventures.



Source: Compute North bankruptcy filings

The King Mountain facility, with 64,000 MARA servers, was operated by a new owner but had "maintenance and technical issues" according to MARA PR as of February 2, 2023. Neither King Mountain nor Wolf Hollow was fully operational as of December 2022. MARA has said the Compute North bankruptcy will not affect its operations, but the company entered into a new hosting agreement with Applied Digital last July 2022 nevertheless. Applied Digital is in a very tight financial position, and hosting risks appear high.

The $50 mln operating deposit paid to Compute North is a curious feature – why such a big amount? References in MARA's 2021 10K describe $14 mln of these deposits as "expedite fees" for construction and supply-chain activities. Another $14.6 mln and $5.9 mln in deposits was given to Compute North by end 2021 as an upfront payment for service fees, an amount curiously similar to the $14 mln expedite fees. These deposits were primarily related to King Mountain and Wolf Hollow hosting facilities. Several months later, the total of $34.5 mln in deposit grew to $50 mln.

Exhibit 10.1

COMPUTENORTH

MASTER AGREEMENT

This Master Agreement (the "**Agreement**"), dated Nov 24, 2021, is between Compute North LLC ("**Compute North**") and Marathon Digital Holdings, Inc. ("**Customer**"). In consideration of the promises set forth below, the parties agree as follows:

1. **Services.** Compute North shall provide, and Customer shall pay for, the Colocation, managed and other services (the "Services") for Customer's cryptocurrency mining hardware (the "Mining Equipment") identified on the order form attached hereto as Exhibit A, as may be updated in writing and duly signed by Customer and Compute North from time to time (the "Order Form"). Compute North shall provide the Services consistent with, and as more fully described in, its customer handbook (the "Customer Handbook"), available at *www.computenorth.com/handbook.pdf* and incorporated herein, as Compute North reasonably may update from time to time.

COMPUTENORTH

RMA Processing		X	X
Premium Features			
Miner Configuration		X	X
Miner Monitoring		X	X
Alert Management and Proactive Response		X	X
Automated Rules-based Reboots		X	X
Stock Firmware Upgrades		X	X
Compute North Pool (U.S.-based pool)			X
Pool to Hash Performance Monitoring, Audit, Reconciliation			X
Discounted Pool Fee			X
Performance Enhancing Firmware • Overclocking, Underclocking, Auto-tuning, Upgrades • Customer provided (subject to Compute North approval) or • Compute North provided (miner model limited)			X

Payment and Billing Terms:

- **Initial Setup Fee**: Initial Setup Fee, if any, is due upon execution of this Order Form.
- **Monthly Fees:**
  - Last month of Monthly Service and Package Fees are due upon execution of this Order Form (the "Initial Deposit"), as follows:

Initial Deposit	
Service Fees ($241,460.21/day x 30 days/mo. x 2 months)	$14,487,612.60
Package Fees (73,000 miners x $0.50/miner x 2 months)	+ $73,000.00
Total Initial Deposit	**$14,560,612.60**

Second month of Monthly Service and Package Fees are due 60 days before each batch shipment. Equipment installation will not begin until received.

Hosting Payment Schedule	Amount
Last month due upon signature	$7,280,306.24
12/15/2021	$1,795,144.00
2/15/2022	$2,742,581.00
4/15/2022	$2,742,581.36
Total	**$14,560,612.60**

- The Monthly Service Fee is payable based on the actual hashrate performance of the Equipment per miner type per location as a percentage of the anticipated monthly hashrate per miner type. Customer shall pay a minimum service fee monthly in advance equal to seventy percent (70%) of the Expected Monthly Service Fee (the "Minimum Service Fee") based on the Anticipated Daily Rate.
  - **Hashrate performance adjustment**: Shall be calculated as follows: Expected Monthly Service Fees x (100% - Actual hashrate performance percentage by model type) = Hashrate Performance Adjustment
  - The Minimum Service Fee is nonrefundable. Any Monthly Service Fee owed in excess of the Minimum Service Fee net of the Hashrate Performance Adjustment will be invoiced monthly in arrears.
- Monthly Service Fees and Monthly Package Fees will be invoiced monthly beginning on the date of Installation and are due upon receipt of invoices submitted by Compute North. Late payments will incur interest at the lesser of 1.5% per month (18% annum) or the maximum amount allowed under applicable law.

Source: MARA master agreement with Compute North September 2021

COMPUTENORTH

Discounted Pool Fee			X
Performance Enhancing Firmware • Overclocking, Underclocking, Auto-tuning, Upgrades • Customer provided (subject to Compute North approval) or • Compute North provided (miner model limited)			X

Payment and Billing Terms:

- **Initial Setup Fee**: Initial Setup Fee, if any, is due upon execution of this Order Form.
- **Monthly Fees:**
  - Last two months of Monthly Service and Package Fees are due as follows and outlined below (the "Initial Deposit"). 50% due upon execution of this order form. 50% due 60 days prior to installation of the Equipment.

Initial Deposit	
Service Fees: ($98,208.00/day x 30 days/mo. x 2 mos.)	$5,892,480.00
Package Fees: (30,000 miners x $0.50/miner x 2 mos.)	+ $30,000.00
Total Initial Deposit	$5,922,480.00

Initial Deposit Payment Schedule	
Due upon execution of Order Form	$2,961,240.00
Due 60 days prior to installation of Equipment	$2,961,240.00
Total	$5,922,480.00

Equipment installation will not begin until received.

  - The Monthly Service Fee is payable based on the actual hashrate performance of the Equipment per miner type per location as a percentage of the anticipated monthly hashrate per miner type. Customer shall pay a minimum service fee monthly in advance equal to seventy percent (70%) of the Expected Monthly Service Fee (the "Minimum Service Fee") based on the Anticipated Daily Rate. The Minimum Service Fee is nonrefundable.
  - The actual Monthly Service Fee is determined using the Hashrate Performance Adjustment:

    Hashrate Performance Adjustment = Expected Monthly Service Fees x (100% - Actual hashrate performance percentage by model type)

    Any Monthly Service Fee owed in excess of the Minimum Service Fee net of the Hashrate Performance Adjustment will be invoiced monthly in arrears.
  - Monthly Service Fees and Monthly Package Fees will be invoiced monthly beginning on the date of Installation and are due upon receipt of invoices submitted by Compute North. Late payments will incur interest at the lesser of 1.5% per month (18% annum) or the maximum amount allowed under applicable law.
  - Pricing is subject to monthly automated ACH payments. Other payment methods may be subject to a service fee.

Source: MARA master agreement with Compute North September 2021

Additional funding from Marathon to Compute North also came from a bridge loan facility for capital expenditure, for up to $67 mln albeit not all of this was drawn. For the amount that was lent, Marathon's balance sheet clearly distinguishes this as separate loan receivable compared to deposits. Similarly, the binding letter of intent for the Compute North partnership clearly says the loan is exclusive of expedite fees. The expedite fees themselves include both a construction/electrical premium and supply chain payments.

COMPUTENORTH

Binding Letter of Intent
(CONFIDENTIAL)

MARATHON DIGITAL HOLDINGS

May 21, 2021

This binding letter of intent (the "LOI") is for use by Marathon Digital Holdings ("MARA") and Compute North LLC ("Company") in structuring a cost-effective hosting partnership. Except with respect to the expressly binding terms set forth herein, this LOI is subject to the parties executing formal definitive agreements with customary terms and conditions that set forth their respective rights and obligations with respect to the following:

Hosting Requirements	MARA has intentions of significant hosting requirements to be executed by Compute North LLC: • September Batch 2021: 8,100 Units (6,000 S19j Pro; 2100 S19 Pro) • October Batch 2021: 10,500 units (8,500 S19j Pro; 2,000 S19j) • November Batch 2021: 14,700 units (9,200 S19j Pro; 5,500 S19j) • December Batch 2021: 24,500 units (19,000 S19j Pro; 5,500 S19j) • January Batch 2022: 15,200 units (S19j Pro) **Total: 73,000 units**
Infrastructure Financing	Marathon is to provide an 18-month bridge loan for $67M according to the schedule listed in "Project Timeline Requirements". The loan shall be structured as an interest-only loan with no pre-payment penalty. Interest rate shall be 0% for the initial twelve-month period and 12% for the last six months. Loan amount is exclusive of Compute North's estimation of "Expedite Fees" to meet the Deployment Completion Schedule. Loan will be collateralized solely by the hosting infrastructure housing MARA mining equipment. Loan will be due in the event Compute North completes an equity raise via an IPO or similar equity transaction which includes the MARA hosting infrastructure. Interest and repayment are subject to tolling based on the Batch Deployment Completion Schedule.
Expedite Fees	Compute North estimates $14M in Expedite Fees in order to meet MARA's deployment timeline. These fees consist of $8M in construction/electrical premium as well as $6M in supply chain expediting. MARA agrees to pay a total of $8M toward these estimated fees by 2pm CDT 5/21/21. In lieu of the $6M balance, MARA is waiving interest charges for the initial 12 month period.
Energy/Hosting Cost(s)	Based on the "Hosting Requirements", "Infrastructure Financing", and "Expedite Fees" detailed above, Compute North is offering an "all-in" hosting rate of $0.044 kWh.
Hosting Package	MARA will operate on Compute North's managed "Select" hosting package @ $0.50 per month, per miner pursuant to Compute North's standard Master Agreement.

Source: MARA master agreement with Compute North September 2021

Partial payment for these Compute North deposits and loans was shown in the Q2 2022 filings, before the write-downs that took place during the following third quarter when Compute North filed for bankruptcy.

Now you see it

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 86,461,467	$ 268,522,019
Restricted cash	3,200,000	-
Digital currencies	136,836,179	102,805,980
Digital currencies, restricted	53,558,996	-
Digital currencies loaned	-	20,437,284
Digital currencies held in fund	-	223,778,545
Deposits	40,006,270	34,458,347
Loan receivable	30,000,000	30,000,000
Prepaid expenses and other current assets	12,128,736	8,148,016
Total current assets	362,191,648	688,150,191
Other assets:		
Property and equipment (net of accumulated depreciation and impairment charges of $55,390,407 and $21,311,461, respectively)	314,257,284	276,242,794
Assets held for sale	14,758,386	-
Advances to vendor	800,204,367	466,254,623
Investments	16,999,823	3,000,000
Long term prepaids	-	13,665,589
Right-of-use assets	1,166,049	-
Intangible assets (net of accumulated amortization of $280,497 at December 31, 2021)	-	931,226
Total other assets	1,147,385,909	760,094,232
TOTAL ASSETS	**$ 1,509,577,557**	**$ 1,448,244,423**

Now you don't

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Total Revenues	$ 12,690,452	$ 51,707,483	$ 89,329,986	$ 90,182,155
Costs and expenses				
Cost of revenues				
Cost of revenues - energy, hosting and other	(13,772,555)	(5,922,811)	(42,974,265)	(11,647,457)
Cost of revenues - depreciation and amortization	(26,294,842)	(4,340,198)	(64,881,323)	(8,015,801)
	(40,067,397)	(10,263,009)	(107,855,588)	(19,663,258)
Operating expenses				
General and administrative expenses	(12,352,008)	(99,235,984)	(39,187,098)	(159,411,404)
Legal reserves	(24,960,000)	-	(24,960,000)	-
Impairment of deposits due to vendor bankruptcy filing	(7,987,147)	-	(7,987,147)	-
Impairment of digital currencies	(5,905,891)	(6,731,890)	(153,045,376)	(18,472,750)
Impairment of patents	-	-	(919,363)	-
Realized and unrealized gains (losses) on digital currencies held in fund	-	42,086,907	(85,016,208)	59,410,028
Gain on sale of equipment, net of disposals	31,934,307	-	90,115,824	-
	(19,268,739)	(63,880,967)	(220,999,368)	(118,474,126)
Operating loss	(46,645,684)	(22,436,493)	(239,524,970)	(47,955,229)
Impairment of loan and investment due to vendor bankruptcy filing	(31,012,853)	-	(31,012,853)	-
Other non-operating income	238,159	261,273	632,132	254,024
Interest expense	(3,752,301)	(287)	(10,314,659)	(2,694)
Loss before income taxes	$ (81,172,679)	$ (22,175,507)	$ (280,220,350)	$ (47,703,899)
Income tax benefit	5,750,272	2,940	192,712	3,454
Net loss	$ (75,422,407)	$ (22,172,567)	$ (280,027,638)	$ (47,700,445)

Source: MARA filings

The expedite fees and loans make a mockery of MARA's asset-light strategy. Funding for construction of the hosting facilities was supposed to primarily come from Generate Capital, not "asset light" MARA.

With the total amount of deposits reaching $50 mln by the time of Compute North's bankruptcy, we are wondering what the extra amounts were for.

The news flow for the Wolf Hollow facility goes from bad to worse. On February 10, 2022, Ault Alliance, a subsidiary of BitNile, announced it was moving its Bitcoin miners from Wolf Hollow because "the site is no longer economically viable." The Ault Alliance machines had been recently purchased, and some of the latest, most efficient models include S19 Antminers. MARA, with similar machines, plans to continue using the Wolf Hollow facility.

AULT ALLIANCE, INC.

Ault Alliance, Inc. Subsidiary BitNile, Inc. Moving 6,572 Bitcoin Miners Out of Texas Hosted Facility

February 10, 2023

As a result of the Compute North bankruptcy filing BitNile, Inc. determined that it is in the best interest of the business to move all the miners out of the Wolf Hollow facility

Shipping began last month and all miners are expected to be relocated to the Company's Michigan data center by the end of February 2023

LAS VEGAS--(BUSINESS WIRE)--Feb. 10, 2023-- Ault Alliance, Inc. (NYSE American: AULT), a diversified holding company ("**Ault Alliance**" or the "**Company**") announced today that its subsidiary, BitNile, Inc. is currently moving Bitcoin mining equipment out of the Wolf Hollow hosting facility in Texas as a result of the September 2022 Compute North bankruptcy filing.

BitNile, Inc. entered into a hosting agreement securing 20 megawatts of power announced on August 16, 2022 with Compute North, LLC. As a result of this agreement BitNile, Inc. moved 6,572 Bitcoin miners to Compute North's Wolf Hollow hosting facility in Texas. Compute North's Chapter 11 bankruptcy filing initiated a series of events including transfer in ownership of the Wolf Hollow hosting facility in Texas. BitNile, Inc. determined that the site is no longer economically viable and therefore began making weekly shipments to move the equipment to a safe and secure location for future deployment.

Milton "Todd" Ault, III, the Company's Executive Chairman, stated, "Although this situation is very frustrating, we are moving through the legal process with Compute North and have control over our equipment. We believe the decision to relocate our mining equipment provides us the ability to best execute our future deployment plans."

As previously disclosed, the Company has entered into purchase agreements with Bitmain Technologies Limited for a total of 23,065 Bitcoin miners, including 4,600 environmentally friendly S19 XP Antminers that feature a processing power of 140 terahashes per second ("**TH/s**"), 17,325 S19j Pro Antminers that feature a processing power of 100 TH/s and 1,140 S19 XP Hydro Antminers that feature a processing power of 255 TH/s. Once all of the miners are fully deployed and operational, the Company expects to achieve a mining production capacity of approximately 2.66 exahashes per second.

The Company notes that all estimates and other projections are subject to the actual delivery and installation of Bitcoin miners, the volatility in Bitcoin market price, the fluctuation in the mining difficulty level, the ability of Agora Digital Holdings Inc. to raise the required capital and to build out and provide the necessary power to its facility in Texas, with whom the Company has contracted, and other factors that may impact the results of production or operations.

For more information on Ault and its subsidiaries, Ault recommends that stockholders, investors, and any other interested parties read Ault's public filings and press releases available under the Investor Relations section at www.ault.com or available at www.sec.gov.

Auradine Inc.: $35.5 million

In Q2 and Q3 2022, MARA invested $35.5 mln in a private company called Auradine Inc., whose business is not described in MARA's filings. The Auradine website says the company provides "Web3 infrastructure solutions." MARA CEO Fred Thiel serves on Auradine's board, and another Marathon board member is a 10%

shareholder in Auradine, according to MARA's disclosures.

> Said Ouissal, a director of the Company, owns approximately 10 % of the issued and outstanding shares of Auradine, and Fred Thiel, the Company's Chairman and CEO, sits on Auradine's Board of Directors.
>
> On May 3, 2022, the Company converted $ 2.0 million from a SAFE investment into preferred stock while purchasing an additional $ 3.5 million of preferred stock in Auradine, Inc. along with entering into a commitment to acquire $ 30.0 million of additional shares of preferred stock. This forward contract was accounted for under ASC 321 as an equity security. On September 27, 2022, pursuant to the forward contract, the Company increased its investment in the preferred stock of Auradine, Inc. by $ 30.0 million, bringing its total carrying amount of investment in Auradine, Inc. preferred stock to $ 35.5 million with no noted impairments or other adjustments (See Note 11).

Accelerated depreciation: $4.1 mln

Out of 30,000 machines at Hardin, MT, 22,000 were sold and 1,800 junked following "accelerated depreciation" of $4.1 mln on machines reportedly no longer in operating condition.

Debt and Silvergate Capital (SI)

MARA owes about $50 mln to Silvergate Bank. Faced with recent huge customer withdrawals and the ongoing investigation for potential illegal facilitation of crypto transactions, the bank reports it could go under, and if that happens, MARA will lose an important source of liquidity and may even have its loans called in.

There may be more losses coming down the pike. The company has a 1% convertible debt of $731.3 mln on its balance sheet that investors are trading at a 77% discount. Additionally, MARA burned though $84 mln of cash for the first nine months of 2022 just in its operating cash flow, and could have much more to spend on top of that from investment commitments.

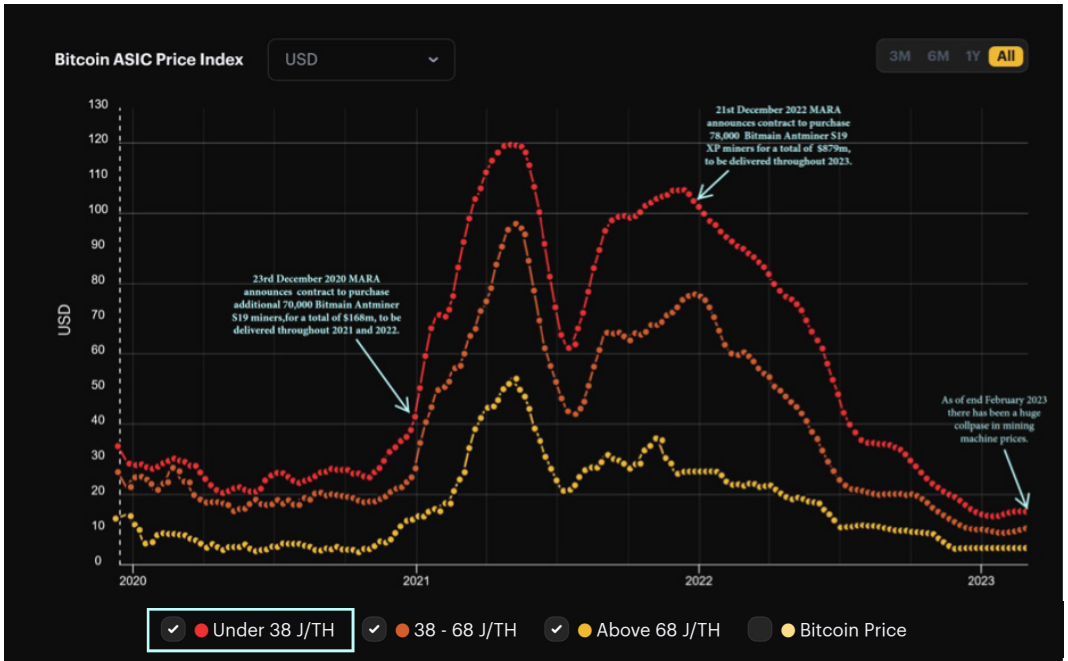
Abu Dhabi Venture

MARA has a new channel for disposing of mining rigs it may or may not have. It is making a 20% contribution valued at some $81 mln to a new joint venture in Abu Dhabi, and the contribution may be in cash or "in kind."

On January 27, 2023, Marathon Digital and FS Innovation (FSI) agreed to form the Abu Dhabi Global Markets company (ADGM) to set up and operate facilities that will mine bitcoin. The initial proposal is for two mining sites with a total of

250 MW capacity. The initial equity ownership in the ADGM entity will be 80% FSI and 20% Marathon Digital. To capitalize the venture, capital contributions are expected to be some $406 mln, and can consist of both cash and in-kind. FSI will have four directors to the board of the ADGM entity, while Marathon Digital will only have one. Digital assets mined by the ADGM Entity will be distributed to MARA and FSI twice a month in proportion to their equity interests.

According to the website Hashrate Index, digital mining machines in the class that MARA agreed to buy in December 2021 and December 2020 had fallen in equivalent price by some 85% and 59% respectively by the end of February 2023. While values specific to MARA Bitcoin mining machines may not exactly match the trends shown in this chart, the overall falling price trend is clear. Any "in kind" contribution of mining machines may reflect prevailing values at the time of transfer to the Abu Dhabi venture and not historic cost, likely leading to a disproportionate transfer of a number of machines compared to expectations and significant asset value write downs.



Our ASIC Price Index reflects the current price per TH of different Bitcoin mining ASICs grouped by three efficiency tiers. The ASIC Price Index is measured in both US dollars (USD) and bitcoin (BTC).

Hashrate Index collects the price, hashrate, and electricity usage for dozens of SHA-256 miners over time. We leverage multiple sources including forums (Bitcoin Talk, Reddit), broker-dealers (websites, telegram channels), manufacturers' websites, and Luxor's ASIC Trading Desk.

We calculate the ASIC Price Index by averaging each unit price based on its nominal hashrate output. We group together different ASIC models into different efficiency tiers based on their power efficiency and display each efficiency in terms of $ per TH or BTC per TH. Each Bitcoin mining ASIC listing we use in the index is vetted through a confidence interval using previous index values and our proprietary algorithm.

The three efficiency tiers:

- Under 38 joules/TH (38 J/TH) includes the latest generation Bitcoin mining ASICs like Bitmain's Antminer S19, S19j and S19 Pro units and MicroBTC's Whatsminer M30s, M30s+ and M30s++ models, among others.

- 38-to-68 J/TH includes mid-generation ASICs like Bitmain's AntminerS17 and T17 series and MicroBT's Whatsminer M20, M21 and M32 series models, among others.

- Over 68 J/TH includes old-generation ASICs like Bitmain's Antminer S9, T9, S11 and T15 series and MicroBT's Whatsminer M10 series, among others.

"Joules" is interchangeable with "Watts"

Denominating Bitcoin mining ASIC prices in Bitcoin is useful for filtering out noise in price signals. It lets you analyze key trends such as ASIC supply constraints, public market valuation arbitrage, and infrastructure roll outs.

Source: Hashrateindex.com

III. Company background

MARA started life exploring for vanadium and uranium. Then it went into real estate, then patent management. In 2018, MARA acquired crypto miners and in 2021 discarded the rest of the business.

MARA has changed auditors 6x in the last decade. The current auditor is Marcum and the engagement partner Sougata Banerjee. Other clients include SolarMax, whose former CFO brought suit against the company, claiming it engaged in "round trip" financial transactions.

BDO resigned as auditor when the Bit Ventures acquisition was announced. Per the 2017 filing, "the resignation of BDO was not recommended by the Company's audit committee."

For the years 2017-2020, the no-name auditor was RBSM, which was fined in 2021 by the PCAOB because

> ". . . the Firm violated PCAOB rules and quality control standards by failing to take sufficient steps from 2015 through 2018 to ensure that its system of quality control provided reasonable assurance that its personnel complied with applicable professional standards and the Firm's standards of quality, despite auditing and quality control concerns repeatedly brought to the Firm's attention through several PCAOB inspections."

Marcum LLP took over for the fiscal year 2021. Marcum has been cited numerous times by the PCAOB for poorly executed audits. In 2020, the firm was fined $250,000 and a disciplinary notice issued saying, among other things:

> "Marcum violated PCAOB rules and standards during the Audits when it failed to perform appropriate procedures regarding significant unusual transactions engaged in by the Issuer."

Marcum has been subject to four PCAOB disciplinary proceedings.. But even Marcum expressed doubt about the MARA accounts. It wrote in the 2021 10K:

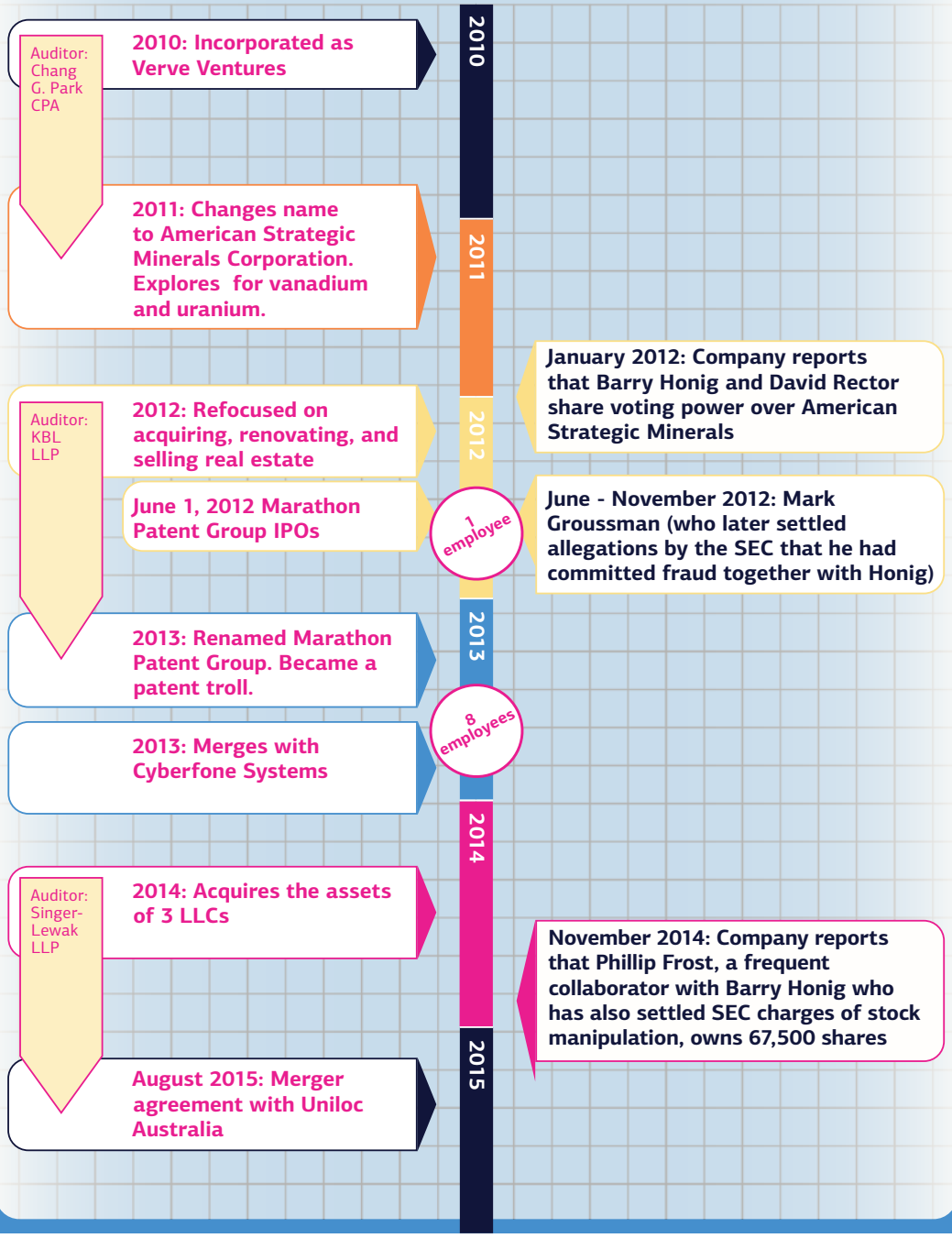
> "Our report on the effectiveness of internal control over financial reporting expressed an adverse opinion because of the existence of a material weakness."

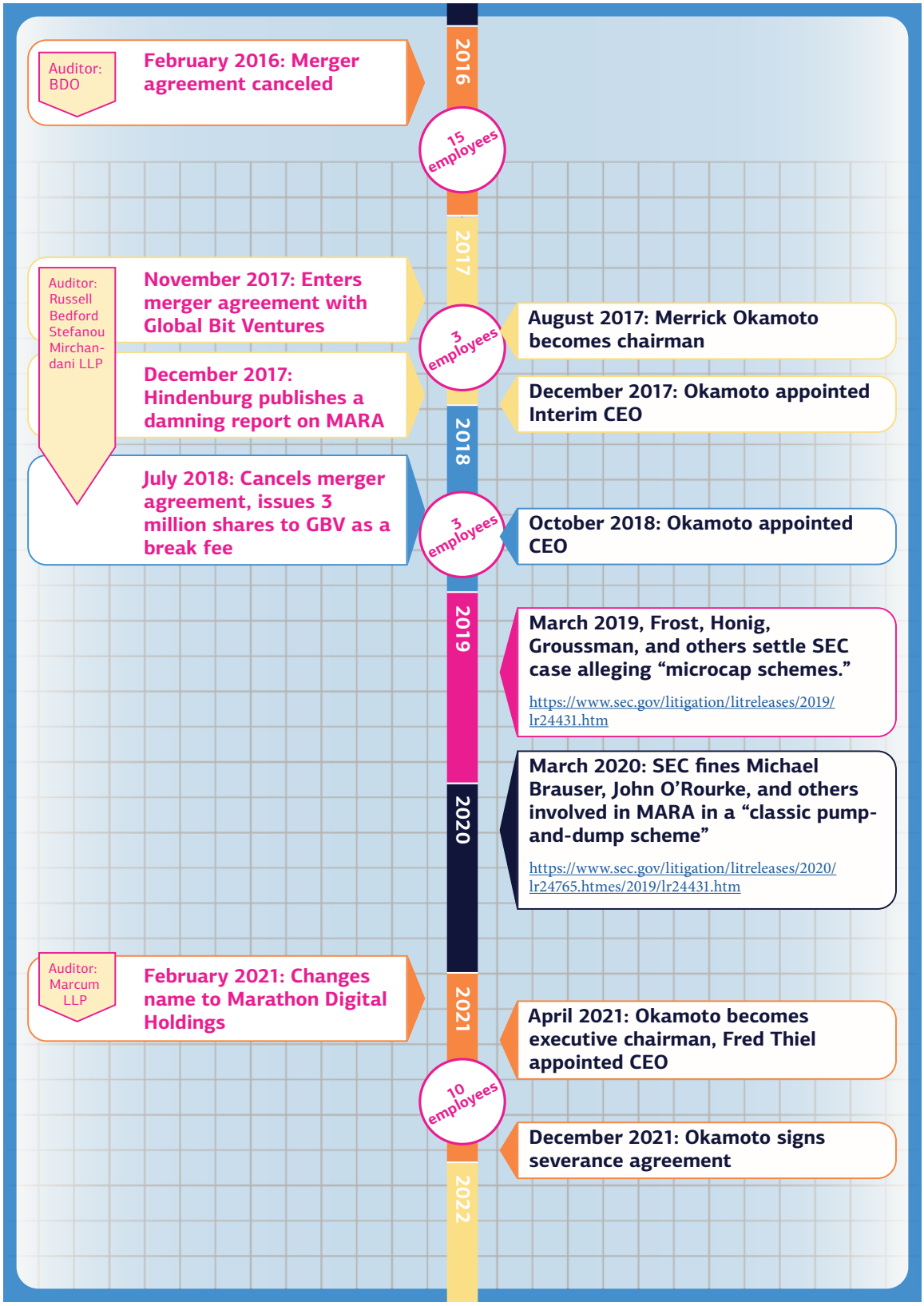
To remediate internal control weakness, the company reported it had increased the number of full-time staff in key technology and financial reporting roles from three to 10 by end December 2021. But elsewhere in the filings, the company states it had only nine full-time employees for everything at end December 2021.

With so many changes of business focus and of executives, we decided to make it easier for the reader by putting a timeline into charts.

Timeline:

MARA prospected for vanadium, managed real estate, and managed patent portfolios before becoming a BTC miner. It's had six different auditors in 12 years, and executives have come and gone at blinding speed. To make things easier to understand, we put key events into a chart.




2016
Auditor: BDO
February 2016: Merger agreement canceled
15 employees
2017
Auditor: Russell Bedford Stefanou Mirchandani LLP
November 2017: Enters merger agreement with Global Bit Ventures
December 2017: Hindenburg publishes a damning report on MARA
3 employees
August 2017: Merrick Okamoto becomes chairman
December 2017: Okamoto appointed Interim CEO
2018
July 2018: Cancels merger agreement, issues 3 million shares to GBV as a break fee
3 employees
October 2018: Okamoto appointed CEO
2019
March 2019, Frost, Honig, Groussman, and others settle SEC case alleging "microcap schemes."
https://www.sec.gov/litigation/litreleases/2019/lr24431.htm
2020
March 2020: SEC fines Michael Brauser, John O'Rourke, and others involved in MARA in a "classic pump-and-dump scheme"
https://www.sec.gov/litigation/litreleases/2020/lr24765.htmes/2019/lr24431.htm
2021
Auditor: Marcum LLP
February 2021: Changes name to Marathon Digital Holdings
April 2021: Okamoto becomes executive chairman, Fred Thiel appointed CEO
10 employees
December 2021: Okamoto signs severance agreement
2022

Executive Timeline

2020

December 13, 2020: Michael Rudolph resigns from all positions with the Company as a board member.

2021

January 19, 2021: David Lieberman, formerly CFO, resigns from all positions.

April 26, 2021: Fred Thiel is appointed CEO to replace Merrick Okamoto, who becomes executive chairman. Okamoto lasts 7 months.

November 2021: Chief Accounting Officer appointed. Old CAO was removed in September.

December 27, 2021: Ashu Swami is appointed CTO. Between 2018 and Mr. Swami's appointment, it appears the company did not have a CTO. Umesh Jani, who served as CTO 2014-17, and: David Liu, CTO in 2017-18, were "terminated."

March 2021: First mention that Simeon Salzman is CFO: Company says in 2020 it "Strengthened management team with the appointments of Simeon Salzman to chief financial officer and Kevin A. DeNuccio to board of directors."

May 20, 2021: Board member Michael Berg "stepped down to pursue other projects" and Peter Benz transitioned to vice president of corporate development.

December 15, 2021: Merrick Okamoto "retires" as executive chairman, later receives about $31 million "in exchange for" releasing all claims against the company.

2022

March 2022: Douglas Mellinger is appointed director to fill the vacancy created by Merrick Okamoto's departure at the end of 2021. Mellinger and his company PRT had been accused in a lawsuit of exaggerating the company's prospects. The case was "terminated" in 2000.

March 2022: Hugh Gallagher is appointed Chief Financial Officer, with **Sim Salzman** being appointed as the Company's Chief Accounting Officer. Salzman, when a senior associate of Audit Services at the audit firm McGladrey & Pullen LLP, had been named in a lawsuit alleging improper use of trade secrets. The case was dismissed in 2009.

March 31, 2022: Hugh Gallagher is appointed CFO. Sim Salzman becomes Chief Accounting Officer

November 21, 2022: Sim Salzman resigns, and John Lee is appointed Chief Accounting Officer

IV. A raw deal for investors

Investors hope that they can access crypto currency gains by buying MARA shares. MARA executives regularly help themselves to stock-based compensation when bitcoin prices are high.

Share comp accounted for $161 mln in 2021—more than net revenue of $150 mln. Incredibly, as of end December 2021, the company states it had only nine or 10 full time employees (statements are inconsistent). By December 2022, full time employees had grown to just 25. That's a lot of stock comp per employee.

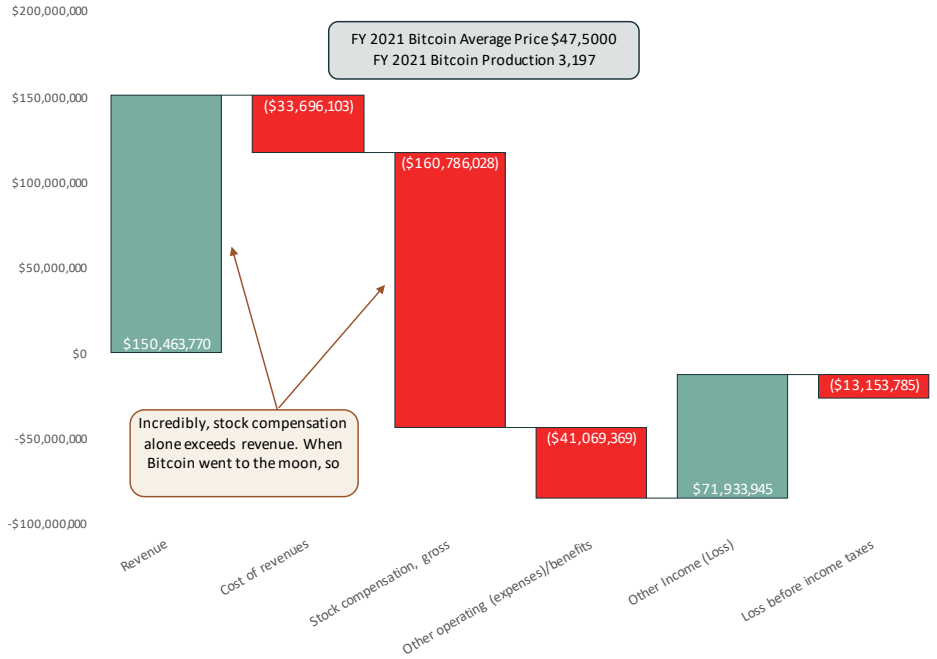
For the nine months reported in 2022, stock comp was $18.9 mln against revenue of $89.3 mln. That seems more reasonable, except that the company lost a whopping $280 mln pre-tax, ***including*** a highly suspicious $90 mln gain on sale of equipment, so the underlying loss was about $370 mln. Why did management deserve any stock comp at all?.

What is the point of investing in this company when literally all revenue generated is taken away in stock comp? When the good times roll, any shareholder benefit seems to disappear in stock comp. When there are massive losses, lower stock comp is hardly a comforting boon.

Despite BTC production being 20% less in the first nine months of 2022 compared to the full year 2021, cost of revenue - which excludes various impairments, stock compensation, unrealized losses, and a legal reserve - more than trebled for the nine-month period compared to all of 2021. Even excluding the disastrous $54.2 mln accelerated cost recognition from the Hardin facilities exit, 2022 nine months' cost of revenue was about $53.7 mln, nearly 60% higher already compared to the full twelve months in 2021. If idle machines, currently parked in "construction in progress" where there is no depreciation, are brought in to service, there may be further accelerated expenses or impairments to their values suffered if future potential cash flows generated are revised down because of lower-than-expected Bitcoin prices and higher operating costs in comparison to original projections.

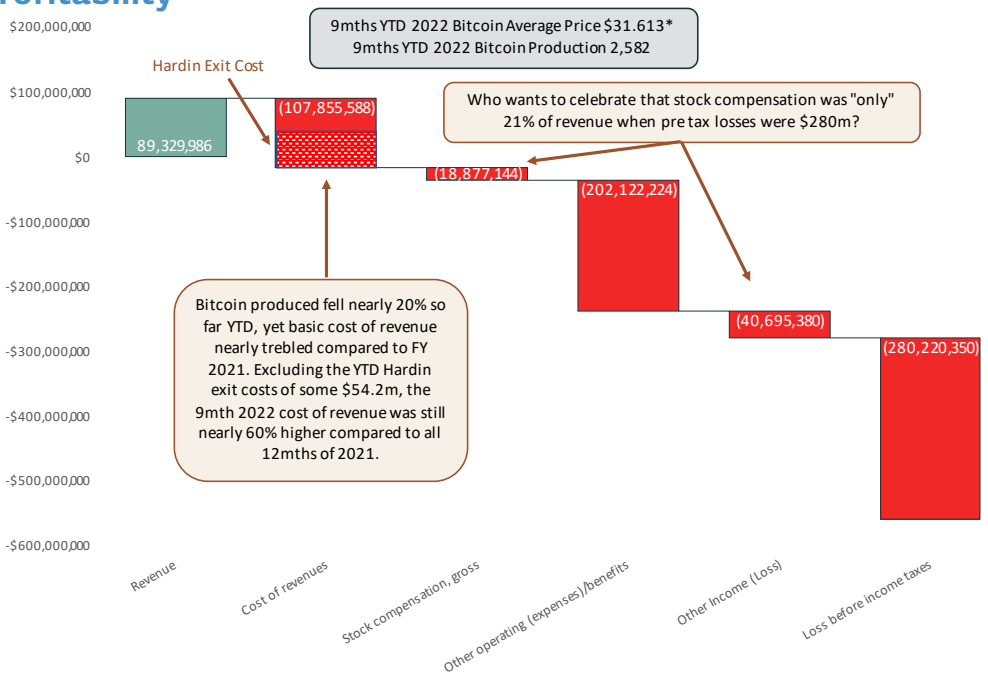
MARA - The only thing Going to the Moon is Stock Compensation and Cost of Revenue

2021 MARA Stock Compensation Vs Expenses and Profitability



Source: Statmuse.com, MARA disclosures

9 Months 2022 YTD MARA Stock Compensation Vs Expenses and Profitability



Source: Statmuse.com, MARA disclosures

In 2020, with just $4.4 mln in revenue, the company handed out $1.2 mln in stock-based compensation. The previous year, stock-based compensation, at $933,682, was 79% of revenue.

	2021	2020	2019
	For the Years Ended December 31,		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (36,174,506)	$ (10,447,771)	$ (3,517,065)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	14,831,102	2,993,036	923,304
Amortization of patents and website	71,176	71,176	71,177
Amortization of leasehold improvements	1,723	-	-
Deferred tax liability	23,020,721	-	-
Loss on conversion of debt	-	364,833	-
Impairment of mining equipment	-	871,302	-
Impairment of leasehold improvements		-	447,776
Realized gain (loss) on sale of digital currencies	(11,659)	(15,466)	(36,092)
Change in fair value of warrant liability	1,048,286	309,588	(26,234)
Change in fair value of mining payable	-	66,547	(507,862)
Change in fair value of investment securities	(73,778,545)	-	-
Gain on PPP loan forgiveness	(62,500)	-	-
Impairment of cryptocurrencies	29,552,991	-	-
Stock based compensation	160,786,028	1,178,609	933,682

Source: MARA 2021 10K

Dilution has been huge. Since end 2019 up to end Q3 2022, equity has gone from 8.5 mln to 116 mln shares.

Meanwhile, MARA's convertible debt is trading at 33 cents to the dollar. Clearly, sophisticated investors think this company is a dog.

Appendix

History of MARA purchases

Date of announcement	Announcement type	Number of machines	Machine type	Vendor	Price per machine	Source	Other
Jan-18	Purchase	1,300	Antminer S9	Bitmain	$2,000	S4-A: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=S-4%2FA&year=2018##document-24787-0001493152-18-000975-2	Purchased by Global Bit Ventures. excluding tax
Feb-18	Purchase	1,400	Antminer S9	Bitmain	$4,142	8K Feb 15, 2018: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=8-K&year=2018&page=2##document-24826-0001493152-18-002229-1	
Feb-18	Installation	1,400	Antminer S10	Bitmain		8K Feb 15, 2019	Company leased 26,700 sft of a 48,600 sft facility purpose-built in Ontario. Altogether 2,700 Antminers and 1,000 GPU servers will be put into production by end Feb 2018. 2,700 miners will produce 33 Ph/s. The 1,000 GPU servers 250 Gh/s.
Apr-18	Capacity			Bitmain		8K Apr 4 2018	The combined 2,700 Bitmain Antminer S9 miners are expected to produce approximately 33 Ph/s of ASIC mining capacity in addition to GPU mining servers owned by GBV, comprised of 28,000 GPUs, which are capable of 630 Gh/s. The 630Gh/s number suggests an additional 2,520 GPU servers in hand.
Aug-19	Purchase	6,000	Antminer S9	Bitmain	$681	Pre-14A Sept 19, 2019: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=PRE+14A&year=2019##document-25016-0001493152-19-014316-1	"Done as an asset purchase agreement from SelectGreen Blockchain Ltd. On August 28, 2019, Marathon Patent Group, Inc. (the "Company") entered into an Asset Purchase Agreement with SelectGreen Blockchain Ltd, a British Columbia corporation ("Seller") to acquire 6,000 S-9 Bitmain 13.5 TH/s Bitcoin Antminers ("Antminer S9 miners"). 2,335,000 shares to be issued in private placement ""at a price above the current market."" Price was $1.75 a share. Share issue completed mid November 2019. Dec 12 2019 tweet: We are releasing findings on @MarathonPatent with their recent $4 million share deal. "
May-20	Purchase	660	S19 Pro	Bitmain		10Q: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=&year=2020&page=5##document-25039-0001493152-20-008746-1	
Jun-20	Purchase	500	S19 Pro	Bitmain		June 2020 S-1: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=&year=2020&page=5##document-25048-0001493152-20-012113-1	
Jul-20	Purchase	700	M31S+	MicroBT	$1,857	March 16, 2021 10K: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=10-K&year=2021##document-25157-0001493152-21-006139-1	On May 11, 2020, the Company purchased 700 new generation M305+ASIC Miners from MicroBT for approximately $1.3 million. The 700 miners produce 80/Th and will generate 56 PH/s (petahash) of hashing power, compared to the Company's current S-9 production of 46 PH/s. These next generation MicroBT ASIC miners are markedly more energy efficient than our existing Bitmain models. These miners were delivered to the Company's Hosting Facility in June 2020 and are producing Bitcoins.
Oct-2020	Purchase	10,000	S-19 Pro	Bitmain	$2,158	2020 10K	
Dec-2020	Purchase	10,000	S-19j Pro	Bitmain	$2,377	2020 10K https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=&year=2020&page=5##document-25032-0001493152-20-004558-2	
Dec-2020	Purchase	70,000			$2,397	2020 10K	total miners 103,120
Mar-21	Shipment	10,300	S19 Pro	Bitmain		PR March 4, 2021: https://ir.marathondh.com/news-events/press-releases/detail/1228/marathons-bitcoin-mining-fleet-to-produce-approximately	"Total miners 12,920, 1.4 Eh/s On February 1, 2021, Marathon announced that Bitmain had shipped approximately 4,000 S-19 Pro ASIC miners to the Company's mining facility in Hardin, MT, all of which were delivered as scheduled. In addition to the initial 4,000 miners delivered to the Hardin facility in February, Bitmain recently shipped another 6,300 miners to Hardin. A portion of this new shipment has already been received and installations are progressing. Marathon expects all 10,300 miners to be installed by the end of March, at which point the Company's mining fleet will consist of 12,920 miners generating approximately 1.4 EH/s."
16-Mar-21	Installation	3,967				https://ir.marathondh.com/news-events/press-releases/detail/1230/marathon-reports-fourth-quarter-and-fiscal-year-2020-results	"Purchased 90,000 of the industry's most efficient Bitcoin miners during the fourth quarter, increasing the Company's mining fleet to approximately 103,120 miners capable of producing 10.37 EX/s (exahash per second) by the first quarter of 2022 As of March 15, 2021, installed 3,697 S-19 ASIC miners at the mining facility Hardin, MT, increasing Marathon's current active mining fleet to 5,690 miners with an additional 6,641 already delivered from Bitmain and in the process of being installed"
Mar-21	On order	103,000		Bitmain		Roth conference	It's Merrick Okamoto. I'm Chairman and CEO of Marathon Digital Holdings. Thanks for having us today. Marathon is a pure blockchain Bitcoin mining company. We currently have a 103,000 Bitmain miners on order. We presently have approximately 6,000 of those installed and about 7,000 on the ground to be installed over the next six weeks. Marathon pivoted to be a Bitcoin mining company in late 2017, which turned out to be pretty fortuitous timing right before a significant decline. We weathered that storm over the last three years. And then, in spring of this year, we began an aggressive campaign to acquire Bitcoin mining machines. And when fully deployed, we'll be about 10.37 exahash Bitcoin mining and we trade on the Nasdaq under the symbol MARA.
Aug-21	Purchase	30,000	S19j Pro	Bitmain	$4,023	PR Aug 2, 2021: https://ir.marathondh.com/news-events/press-releases/detail/1251/marathon-digital-holdings-purchases-30000-s19j-pro-bitcoin	Based on current delivery schedules, Marathon anticipates all 30,000 newly purchased miners to ship from Bitmain between January 2022 and June 2022. As a result, the Company's mining operations are expected to consist of more than 133,000 Bitcoin miners, producing approximately 13.3 EH/s once all miners are fully deployed and operational. If all of Marathon's miners were deployed today, the Company's hash rate would represent approximately 12% of the Bitcoin network's total hash rate, which was approximately 109 EH/s as of August 1, 2021.
Dec-21	Purchase	78,000	S19 XP	Bitmain	$11,269	8K Dec 28, 2021: https://ir.marathondh.com/sec-filings/all-sec-filings?form_type=8-K&year=2021##document-25258-0001493152-21-032609-1	full delivery by end 2022. Contract says the purchase price will be determined one month before a relevant batch is shipped.
Feb-22	Delivery					https://ir.marathondh.com/news-events/press-releases/detail/1275/marathon-digital-holdings-announces-bitcoin-production-and	As of February 1, 2022, BITMAIN has delivered approximately 93,000 top-tier bitcoin miners to Marathon. 32,710 of these miners have been successfully deployed, and as a result, the Company's hash rate as of February 1, 2022 was approximately 3.6 EH/s.
Aug-22	Purchase	30,000	S19 XP	Bitmain		Press release August 8, 2022: https://ir.marathondh.com/news-events/press-releases/detail/1292/marathon-digital-holdings-reports-second-quarter-2022	Purchase made April 11, 2022

Source: company 20F

Disclaimer

JCapital Research LLC is a U.S.-registered company. The reports and other commentary we publish are for information purposes only and should not be relied upon as investment advice. The information provided is not a complete analysis of every material fact regarding any country, region, or market. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this posting and may change without notice.

Opinions are intended to provide insight on macroeconomic issues and commentary is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy.

Investments involve risk. The value of investments can go down as well as up, and investors may not get back the full amount invested. The information contained in these reports has not been reviewed in the light of your personal financial circumstances. Reliance upon the information is at your sole discretion.