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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 8, 2024**

AKERNA CORP.
(Exact name of registrant as specified in its charter)

Delaware	**001-39096**	**83-2242651**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1550 Larimer Street, #246, Denver, Colorado	**80202**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(888) 932-6537**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 $0.0001 per share	KERN	NASDAQ Capital Market
Warrants to purchase Common Stock	KERNW	NASDAQ Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

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

Item 8.01. Other Events.

On January 27, 2023, Akerna Corp. ("Akerna" or the "Company"), Akerna Merger Co., a Delaware corporation and wholly owned direct subsidiary of Akerna ("Merger Sub"), and Gryphon Digital Mining, Inc., a Delaware corporation ("Gryphon"), entered into an Agreement and Plan of Merger, as may be amended from time to time (the "Merger Agreement"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will merge with and into Gryphon, with Gryphon surviving as a wholly owned subsidiary of Akerna (the "Merger"). Akerna following the Merger is referred to herein as the "combined company."

At the effective time of the Merger (the "Effective Time"), each share of Gryphon's common stock, par value $0.0001 per share (the "Gryphon Common Stock"), and Gryphon's preferred stock, par value $0.0001 per share (the "Gryphon Preferred Stock," collectively referred to herein with the Gryphon Common Stock as the "Gryphon Shares"), outstanding immediately prior to the Effective Time will be converted into the right to receive a per share portion of the aggregate number of shares of Akerna's common stock, par value $0.0001 per share (the "Akerna Common Stock"), to be issued at the Effective Time as consideration for the Merger, as calculated pursuant to the terms set forth in the Merger Agreement (the "Merger Consideration").

Immediately after the consummation of the Merger, Akerna equityholders as of immediately prior to the Merger are expected to own approximately 7.5% of the outstanding equity interests of the combined company on a fully diluted basis and former Gryphon equityholders are expected to own approximately 92.5% of the outstanding equity interests of the combined company on a fully diluted basis. Actual ownership percentages will depend on the actual calculation of the Merger Consideration at closing, which will depend on a number of variables, including the last sales price of Akerna Common Stock on the second trading day immediately prior to closing of the Merger and the amount of the principal remaining outstanding on Akerna's convertible notes following any conversions or company redemptions that occur prior to closing and the number of shares of Akerna Common Stock that may be issued to settle accounts payable of Akerna prior to closing. Following the Merger, Gryphon's business will be the business of the combined company.

Akerna hereby incorporates by reference (1) the audited annual financial statements of Gryphon as at and for the fiscal years ended December 31, 2022 and 2021 and the report of the independent public account, (2) the unaudited condensed consolidated financial statements of Gryphon as at September 30, 2023 and for the three and nine month periods ended September 30, 2023 and 2022 and (3) the management's discussion and analysis of financial condition and results of operations of Gryphon, which are filed as Exhibits 99.1, 99.2 and 99.3, respectively, to this Current Report on Form 8-K into the Company's registration statements on Form S-8 (File Nos. 333-242480 and 333-233480) and Form S-3 (File Nos. 333-239783 and 256878).

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibits are filed as part of this report:

Exhibit Number	Description
99.1	Audited annual financial statements of Gryphon Digital Mining Inc. as at and for the years ended December 31, 2022 and 2021
99.2	Unaudited condensed consolidated financial statements of Gryphon Digital Mining Inc. as at September 30, 2023 and for the three and nine month periods ended September 30, 2023 and 2022
99.3	Management's discussion and analysis of financial condition and results of operations of Gryphon Digital Mining Inc.
99.4	Unaudited pro forma condensed consolidated financial information
99.5	Consent of RBSM LLP
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the SEC upon request.

Additional Information and Where to Find It

This Current Report on Form 8-K may be deemed to be solicitation material with respect to the proposed transactions between Akerna and Gryphon and between Akerna and MJ Acquisition Co. In connection with the proposed transactions, Akerna has filed relevant materials with the United States Securities and Exchange Commission, or the SEC, including a registration statement on Form S-4 (File No. 333-271857) (the "Form S-4") that contains a prospectus and a proxy statement. Akerna mailed the proxy statement/prospectus to the Akerna stockholders on January 9, 2024. Investors and securityholders of Akerna and Gryphon are urged to read these materials because they contain important information about Akerna, Gryphon and the proposed transactions. This Current Report on Form 8-K is not a substitute for the Form S-4, definitive proxy statement/prospectus included in the Form S-4 or any other documents that Akerna may file with the SEC or send to securityholders in connection with the proposed transactions. Investors and security holders may obtain free copies of the documents filed with the SEC on Akerna's website at www.akerna.com, on the SEC's website at www.sec.gov or by directing a request to Akerna's Investor Relations at (516) 419-9915.

This Current Report on Form 8-K is not a proxy statement or a solicitation of a proxy, consent or authorization with respect to any securities or in respect of the proposed transactions, and shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Participants in the Solicitation

Each of Akerna, Gryphon, MJ Acquisition Co. and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the stockholders of Akerna in connection with the proposed transactions. Information about the executive officers and directors of Akerna is set forth in the proxy statement/prospectus included in the Form S-4, as last filed with the SEC on January 8, 2024. Other information regarding the interests of such individuals, who may be deemed to be participants in the solicitation of proxies for the stockholders of Akerna, is also set forth in the proxy statement/prospectus included in the Form S-4. You may obtain free copies of these documents as described above.

Cautionary Statements Regarding Forward-Looking Statements

This Current Report on Form 8-K contains forward-looking statements based upon the current expectations of Gryphon and Akerna. Actual results and the timing of events could differ materially from those anticipated in such forward-looking statements as a result of these risks and uncertainties, which include, without limitation: (i) the risk that the conditions to the closing of the proposed transactions are not satisfied, including the failure to timely obtain stockholder approval for the transactions, if at all; (ii) uncertainties as to the timing of the consummation of the proposed transactions and the ability of each of Akerna, Gryphon and MJ Acquisition Co. to consummate the proposed merger or asset sale, as applicable; (iii) risks related to Akerna's ability to manage its operating expenses and its expenses associated with the proposed transactions pending closing; (iv) risks related to the failure or delay in obtaining required approvals from any governmental or quasi-governmental entity necessary to consummate the proposed transactions; (v) the risk that as a result of adjustments to the exchange ratio, Akerna stockholders and Gryphon stockholders could own more or less of the combined company than is currently anticipated; (vi) risks related to the market price of Akerna's common stock relative to the exchange ratio of outstanding securities of Akerna at closing; (vii) unexpected costs, charges or expenses resulting from either or both of the proposed transactions; (viii) potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed transactions; (ix) risks related to the inability of the combined company to obtain sufficient additional capital to continue to advance its business plan; and (x) risks associated with the possible failure to realize certain anticipated benefits of the proposed transactions, including with respect to future financial and operating results. Actual results and the timing of events could differ materially from those anticipated in such forward-looking statements as a result of these risks and uncertainties. These and other risks and uncertainties are more fully described under the heading "Risk Factors" in the proxy statement/prospectus included in the Form S-4 and the periodic filings with the SEC, including the factors described in the section titled "Risk Factors" in Akerna's Annual Report on Form 10-K for the year ended December 31, 2022 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, each filed with the SEC, and in other filings that Akerna makes and will make with the SEC in connection with the proposed transactions. You should not place undue reliance on these forward-looking statements, which are made only as of the date hereof or as of the dates indicated in the forward-looking statements. Except as required by law, Akerna and Gryphon expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.

SIGNATURES

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

Dated: February 8, 2024

AKERNA CORP.

By: /s/ Jessica Billingsley
Name: Jessica Billingsley
Title: Chief Executive Officer

Exhibit 99.1

RBSM LLP
Accountants & Advisors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Gryphon Digital Mining, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Gryphon Digital Mining, Inc. (the Company) as of December 31, 2022 and 2021, and the related statements of operations stockholders' equity and cash flows for the years ended December 31, 2022 and 2021, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the two years ended December 31, 2022 and 2021, in conformity with accounting principles generally accepted in the United States of America.

The Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the accompanying financial statements, the Company has incurred a loss from operations and has an accumulated deficit that raise substantial doubt about the company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

/s/ RBSM LLP
RBSM LLP
April 16, 2023, except for Note 10, as to which the date is September 6, 2023 and Note 1, Digital Assets, Revenue, and Cost of revenue is December 8, 2023

We have served as the Company's auditor since 2020
Larkspur, CA
PCAOB ID 587

Gryphon Digital Mining, Inc.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31,

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 269,000	$ 916,000
Accounts receivable	470,000	120,000
Prepaid expense	85,000	84,000
Deposits – current portion	—	16,305,000
Marketable securities	235,000	—
Digital assets held for other parties	41,000	—
Digital asset	6,746,000	6,000
Total current assets	7,846,000	17,431,000
Mining equipment, net	34,368,000	21,149,000
Deposits, less current portion	60,000	60,000
Intangible assets	100,000	—
Total assets	$ 42,374,000	$ 38,640,000
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,993,000	$ 3,744,000
Obligation liability – digital assets held for other parties	41,000	—
Note payable – current portion	9,126,000	3,118,000
Total current liabilities	12,160,000	6,862,000
Note payable – long term	3,510,000	6,882,000
Interest payable – long term	—	431,000
Convertible debentures, net	—	5,408,000
Total liabilities	15,670,000	19,583,000
Stockholders' equity		
Preferred stock, par value $0.0001, 13,000,000 authorized and none-outstanding	—	—
Series seed preferred stock, par value $0.0001, 6,000,000 shares authorized, and 5,120,587 shares issued and outstanding, respectively	—	—
Series seed II preferred stock, par value $0.0001, 1,000,000 shares authorized and 266,795 issued and outstanding, respectively	—	—
Common stock, $0.0001 par value, 100,000,000 shares authorized; 14,389,717 and 14,180,377 shares issued and outstanding, respectively	2,000	2,000
Additional paid-in capital	45,303,000	41,192,000
Subscription receivable	(25,000)	(25,000)
Accumulated deficit	(18,576,000)	(22,112,000)
Total stockholders' equity	26,704,000	19,057,000
Total liabilities and stockholders' equity	$ 42,374,000	$ 38,640,000

The accompanying notes are an integral part of these consolidated financial statements.

Gryphon Digital Mining, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2022	2021
Revenue	$ 21,723,000	$ 3,711,000
Operating expenses		
Cost of revenues (excluding depreciation shown below)	12,196,000	871,000
General and administrative expenses	2,175,000	2,256,000
Stock-based compensation	3,285,000	20,132,000
Impairment of digital assets	8,704,000	712,000
Realized gain on disposition of digital assets	(609,000)	(344,000)
Depreciation expense	12,536,000	695,000
Total operating expenses	38,287,000	24,322,000
Loss from operations	(16,564,000)	(20,611,000)
Other income (expense)		
Unrealized loss on marketable securities	(1,499,000)	—
Gain on extinguishment of debt	12,966,000	—
Loss on extinguishment of debt	(2,746,000)	—
Gain on termination of merger agreement	1,734,000	—
Change in fair value of notes payable	11,690,000	—
Other income	30,000	—
Interest income earned on digital assets	—	62,000
Interest expense	(1,111,000)	(770,000)
Amortization of debt discount	(788,000)	(791,000)
Total other income (expense)	20,276,000	(1,499,000)
Income (Loss) before provision for income taxes	3,712,000	(22,110,000)
Provision for income taxes	(176,000)	—
Net income (loss)	$ 3,536,000	$ (22,110,000)
Net income (loss) per share, basic	$ 0.25	$ (1.64)
Net income (loss) per share, diluted	$ 0.17	$ (1.64)
Weighted average shares outstanding – basic	14,399,222	13,445,773
Weighted average shares outstanding – diluted	20,854,572	13,445,773

The accompanying notes are an integral part of these consolidated financial statements.

Gryphon Digital Mining, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Series Seed Preferred Stock		Series Seed II Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Subscription Receivable	Retained Earnings	Total Stockholders' Equity
Balance as of December 31, 2020	—	$ —	—	$ —	9,550,000	$ 1,000	$ 18,000	$ (4,000)	$ (2,000)	$ 13,000
Additional capital contribution from original shareholders	—	—	—	—	161,250	—	16,000	—	—	16,000
Common stock issued to seed stage advisors for cash	—	—	—	—	1,162	—	3,000	—	—	3,000
Common stock issued to officers and directors for cash	—	—	—	—	5,325	—	13,000	(2,000)	—	11,000
Common stock repurchased	—	—	—	—	(1,300,000)	—	(1,000)	—	—	(1,000)
Common stock issued for compensation to seed stage advisors	—	—	—	—	696,262	—	1,671,000	—	—	1,671,000
Common stock issued for compensation to officers and directors	—	—	—	—	3,189,675	—	7,655,000	—	—	7,655,000
Common stocks issued in private placement for cash	—	—	—	—	5,593,097	1,000	15,889,000	(100,000)	—	15,790,000
Common stocks issued in private placement for digital assets	—	—	—	—	505,551	—	1,213,000	—	—	1,213,000
Common stocks issued for compensation	—	—	—	—	156,125	—	1,225,000	—	—	1,225,000
Series seed issued in exchange for common stock	4,995,469	—	—	—	(4,995,469)	—	—	—	—	—
Series seed preferred stock issued for cash	125,118	—	—	—	—	—	300,000	—	—	300,000
Series seed II preferred stock issued for cash	—	—	224,729	—	—	—	1,501,000	(28,000)	—	1,473,000
Series seed II issued for digital assets	—	—	24,102	—	—	—	161,000	(5,000)	—	156,000
Series seed II issued for compensation	—	—	17,964	—	—	—	164,000		—	164,000
Stock subscription received	—	—	—	—	—	—	—	114,000	—	114,000
Restricted common stock awards issued for compensation	—	—	—	—	603,649	—	5,382,000	—	—	5,382,000
Additional paid in capital for services contributed by the Company's president	—	—	—	—	—	—	250,000	—	—	250,000
Restricted stock awards forfeited due to resignation of board member	—	—	—	—	(56,250)	—	—	—	—	—
Accretion of compensation cost due to modification of restricted stock units	—	—	—	—	—	—	233,000	—	—	233,000
Relative fair value of warrants issued with convertible notes	—	—	—	—	—	—	4,462,000	—	—	4,462,000
Fair value of warrants issued for compensation	—	—	—	—	—	—	1,036,000	—	—	1.036,000
Common stock issued for exercise of warrants for cash	—	—	—	—	70,000	—	1,000	—	—	1,000
Net loss	—	—	—	—	—	—	—	—	(22,110,000)	(22,110,000)
Balance as of December 31, 2021	5,120,587	$ —	266,795	$ —	14,180,377	$ 2,000	$ 41,192,000	$ (25,000)	$ (22,112,000)	$ 19,057,000

Gryphon Digital Mining, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Series Seed Preferred Stock		Series Seed II Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Subscription Receivable	Retained Earnings	Total Stockholders' Equity
Balance as of December 31, 2021	5,120,587	$ —	266,795	$ —	14,180,377	$ 2,000	$ 41,192,000	$ (25,000)	$ (22,112,000)	$ 19,057,000
Common stock issued for compensation	—	—	—	—	—	—	1,467,000	—	—	1,467,000
Common stock issued for conversion of convertible debentures	—	—	—	—	43,689	—	277,000	—	—	277,000
Common stock issued for conversion of accrued interest on convertible debentures	—	—	—	—	4,191	—	41,000	—	—	41,000
Restricted common stock awards issued for compensation	—	—	—	—	136,460	—	2,056,000	—	—	2,056,000
Additional paid-in capital for services contributed by the Company's president	—	—	—	—	—	—	252,000	—	—	252,000
Common stock issued for Board of Director	—	—	—	—	25,000	—	18,000	—	—	18,000
Net Income	—	—	—	—	—	—	—	—	3,536,000	3,536,000
Balance as of December 31, 2022	5,120,587	$ —	266,795	$ —	14,389,717	$ 2,000	$ 45,303,000	$ (25,000)	$ (18,576,000)	$ 26,704,000

The accompanying notes are an integral part of these consolidated financial statements.

Gryphon Digital Mining, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 3,536,000	$ (22,110,000)
Adjustments to reconcile net income (loss) to cash used in operating activities		
Impairment of digital assets	8,704,000	712,000
Interest earned on digital assets	—	(62,000)
Realized gain from disposition of digital assets	(609,000)	(344,000)
Digital assets used to pay operating expenses	—	100,000
Amortization of debt discount	788,000	791,000
Depreciation expense	12,536,000	695,000
Compensation cost related to common stock awards	2,873,000	1,225,000
Common stock issued for compensation to seed stage advisors	—	1,671,000
Common stock issued for compensation to officers and directors	—	7,655,000
Compensation cost related to restricted common stock awards	160,000	5,615,000
Compensation for services contributed by the Company’s president	252,000	250,000
Series seed II preferred stock issued for compensation	—	164,000
Fair value of warrants issued as compensation	—	1,036,000
Unrealized loss on marketable securities	1,499,000	—
Gain on termination of merger agreement	(1,734,000)	—
Gain on extinguishment of debt	(12,966,000)	—
Loss on extinguishment of debt	2,746,000	—
Change in fair value of notes payable	(11,690,000)	—
Interest expense	478,000	—
Digital asset revenue	(21,362,000)	(3,711,000)
Changes in operating assets and liabilities		
Proceeds from the sale of digital assets	30,559,000	2,735,000
Accounts receivable	(1,089,000)	—
Prepaid expense	54,000	(26,000)
Accounts payable and accrued liabilities	(184,000)	4,281,000
Net cash provided by operating activities	14,551,000	677,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit for purchase of mining equipment	(8,150,000)	(35,911,000)
Purchase of mining equipment	(846,000)	—
Custom fees paid for mining equipment	—	(483,000)
Refundable deposit	—	(60,000)
Purchase of carbon credits	—	(100,000)
Net cash used in investing activities	(8,996,000)	(36,554,000)

Gryphon Digital Mining, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS — (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	2,500,000	10,000,000
Payments for insurance payable	(37,000)	—
Proceeds from issuance of convertible debentures	—	9,079,000
Proceeds from collection of subscription receivable	—	109,000
Proceeds from issuance of common stock	—	15,804,000
Payment for convertible debentures	(8,665,000)	—
Payment for repurchase of common stock	—	(1,000)
Proceeds from additional capital contributions	—	16,000
Proceeds from the issuance of series seed preferred stock	—	1,473,000
Proceeds from issuance of series seed II preferred stock		300,000
Proceeds from warrant exercise	—	1,000
Net cash (used in) provided by financing activities	(6,202,000)	36,781,000
Net change in cash	(647,000)	904,000
Cash-beginning of period	916,000	12,000
Cash-end of period	$ 269,000	$ 916,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	839,000	$ —
Cash paid for income taxes	—	$ —
Non-Cash investing and financing activities:		
Digital assets used for purchase of mining equipment	538,000	$ —
Digital assets used as deposits for mining equipment	—	$ 1,655,000
Digital assets received for purchase of common stock and series seed II preferred stock	—	$ 1,374,000
Relative fair value of warrants issued with convertible notes	—	$ 4,462,000
Deposits reclassed upon receipt of mining equipment	—	$ 21,361,000
Cancellation of common stock subscription	—	$ —
Proceeds from loan – digital assets	27,592,000	$ —
Convertible debt conversion to equity	414,000	$ —
Interest conversion to equity	41,000	$ —
Digital assets used for principal and interest payment of notes payable	3,440,000	$ —

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Gryphon Digital Mining, Inc. (formerly known as Ivy Crypto, Inc.) (the "Company") was incorporated under the provisions and by the virtue of the provisions of the General Corporation Law of the State of Delaware on October 22, 2020, with the office located in Las Vegas, Nevada. The Company will operate a digital asset, (commonly referred to as cryptocurrency) mining operation using specialized computers equipped with application-specific integrated circuit (ASIC) chips (known as "miners") to solve complex cryptographic algorithms in support of the Bitcoin blockchain (in a process known as "solving a block") in exchange for cryptocurrency rewards (primarily Bitcoin).

On April 20, 2022, the Company formed a limited liability company named Gryphon Opco I LLC ("GOI"). GOI aims to engage in any activity for which limited liability companies may be organized in the State of Delaware.

TERMINATION OF MERGER — SPHERE 3D CORP.

On June 3, 2021, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with Sphere 3D Corp. ("Sphere 3D") Upon completion of the merger (the "Merger"), the Sphere 3D Corp. will change its name to Gryphon Digital Mining, Inc.

As consideration for the merger transaction, Sphere 3D will issue 111,000,000 shares of its common stock to the shareholders of the Company, such that on closing, the Sphere 3D shareholders will own approximately 23% of the consolidated company and the Company shareholders will own approximately the remaining 77% on a fully diluted basis, subject to adjustments for additional capital raises by either entity. As of the Merger Agreement, the Company had 21,282,593 shares of common stock and share equivalents. Each share, and share equivalent, will be converted into 5.22 shares of Sphere 3D common stock. As of the Merger Agreement, the value of a share of the Company's common stock was approximately $8.50, for total consideration of approximately $181,000,000.

On December 29, 2021, the Company and Sphere 3D entered into Amendment No. 1 to the Merger Agreement to give effect to the issuances by the Company of its equity securities subsequent to June 3, 2021. The parties agreed upon an increase in the number of Sphere 3D common shares that will be issued by Sphere 3D in the Merger from approximately 111,000,000 to approximately 122,000,000, with an effective exchange ratio of approximately 5.31. In addition, among other matters, the parties revised the termination provisions of the Merger Agreement to allow either party to terminate the Merger Agreement prior to March 31, 2022, upon a breach of the agreement by the other party following an opportunity to cure such breach, and to allow either party to terminate the Merger Agreement on or after March 31, 2022, for any reason or no reason by notice to the other party. In addition, upon termination, each party agreed to release the other party and its affiliates from any claims or proceedings such party shall have at the time of such termination against the other party existing by reason of, based upon, or arising out of the Merger Agreement.

On April 4, 2022, the Company and Sphere 3D mutually agreed to terminate their Merger Agreement announced on June 3, 2021, and as amended on December 29, 2021, due to changing market conditions, the passage of time, and the relative financial positions of the companies, among other factors.

The companies will continue their relationship through the previously disclosed Master Services Agreement, enabling Sphere 3D to leverage the Company's expertise in bitcoin mining and the Company to generate additional operating income by managing Sphere 3D's mining machines.

Lastly, in accordance with the Amended Merger Agreement, the Company received 850,000 shares of Sphere 3D's restricted common stock that were held in a third-party escrow account, and the existing indebtedness owed by the Company to Sphere 3D in the principal amount of $12,500,000 and accrued interest of $466,000 shall be forfeited.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

MERGER AGREEMENT

On November 7, 2022, the Company entered a nonbinding letter of intent to enter into a reverse triangular merger with a publicly held entity. The Company issued and outstanding shares of common stock, on a fully diluted and converted basis, will be exchanged for approximately 92.5% of the post-closing, fully diluted and converted basis, ownership of the combined company (“Combined Company”). After the merger, the Combined Company’s board of directors shall constitute seven directors, of which the Company will appoint six of the directors. As of the issuance of these consolidated financial statements, the merger was not completed.

RECLASSIFICATION

Certain reclassifications have been made to the 2021 consolidated financial statements in order to conform to the current period presentations. These classifications did not impact the net loss for the year ended December 31, 2021.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements include the accounts of the Company and its subsidiary from the date of inception (April 20, 2022).

AMENDMENTS TO CERTIFICATE OF INCORPORATION

On February 16, 2021, the Company filed its Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to change its name from “Ivy Crypto, Inc.” to “Gryphon Digital Mining, Inc.”.

GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which contemplate the continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the ordinary course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Since the Company began revenue generation in September 2021, management has financed the Company’s operations through equity and debt financing and the sale of the digital assets earned through mining operations.

The Company may incur additional losses from operations and negative cash outflows from operations in the foreseeable future. In the event the Company continues to incur losses, it may need to raise debt or equity financing to finance its operations until operations are cashflow positive. However, there can be no assurance that such financing will be available in sufficient amounts and on acceptable terms, when and if needed, or at all. The precise amount and timing of the funding needs cannot be determined accurately at this time and will depend on several factors, including the market price for the underlying commodity mined by the Company and its ability to procure the required mining equipment and operate profitably. The Company’s financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business.

USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company adopted the provisions of Accounting Standards Codification ("ASC") subtopic 825-10, Financial Instruments ("ASC 825-10") which defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

CASH AND CASH EQUIVALENTS

The Company considers all short-term highly liquid investments with a remaining maturity at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates their fair value. The Company maintains its cash and cash equivalents in banks insured by the Federal Deposit Insurance Corporation ("FDIC") in accounts that at times may be in excess of the federally insured limit of $250,000 per bank. The Company minimizes this risk by placing its cash deposits with major financial institutions. As of December 31, 2022 and 2021, the Company had $19,000 and $666,000 in excess of the federal insurance limit, respectively.

ACCOUNTS RECEIVABLE

Accounts receivable in 2022 and 2021 pertain to proceeds (fiat currency) not yet received for the sale of digital assets or cryptocurrencies due to the cut-off period. Also, the 2022 accounts receivable include the revenue share from Sphere 3D. As of December 31, 2022 and 2021, the accounts receivable amounted to $470,000 and $120,000, respectively. Management has assessed the consideration of credit risk and subsequent to the reporting periods where a balance existed, Gryphon has received payment in full of all outstanding accounts receivable and as such does not believe an allowance is necessary.

PREPAID EXPENSE

Prepaid expenses are assets held by the Company, which are expected to be realized and consumed within twelve months after the reporting period. As of December 31, 2022, it consists of prepayments for insurance.

DIGITAL ASSETS HELD FOR OTHER PARTIES

As of the adoption of the Securities and Exchange Commission's Staff Accounting Bulletin 121, the Company records an obligation liability and a corresponding digital asset held for other parties asset based on the fair value of the cryptocurrency held for other parties at each reporting date. The Company was not aware of any actual or possible safeguarding loss events as of December 31, 2022, and accordingly, the obligation liability and the associated digital asset were recorded at the same value. As of December 31, 2021, the Company was not holding digital assets for third parties. The adoption of SAB 121 had no impact on previously reported consolidated statements of operations, statements of cash flows, or statements of stockholders' equity.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

DIGITAL ASSETS

Digital assets or cryptocurrencies, (including Bitcoin, Ethereum, DAI, and USDT) are included in current assets in the accompanying balance sheets. Cryptocurrencies purchased are recorded at cost and cryptocurrencies obtained by the Company through its sale of common stock are accounted for based on the value of the specific digital asset on the date received.

Pursuant to ASC Topic 210-10-20, the Company considered the operating cycle, intent and purpose and realizability of bitcoin to properly classify the asset on its balance sheet. As the Company intends to convert its mined bitcoin rewards received into cash and use the proceeds generated within its normal operating cycle of business (within one year of receipt), the Company may classify bitcoin as a current asset under ASC 210-10-20. As such, the Company classified the bitcoin mined and earned as a current asset. Given the volatility of the bitcoin market, the Company regularly reviews and reassesses the classification of bitcoin to ensure alignment with the Company's current intent and market conditions.

The Company accounts for digital assets as indefinite-lived intangible assets in accordance with ASC 350, Intangibles

— Goodwill and Other. The Company has ownership of and control over the cryptocurrencies and uses third-party custodial services to secure them. The digital assets are initially recorded at cost and are subsequently remeasured on the balance sheets at cost, net of any impairment losses incurred since acquisition.

An impairment analysis is performed at each reporting period to identify whether events or changes in circumstances, in particular decreases in the quoted prices on active exchanges, indicate that it is more likely than not that the digital assets held by the Company are impaired. The fair value of digital assets is determined on a nonrecurring basis in accordance with ASC 820, Fair Value Measurement, based on quoted prices on the active exchange(s) that the Company has determined is its principal market for cryptocurrencies (Level 1 inputs). If the carrying value of the digital asset exceeds the fair value based on the lowest price quoted in the active exchanges during the period, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the price determined.

Impairment losses are recognized within "Operating expenses" in the statements of operations in the period in which the impairment is identified. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale or disposition.

Cryptocurrencies awarded to the Company through its mining activities are included within operating activities in the accompanying consolidated statements of cash flows. The cash received from the sales of cryptocurrencies earned through our mining activities is included within operating activities in the accompanying consolidated statements of cash flows, and any realized gains or losses from such sales are included in operating expenses in the consolidated statements of operations. The Company accounts for its gains or losses in accordance with, the first in first out (FIFO) method of accounting.

MINING EQUIPMENT

Mining Equipment is stated at cost, including purchase price and all shipping and customs fees, and depreciated using the straight-line method over the estimated useful lives of the assets, generally three years for cryptocurrency mining equipment.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company reviews the carrying amounts of mining equipment when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

LEASES

Effective July 2021, the Company accounts for its leases under ASC 842, *Leases* ("ASC 842"). Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the balance sheet as both a right-of-use asset and a lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term.

In calculating the right-of-use asset and the lease liability, the Company elects to combine lease and non-lease components as permitted under ASC 842. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

DERIVATIVES

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and would then be re-valued at each reporting date, with changes in the fair value reported in the condensed statements of operations. If there are stock-based derivative financial instruments, the Company will use a probability-weighted average series Binomial lattice option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. Derivative liability will be measured initially and subsequently at fair value.

REVENUE RECOGNITION

The Company recognizes revenue under ASC 606, Revenue from Contracts with Customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the Company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met: The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

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

Cryptocurrency mining:

The Company has entered into contracts with digital asset mining pool operators to provide the service of performing hash computations for the mining pool operator. The contracts are terminable at any time for any reason by either party without cause and without penalty and the Company's enforceable right to compensation only begins when the Company provides the service of performing hash computations for the mining pool operator. The contract is for a continuous 24-hour period each day. The Company's access and usage rights to the pool and service automatically renew for a successive 24-hour period (00:00:00 UTC and 23:59:59 UTC) unless terminated in accordance with the terms set forth by the terms of service. In exchange for performing hash computations for the mining pool, Gryphon is entitled to a fractional share of the fixed cryptocurrency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are netted as a reduction of the transaction price). Gryphon's fractional share is based on the proportion of hash computations Gryphon performed for the mining pool operator to the total hash computations contributed by all mining pool participants in solving the current algorithm during the 24-hour period. Hashrate is the measure of the computational power per second used when mining. It is measured in units of hash per second, meaning how many calculations per second that can be performed. The consideration the Company will receive, comprised of block rewards, transaction fees less mining pool operator fees are aggregated in a sub-balance account held by the mining pool operator. That balance, due to the Company, is calculated by the mining pool operator based on the hashrate provided and hash computations completed by the Company for the mining pool from midnight-to-midnight (00:00:00 UTC and 23:59:59 UTC) UTC time, and a sub-account balance is credited one hour later at 1AM UTC time. The balance is then withdrawn to the Company's whitelisted wallet address, once a day, between the hours of 9am to 5pm UTC time. The rate of payment occurs once per day, as long as the minimum payout threshold of 0.01 bitcoin has accumulated in the sub-account balance, in accordance with the mining pool operator's terms of service. Pursuant to ASC 606-10-55-42, the Company assessed if the customer's option to renew represented a material right that represents a separate performance obligation and noted the renewal is not a material right. The definition of a material right is a promise in a contract to provide goods or services to a customer at a price that is significantly lower than the stand-alone selling price of the good or service. The mining pool operator does not provide any discounts and as such there is no economic benefit to the customer and as such a separate performance obligation does not exist under 606-10-55-42. In addition, there are no options for renewal that are separately identifiable from other promises in the contract such as an ability to extend the contract at a reduced price.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The performance obligation of the Bitcoin miner under the mining contracts with Foundry Pool USA involves the service of performing hash computations to facilitate the verification of digital asset transactions. The Company's miners contribute computing power (ie. hashrate) that perform hash calculations to the mining pool operator, engaging in the process of validating and securing transactions through the generation of cryptographic hashes. The mining pool then utilizes a specific mining algorithm (e.g. SHA-256) to submit shares (proofs of work) to the mining pool's server as they contribute to solving the cryptographic puzzles required to mine a block. The Company reviews and analyzes its individual pool performance using a dashboard provided by Foundry Pool USA that includes real-time statistics on hashrate, shares submitted and earnings. The service of performing hash computations in digital asset transaction verification services is an output of the Company's ordinary activities. The provision of providing these services is the only performance obligation in the Company's contracts with mining pool operators. The Company performs hash computations for one mining pool operator, Foundry USA. Foundry USA operates its pool on the Full Pay Per Share (FPPS) payout method. FPPS is a variant of the Pay Per Share (PPS) method, where miners receive a fixed payout for each valid share submitted, regardless of whether the pool finds a block.

Regardless of the pool's success, the Company will receive consistent rewards based on the number of valid shares it contributes. The transaction consideration the Company receives is non-cash consideration, in the form of bitcoin. The Company measures the bitcoin at fair value on the date earned using the average price (calculated by averaging the daily open price and the daily close price) quoted by its Principal Market at the date the Company completed the service of performing hash computations for the mining pool operator. There are no deferred revenues or other liability obligations recorded by the Company since there are no payments in advance of the performance. At the end of each 24 hour period (00:00:00 UTC and 23:59:59 UTC), there are no remaining performance obligations. By utilizing the average daily price of bitcoin on the date earned, the Company eliminates any differences that may arise due to the volatility in trading price between bitcoin and fiat currency during the period where the Company establishes and completes the contract. The consideration is all variable. There is no significant financing component in these transactions.

If authoritative guidance is enacted by the Financial Accounting Standards Board ("FASB"), the Company may be required to change its policies, which could affect the Company's financial position and results from operations.

Master service agreement:

The Company has entered into an agreement with Sphere3D to be an exclusive provider of management services for all blockchain and cryptocurrency-related operations including but not limited to services relating to all mining equipment owned, purchased, leased, operated, or otherwise controlled by Sphere 3D and/or its subsidiaries and/or its affiliates at any location. For the said services the Company will receive 22.5% of the net operating profit of all of Sphere 3D's blockchain and cryptocurrency-related operations. The net operating profits in defined as the value of the digital asset mined less energy cost and profit paid to the host facility.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

As Sphere 3D has the ultimate right to determine the facility location for each machine. The Company has the responsibility for the following:

1) Ensuring the machines are installed in the facility selected by Sphere.

2) Selecting and connecting the machines to a mining pool.

3) To review the mining reports and maintain a wallet for the coins earned for the mining operation.

4) To maintain a custodial wallet for the coins earned from the Sphere machines.

5) To sell and/or transfer the coins at the request of Sphere.

At the time the digital assets are mined, they are transferred into the custodial wallet maintained by the Company. As of the receipt of the digital asset, the Company has completed its performance obligation, the transaction price is determinable, net operating profit can be calculate so that the Company can determine its revenue under the contract; therefore, the Company records as revenue the management fee received.

COST OF REVENUES

The Company's cost of revenue consists primarily of direct costs of earning bitcoin related to mining operations, including electric power costs, other utilities, labor, insurance whether incurred directly from self-mining operations or reimbursed, including any revenue sharing arrangements under co-location agreements, but excluding depreciation and amortization, which are separately stated in the Company's statements of operations.

ASC 606-10-32-25 through 32-27 in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) provides guidance on the consideration of whether fees paid to a mining pool operator should be considered payments to a customer and treated as a reduction of the transaction price or revenue. Gryphon's management reviewed the standards and completed the following assessment.

Identifying the Customer: ASC 606-10-32-25 states that an entity should determine whether the counterparty to a contract is a customer. If the counterparty is a customer, the entity should apply the revenue recognition guidance to that contract. Under ASC 606-10-32-25, the Company identified the mining pool operator as the customer as the Company entered into a contractual agreement with the pool operator whereas the Company is to provide services in the form of contributing hashing power to the pool.

Mining Pool Operator as a Customer: As the Company has determined the mining pool operator to be a customer, any fees paid to the mining pool operator would be part of the transaction price of the contract. Any fees paid by the Company as a miner to the pool operator would be revenue earned by the pool operator, and the pool operator is treated as the customer.

Transaction Price: ASC 606-10-32-26 provides guidance on determining the transaction price. The Company considered the effects of variable consideration, constraints on variable consideration, the existence of a significant financing component in the contract, and non-cash consideration. The Company receives variable consideration given the variable nature of the amount of mining power (hashrate) contributed on a daily basis (24-hour period per recurring contract term). The Company completes an analytical procedure as part of its monthly close process to determine the reasonableness of consideration received. There are no significant financing components of the transaction or delays in the timing of payments from the customer to the Company, whereas the Company would need to adjust the transaction price for the time value of money. As the Company receives non-cash consideration, in the form of bitcoin, ASC 606-10-32-26 specifies that the Company should measure non-cash consideration at fair value. The fair value of the non-cash consideration would be included in the determination of the transaction price. The Company does not receive the gross amounts of bitcoin earned prior to the transaction fees deduction by the pool operator. As such, the consideration received is net or inclusive of the transaction fees incurred and charged by the customer (pool operator).

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Variable Consideration: If the fees paid to the mining pool operator are variable, an entity should estimate the amount of consideration to which it will be entitled. This involves considering the likelihood and magnitude of a significant revenue reversal. ASC 606-10-32-26 emphasizes the need to assess whether there are constraints on variable consideration. In the instance where there is uncertainty about the amount of consideration, it is reasonable for the Company to consider a likelihood of a significant reversal of revenue. The Company reviews daily bitcoin rewards received and reviews various factors, such as mining difficulty, the price of bitcoin and the Company's contribution to the pool operator. The Company estimates the amount of variable consideration the Company should receive and prepares a monthly workpaper documenting the difference in actual bitcoin rewards received vs. estimated bitcoin earned. The Company assessed, given the pool operators payout methodology and the revenue reasonableness test completed by management, there does not exist a likelihood of a significant reversal of revenue.

Reduction of Transaction Price: ASC 606-10-32-27 states that an entity should reduce the transaction price for variable consideration only to the extent that it is probable that a significant revenue reversal will not occur when the uncertainty is subsequently resolved. The Company assessed various factors, identifying the variable consideration, estimating the variable consideration, considered constraints (although none existed such as performance metrics or targets), probability, documentation, regular review and monitoring of performance with open communication with pool operators combined with dashboard usage. Due to the Company utilizing Foundry Pool's FPPS methodology and the previous mentioned factors, there was zero likelihood of a significant reversal of revenue as the Company receives payouts as a pool participant on a daily basis calculated from midnight-to-midnight UTC time, regardless of if the Pool Operator receives any block rewards.

In summary, fees paid to the mining pool operator are considered payments to a customer and treated as a reduction of the transaction price/revenue. The Company has carefully assessed the variable nature of these fees, considered the likelihood and magnitude of any potential adjustments, and documented that management has applied the revenue recognition guidance accordingly.

STOCK-BASED COMPENSATION

We account for our stock-based compensation under ASC 718 "*Compensation — Stock Compensation*" using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments, or the issuance of those equity instruments may settle that.

We use the fair value method for equity instruments granted to non-employees and use the Black-Scholes model for measuring the fair value of options. The stock-based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

Common stock awards

The Company grants common stock awards to non-employees in exchange for services provided. The Company measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees are recorded in accordance with ASC 718 on the statement of operations in the same manner and charged to the same account as if such settlements had been made in cash.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Warrants

In connection with certain financing, consulting, and collaboration arrangements, the Company has issued warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants are recorded at fair value as expense over the requisite service period or at the date of issuance, if there is not a service period.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method, in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is required to the extent any deferred tax assets may not be realizable.

ASC Topic 740, Income Taxes, (“ASC 740”), also clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. ASC 740 also provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. Based on the Company’s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company’s financial statements. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in material changes to its financial position.

EARNINGS PER SHARE

The Company uses ASC 260, “Earnings Per Share” for calculating the basic and diluted earnings (loss) per share. The Company computes basic earnings (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and warrants and stock awards. For periods with a net loss, basic and diluted loss per share are the same, in that any potential common stock equivalents would have the effect of being anti-dilutive in the computation of net loss per share.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years ended December 31,:

	2022	2021
Numerator		
Net income (loss)	$ 3,536,000	$ (22,110,000)
Effect of dilutive instruments	—	—
Numerator for diluted EPS	3,536,000	(22,110,000)
Denominator		
Denominator – for basic EPS	14,399,222	13,445,773
Effect of dilutive instruments		
Series Seed preferred stock	5,120,587	—
Series Seed II preferred stock	266,795	—
Warrants to purchase common stock	1,067,968	—
Dilutive potential common shares	6,455,350	—
Denominator for diluted EPS	20,854,572	13,445,773
Basic EPS	$ 0.25	$ (1.64)
Diluted EPS	$ 0.17	$ (1.64)

Securities that could potentially dilute loss per share in the future were not included in the computation of diluted loss per share for the year ended December 31, 2021, because their inclusion would be anti-dilutive. Common share equivalents amounted to 5,387,382 shares for convertible seed series and convertible seed series II preferred shares, 1,117,968 shares for warrants, 1,002,472 shares for convertible debentures and accrued interest, and 1,919,631 shares for unvested share grants for a total of 9,427,453 as of December 31, 2021. For the year ended December 31, 2022, the Company had 6,455,350 dilutive securities.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company's management reviewed all recently issued accounting standard updates ("ASU's") not yet adopted by the Company and does not believe the future adoptions of any such ASU's may be expected to cause a material impact on the Company's consolidated financial condition or the results of its operations.

NOTE 2 — DIGITAL ASSETS

As disclosed in Note 10 — Stockholders' Equity, during the year ended December 31, 2021, the Company received digital currency from the private placement of its common stock and series seed II preferred stock. The digital assets (Bitcoin, Ethereum, DAI, and USDT) received amounted to $1,374,000. In 2022, the Company received digital assets, Bitcoin, from the issuance of a note payable having a value of $27,592,000 as disclosed in Note 7 — Notes Payable.

The following table summarizes the digital currency (Bitcoin) transactions for the years ended December 31, 2022 and 2021:

	2022	2021
Digital assets beginning balance	$ 6,000	$ —
Digital assets received as payment for common stock and series seed II preferred stock	—	1,374,000
Revenue recognized from mined digital assets	21,362,000	3,711,000
Revenue share from Sphere 3D	618,000	—
Digital assets earned as interest	—	62,000
Cost of digital assets sold for cash	(30,270,000)	(2,537,000)
Cost of digital assets transferred for noncash expenditures	(3,978,000)	(1,892,000)
Reversal of receivable from BitGo	120,000	—
Impairment loss on digital assets	(8,704,000)	(712,000)
Digital asset loan from Anchorage	27,592,000	—
Digital assets ending balance	$ 6,746,000	$ 6,000

During the year ended December 31, 2022, and 2021, the Company realized gains amounting to $609,000 and $344,000, respectively, related to the disposal of its digital asset.

The table below shows the costs of the digital assets transferred for noncash expenditures for the years ended December 31,:

	2022	2021
Payment for principal and interest	$ 3,440,000	$ —
Payment for mining equipment	538,000	—
Deposit for mining equipment	—	1,541,000
Payment for prepaid expenses	—	47,000
Payment for accrued expenses	—	106,000
Payment for expenses	—	79,000
Receivable from BitGo	—	119,000
Total noncash disposition	$ 3,978,000	$ 1,892,000

NOTE 3 — MARKETABLE SECURITIES

In accordance with the Amended Merger Agreement, the Company received 850,000 shares of Sphere 3D's restricted common stock that are held in a third-party escrow account upon providing written notice of the merger termination.

On April 4, 2022, the Company and Sphere 3D mutually agreed to terminate their Merger Agreement announced on June 3, 2021, and as amended on December 29, 2021, due to changing market conditions, the passage of time, and the relative financial positions of the companies, among other factors.

According to the terms, the Company has received the 850,000 shares of Sphere 3D.

The shares are accounted for in accordance with ASC 320 — Investments — Debt and Equity Securities, as such the shares will be classified as available-for-sale securities and will be measured at each reporting period at fair value with the unrealized gain or (loss) as a component of other income (expense).

NOTE 3 — MARKETABLE SECURITIES (cont.)

The table below summarizes the movement in this account for the year ended:

	December 31, 2022
Fair value of shares received	$ 1,734,000
Change in fair value	(1,499,000)
Balance at end of year	$ 235,000

The fair value of the 850,000 shares of Sphere 3D, which was $1,734,000 at the date of receipt, has been recorded as a gain on termination of merger agreement under other income.

NOTE 4 — DEPOSITS

The deposits are summarized as follows for the years ended December 31,:

	2022	2021
Beginning Balance	$ 16,365,000	$ —
Cash deposit	8,150,000	36,071,000
Digital assets used as deposit	—	1,655,000
Delivered mining equipment	(24,355,000)	(21,361,000)
Converted carbon credit	(100,000)	—
Ending Balance	60,000	16,365,000
Less: current portion	—	16,305,000
Deposits – net of current portion	$ 60,000	$ 60,000

During the year ended December 31, 2021, the Company entered into a purchase agreement with Bitmain for the acquisition of a total of 7,200 miners, to be shipped and delivered during 2021 and 2022. As of December 31, 2022, the Company received 7,130 miners and the contract was deemed to be completed by the Company.

In the year ended December 31, 2021, the Company entered another contract and paid $100,000 refundable deposits for the acquisition of 250,000 units of carbon credits. As of June 2, 2022, carbon credits were reduced to 74,075 units from 250,000 units to align with the deposit paid amounting to $100,000.

Also, as of December 31, 2022, the Company had a $60,000 refundable deposit paid to Coinmint.

NOTE 5 — MINING EQUIPMENT, NET

Mining equipment consisted of 7,410 units of operational bitcoin mining machines. The following table summarizes the carrying amount of the Company's mining equipment as of December 31,:

	2022	2021
Mining equipment		
Balance, beginning of year	$ 21,844,000	$ —
Additions	25,755,000	21,844,000
Ending balance	$ 47,599,000	$ 21,844,000
Accumulated depreciation		
Balance, beginning of year	$ 695,000	$ —
Additions	12,536,000	695,000
Ending balance	$ 13,231,000	$ 695,000
Net carrying amount	$ 34,368,000	$ 21,149,000

NOTE 6 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table summarize accounts payable and accrued expense as of December 31, :

	2022	2021
Accounts payable	$ 113,000	$ —
Accrued expenses	2,880,000	3,744,000
Total	$ 2,993,000	$ 3,744,000

NOTE 7 — NOTES PAYABLE

The following table summarizes the outstanding balance of the Company's notes payable as of December 31, :

	2022	2021
Equipment loan	$ 12,636,000	$ —
Sphere 3D note	—	10,000,000
Ending balance	12,636,000	10,000,000
Less – current portion	9,126,000	3,118,000
Notes payable – noncurrent portion	$ 3,510,000	$ 6,882,000

Sphere 3D Note

On July 6, 2021, the Company issued a promissory note payable to Sphere 3D in the amount of $2,700,000 ("Sphere 3D Note"). The Sphere 3D Note accrues interest at 9.5% with a default interest rate of 12%. Starting on September 30, 2021, The Sphere 3D Note is payable in 36 equal monthly installments of $86,000 with the final payment due August 30, 2024.

On August 30, 2021, the Company entered into an amendment to the Sphere 3D Note ("Amendment 1"), increasing the principal amount of the Sphere 3D Note to $6,350,000.

On September 29, 2021, the Company entered into a second amendment to the Sphere 3D Note ("Amendment 2"), increasing the principal amount of the note to $10,000,000. Also, Amendment 2 modifies the payment schedule, with the first monthly payment due January 1, 2022. Payment will be made in 36 equal monthly installments of $329,000 with the final payment due on December 1, 2024.

On January 03, 2022, the Company entered into a third amendment to the Sphere 3D Note ("Amendment 3"), increasing the principal amount of the note to $12,500,000. Amendment 3 modifies the payment schedule with the first monthly payment on the fifteenth of the month following the month in which the Merger Agreement entered into by the Company and Sphere 3D is consummated in accordance with its terms. Payment will be made in 34 equal monthly installments of $400,412.

On April 4, 2022, the Company and Sphere 3D mutually agreed to terminate their Merger Agreement announced on June 3, 2021, and as amended on December 29, 2021, due to changing market conditions, the passage of time, and the relative financial positions of the companies, among other factors. Due to the termination of the Merger Agreement, the existing indebtedness owed by the Company to Sphere 3D in the principal amount of $12,500,000 was forfeited, including the accrued interest amounting to $466,000. A gain on extinguishment amounting to $12,966,000 was recognized in the consolidated statement of operations.

NOTE 7 — NOTES PAYABLE (cont.)

The following table summarizes the carrying value of Sphere 3D note as of December 31,:

	2022	2021
Beginning balance	$ 10,000,000	$ —
Addition	2,500,000	10,000,000
Forfeiture	(12,500,000)	—
Ending balance	$ —	$ 10,000,000
Less – current portion	—	3,118,000
Ending balance – noncurrent portion	$ —	$ 6,882,000

BTC Note

On May 25, 2022, GOI (the "Borrower") entered into an Equipment Loan and Security Agreement (the "BTC Note") with a lender amounting to 933.333333 Bitcoin ("BTC") at an annual interest rate of 5%.

The principal and interest are payable with BTC over 25 monthly payments starting June 2022. The table below summarizes the principal and interest BTC payments as follows:

Date	Interest	Principal
12/01/2022	3.31	42.42
01/01/2023	3.24	42.42
02/01/2023	3.06	42.42
03/01/2023	2.60	42.42
04/01/2023	2.70	42.42
05/01/2023	2.44	42.42
06/01/2023	2.34	42.42
07/01/2023	2.09	42.42
08/01/2023	1.98	42.42
09/01/2023	1.80	42.42
10/01/2023	1.57	42.42
11/01/2023	1.44	42.42
12/01/2023	1.22	42.42
01/01/2024	1.08	42.42
02/01/2024	0.90	42.42
03/01/2024	0.67	42.42
04/01/2024	0.54	42.42
05/01/2024	0.35	42.42
06/01/2024	0.18	42.42

The Loan is secured by (1) the ASIC machines used for Bitcoin mining, (2) The Colocation Mining Services Agreement, dated as of July 1, 2022, by and between Borrower and Coinmint, and (3) The Contribution Agreement, dated as of May 25, 2022, by and between Borrower and the Company.

The Company evaluated the Loan in accordance with ASC 815 Derivatives and Hedging. Based on this evaluation, the Company has determined that the Loan will require derivative accounting and will be adjusted to fair value every reporting period.

NOTE 7 — NOTES PAYABLE (cont.)

The following table summarizes the fair value of the BTC Note as of December 31, 2022:

	Principal	Interest
Addition	$ 27,592,000	$ 532,000
Payment	(2,997,000)	(443,000)
Adjustment to fair value	(11,690,000)	—
Realized Gain (GOI)	(269,000)	(35,000)
Ending balance	$ 12,636,000	$ 54,000
Less – current portion	9,126,000	54,000
Ending balance – noncurrent portion	$ 3,510,000	$ —

For the year ended December 31, 2022, the Company recognized interest expense amounting to $532,000 of which $54,000 is still accrued.

NOTE 8 — CONVERTIBLE DEBENTURES

The following table summarizes the carrying amount of the Company's convertible debentures as of December 31,:

	2022	2021
Principal		
Balance, beginning of year	$ 9,079,000	$ —
Additions	—	9,079,000
Payment	(8,665,000)	—
Conversion	(414,000)	—
Ending balance	—	9,079,000
Debt Discount		
Balance, beginning of year	3,671,000	—
Additions	—	4,462,000
Amortization	(788,000)	(791,000)
Retirement due to repayment	(137,000)	—
Retirement due to conversion	(2,746,000)	—
Ending balance	—	3,671,000
Net carrying amount	$ —	$ 5,408,000

In June 2021, the Company initiated a private placement for the sale of a unit consisting of a convertible debenture in the principal amount of $9.4867 ("Convertible Debenture") and one warrant to purchase the Company's common stocks ("Warrant") for a total aggregate of 956,857 units. The Convertible Debenture is convertible into a share of the Company's common stock at a conversion price equal to the lower of (a) $9.4867, or (b) a 30% discount to the public valuation. Notwithstanding the foregoing, if the Company is not listed on a national securities exchange or international equivalent on or before the first anniversary of the closing date, the 30% discount shall be increased to 40% ("Conversion Price"). The warrant entitles the holder for a period of three years from the Closing Date, to purchase shares of the Company's common stock at a price of $18.97 per share. The Convertible Debentures accrue simple interest on the outstanding principal balance at a rate of 10% per annum. The accrued and unpaid interest can be converted into shares of the Company's common stock along with the principal on the maturity date. Also, the Convertible Debentures mature on the second anniversary of the initial closing ("Maturity Date").

NOTE 8 — CONVERTIBLE DEBENTURES (cont.)

The $2,746,000 has been recorded as a loss on extinguishment of debt under other income (expense).

The Company's management has evaluated the Convertible Debenture and related warrants in accordance with ASC 480 — Distinguishing Liabilities from Equity and ASC 815 — Derivatives and Hedge Accounting. The features of the Convertible Debenture and warrants would not meet the criteria to be accounted for as a derivative or liability and therefore accounted for as equity.

In accordance with ASC 470 — Debt, the Company first allocated the cash proceeds to the loan and the warrants on a relative fair value basis, secondly, since the Company adopted and assessed the Convertible Debenture in accordance with ASU 2020-06 — Debt with Conversion and Other Options, the beneficial conversion feature was not recognized.

As of December 31, 2021, the Company sold 956,857 units for a total principal balance of $9,079,000 and 956,857 warrants. The warrants were valued using the Black Scholes option pricing model at a total of $8,851,000 based on the three-year term, volatility of 101.5% to 102.5%, a risk-free equivalent yield of 0.33% to 0.48%, and stock price ranging from $13.05 to $25.37. The stock price used was calculated based on the share price equivalent of each share of the Company's common stock based on Sphere 3D's common stock price in relation to the Merger Agreement, see Note 1 Agreement and Plan Merger for more information. Volatility used was calculated based on the price of a pool of companies that are in the crypto mining industry and are actively traded in the market. The relative fair value of the warrants used in allocating the proceed of the Convertible Debenture amounted to $4,462,000 which was accounted for as a discount and amortized over the term of the Convertible Debenture.

Each holder of the Convertible Debentures has the right, exercisable at any time prior to the Maturity Date, to convert all, but not less than all, of the principal amount then outstanding, plus all accrued but unpaid interest thereon, if any, into common stock of the Company at a price equal to the Conversion Price, subject to an equitable adjustment for any stock splits, stock dividends or reorganization transactions having a similar effect. The holder must provide at least five business days prior notice to the Company of the exercise of his, her, or its conversion right. Automatic conversion of the Convertible Debenture into common stock upon the listing of the Company's common stock (or a successor company whose stock would be issuable upon conversion of the Convertible Debenture) on a national securities exchange.

The Company has entered into a Merger Agreement, as disclosed in Note 1 above. It is contemplated that Sphere 3D will file a registration statement, with the Securities and Exchange Commission, on a Form F-4 in connection with the Merger contemplated by the Merger Agreement. Such F-4 registration statement will register the shares issuable upon conversion of the Convertible Debenture and exercise of the warrants. If the Merger Agreement is terminated and the company does not otherwise undertake a going public transaction that will result in a listing on a national securities exchange or international equivalent within six months of such termination (the "Outside Date"), then the Company will file a resale registration statement registering for resale the Underlying Shares as soon as reasonably possible, but in no event later than 4 months after the Outside Date and use its best efforts to cause such resale registration statement to become effective as soon as possible thereafter.

On May 26, 2022, the Company issued 43,689 and 4,282 shares of common stock due to the conversion of convertible debentures with a principal amount aggregating $414,000, less $137,000 unamortized discount, and accrued interest of $41,000, respectively, at a conversion rate of $9.4867.

Also on May 26, 2022, the Company paid in cash an aggregate of $9,504,000 to convertible debenture holders due to redemption. Principal and accrued interest redeemed amounted to $8,665,000 and $839,000, respectively.

NOTE 9 — COMMITMENTS AND CONTIGENCIES

Commitments

Consulting Agreements

On January 14, 2021, the Company entered into a consulting agreement ("Consulting Agreement") with Chang Advisory Inc. for Robby Chang ("Consultant"), to serve as the Company's Chief Executive Officer and as a member of the Board of Directors. The Consulting agreement will continue until terminated by either the Consultant or the Company. The Consultant will be paid $175,000 (Canadian dollars) per year and shall increase to approximately $300,000 (Canadian dollars) upon the closing of either i) an equity financing totaling at least $5,000,000 (Canadian dollars); or (ii) a debt and equity financing totaling at least $10,000,000 (Canadian dollars) (either (i) or (ii) being a "Qualifying Financing"). If a Qualifying Financing occurs within 90 days from the Effective Date, then the invoicing exception for the first ninety days shall no longer apply and the Consultant shall be entitled to immediately invoice for all completed 30-day periods up to the date of the Qualifying Financing. Upon the closing of the private placement offering on March 16, 2021, the Company meet the criteria for a Qualified Offering; therefore, the consulting compensation increased to $300,000 (Canadian dollars) annually.

The Compensation Committee shall review Consultant's Annual Fee not less frequently than on December 31st during the Engagement Term. The consultant will be eligible for periodic increases in the Annual Fee under the Company's normal policies and procedures for executive salary increases, which currently provide for annual reviews of executive salaries. Consultant's Annual Fee for any year may not be reduced below the Consultant's Annual Fee for the prior year without the written consent of both Consultant and the Company.

Also, Robby Chang has shares of common stock of the Company. On February 2, 2021, the Company determined that the fair market value of a share of common stock was approximately $2.40; therefore, the cash proceeds amounting to that were initially received by the Company were below the fair market value of the shares. The additional value was considered by management to be compensation for Robby Chang as he provides services to the Company. Compensation expenses recognized amounted to $4,540,000. See Note 10 — Stockholders' Equity for more information.

On May 12, 2021, the Company entered into a director agreement with one of its directors. As part of the agreement, the director agreed to accept a fee of $200,000 per year, which will be paid in monthly installments. Also, the Company agreed to repurchase 300,000 shares of the Company's common stock owned by the director for $1,000. The 300,000 shares were part of the 1,000,000 shares of the Company's common stock previously issued to the director for a purchase price of $4,000, resulting in $2,396,000 compensation expense. See Note 10 — Stockholders' Equity for more information.

On August 19, 2021, the Company entered into a Master Services Agreement with Sphere 3D, see below for full description.

In October 2021, the Company executed a consulting agreement for the counterparty to act as the chief technology advisor for the Company. As compensation for the advisory services, the counterparty will receive 199,309 shares of the Company's common stock for a total value of $6,206,000. The shares were issued as of the effective date, but vest in 25% increments, with the first tranche of shares vesting on October 1, 2021, and then every three months thereafter until all shares are vested. Upon an initial public offering or a change in control of the Company, all of the unvested shares, at the time of the event, will vest immediately. The change of control provision shall not be applied to the Merger Agreement, as disclosed in Note 1.

NOTE 9 — COMMITMENTS AND CONTIGENCIES (cont.)

Executive Employment Agreement

On April 4, 2022, the Company entered into an executive employment agreement with its Chief Financial Officer ("CFO"). As part of the agreement, the CFO shall receive a time-based equity grant covering 500,000 shares of the Company's common stock. The equity grant shall vest over a three-year period beginning on the effective date, subject to CFO's continued employment with the Company through the relevant vesting date, in accordance with the following schedule, (i) 83,333 shares under the equity grant shall vest upon the six (6)-month anniversary of the effective date, (ii) 166,667 shares under the equity grant shall vest in substantially equal quarterly installments commencing on the nine (9)-month anniversary of the effective date and (iii) 250,000 shares under the equity grant shall vest in substantially equal monthly installments commencing on the 19-month anniversary of the effective date.

Bitmain Miner Purchase Agreement

On April 14, 2021, the Company entered into a purchase agreement with Bitmain for the acquisition of a total of 7,200 miners, to be shipped and delivered during 2021 and 2022. As of December 31, 2022, the Company received a total of 7,130 miners, which have been deployed at the Coinmint and Core facilities. As of December 31, 2022, the purchase agreement has been satisfied.

Coinmint Co-location Mining Services Agreement

On July 1, 2021, the Company entered into an agreement with Coinmint, (the "Coinmint Agreement"), pursuant to which Coinmint agreed to provide up to approximately 22.0 MW of power and to perform all maintenance necessary to operate Company's miners at the Coinmint facility. In exchange, Coinmint is reimbursed for direct production expenses and receives a performance fee based on the net cryptocurrencies generated by the Company's miners deployed at the Coinmint facility. The initial term of the Coinmint Agreement is fifteen months with automatic renewals for subsequent three (3) month terms until and unless terminated as provided in the agreement.

The Company determined the agreement with Coinmint does not meet the definition of a lease in accordance with Accounting Standards Codification ("ASC") 842, Leases.

Core Scientific Co-location Mining Service Agreement and Sub-License and Delegation Agreement

On September 12, 2021, the Company entered into an agreement with Core Scientific, Inc. ("Core") (the "Core Agreement") pursuant to which Core agreed to provide the power to operate the Company's miners and to provide all services required to maintain and operate the Company's miners for a set fee for each KWh used by the Company's miners. The term of the Core Agreement is forty-eight months, with automatic renewals for subsequent twelve-month periods.

The Company determined the agreement with Core does not meet the definition of a lease in accordance with Accounting Standards Codification ("ASC") 842, Leases.

On October 8, 2021, the Company entered into a Sub-License and Delegation Agreement ("SL&DA") with Sphere 3D, whereby the Company (i) exclusively sub-licensed to Sphere its rights to access and use the Company Facility pursuant to Order 2 and (ii) delegated to Sphere all its obligations to make payments to Core pursuant to Order 2. Sphere accepted such sub-license and delegation in all respects. Per the SL&DA, Sphere sent $16,308,000 to the Company, which was subsequently sent to Core as part of the prepayments outlined in Order 2.

On December 29, 2021, the Company and Sphere 3D, agreed to amend the SL&DA to provide the Company the right to recapture the usage of up to 50% of the hosting capacity to be managed by Core if the Merger Agreement is terminated prior to consummation of the Merger.

NOTE 9 — COMMITMENTS AND CONTIGENCIES (cont.)

As of December 31, 2022, the Company made the following payments to Core which were fully reimbursed by Sphere 3D as follows:

Payment Amount	Percentage and Period covered
$ 73,000	100% prepayment for October 2021 services made in October 2021
205,000	70% prepayment of the estimated services for November 2021 through February 2022 made in October 2021
15,296,000	30% prepayment of the estimated services for March 2022 through November 2022 made in October 2021
756,000	40% prepayment of the estimated services for March 2022; and 30% prepayment for the estimated services for November 2021 made in October 2021
1,489,000	40% prepayment for hosting services for April 2022; and 30% prepayment for the estimated hosting services for December 2021 made in November 2021
2,223,000	40% prepayment for hosting services for May 2022; and 30% prepayment for the estimated hosting services for January 2022 made in December 2021
2,957,000	40% prepayment for hosting services for June 2022; and 30% prepayment for the estimated hosting services for February 2022 made in January 2022
3,485,000	40% prepayment for hosting services for July 2022; and 30% prepayment for the estimated hosting services for March 2022 made in February 2022
4,035,000	40% prepayment for hosting services for August 2022; and 30% prepayment for the estimated hosting services for April 2022 made in March 2022
4,585,000	40% prepayment for hosting services for September 2022; and 30% prepayment for estimated hosting services for May 2022 made in April 2022
$ 35,104,000	

Sphere 3D MSA

On August 19, 2021, Gryphon entered into a Master Services Agreement, or the Sphere MSA, with Sphere 3D. The Sphere 3D MSA has a term of three years, beginning on August 19, 2021, and terminating on August 18, 2024, with one-year automatic renewal terms thereafter. Under the Sphere MSA, Gryphon is Sphere 3D's exclusive provider of management services for all blockchain and cryptocurrency-related operations, including but not limited to services relating to all mining equipment owned, purchased, leased, operated, or otherwise controlled by Sphere 3D and/or its subsidiaries and/or its affiliates at any location, with Gryphon receiving a percentage of the net operating profit of all of Sphere 3D's blockchain and cryptocurrency-related operations.

On December 29, 2021, the Company and Sphere 3D entered into Amendment No. 1 to the Sphere 3D MSA, to provide greater certainty as to the term of the Sphere 3D MSA. Sphere 3D and Gryphon agreed to extend the initial term of the Sphere 3D MSA from three to four years, or to five years in the event Sphere 3D does not receive delivery of a specified minimum number of Bitcoin mining machines during 2022.

The cryptocurrency earned from the Sphere mining operations is held in a wallet, in which the Company holds the cryptographic key information and maintains the internal recordkeeping of the cryptocurrency. The Company's contractual arrangements state that Sphere retains legal ownership of the cryptocurrency; has the right to sell, pledge, or transfer the cryptocurrency; and also benefits from the rewards and bears the risks associated with the ownership, including as a result of any cryptocurrency price fluctuations. The Sphere also bears the risk of loss as a result of fraud or theft, unless the loss was caused by the Company's gross negligence or the Company's willful misconduct. The Company does not use any of the cryptocurrency custodied for Sphere as collateral for any of the Company's loans or other financing arrangements, nor does it lend or pledge cryptocurrency held for Sphere.

As of December 31, 2022 and 2021, the Company held approximately 2.498 and nil bitcoin, respectively, with a value of approximately $41,000 and nil, respectively.

NOTE 9 — COMMITMENTS AND CONTIGENCIES (cont.)

BUSINESS INTERRUPTION

The COVID-19 global pandemic had no effect on the Company's operations. Circumstances caused by the COVID-19 pandemic are complex, uncertain, and rapidly evolving. The impact of COVID-19 has not been significant to the Company's results of operations, financial condition, liquidity, and, capital resources. Although no material impairment or other effects have been identified to date, there is substantial uncertainty in the nature and degree of its continued effects over time. That uncertainty affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions as additional events and information become known. The Company will continue to consider the potential impact of the COVID-19 pandemic on its business operations.

CONTINGENCIES

The Company is subject at times to various claims, lawsuits, and governmental proceedings relating to the Company's business and transactions arising in the ordinary course of business. The Company cannot predict the final outcome of such proceedings. Where appropriate, the Company vigorously defends such claims, lawsuits, and proceedings. Some of these claims, lawsuits and proceedings seek damages, including, consequential, exemplary, or punitive damages, in amounts that could, if awarded, be significant. Certain of the claims, lawsuits, and proceedings arising in the ordinary course of business are covered by the Company's insurance program. The Company maintains the property and various types of liability insurance in an effort to protect the Company from such claims. In terms of any matters where there is no insurance coverage available to the Company, or where coverage is available and the Company maintains a retention or deductible associated with such insurance, the Company may establish an accrual for such loss, retention, or deductible based on currently available information. In accordance with accounting guidance, if it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements, and the amount of loss is reasonably estimable, then an accrual for the cost to resolve or settle these claims is recorded by the Company in the accompanying balance sheets. If it is reasonably possible that an asset may be impaired as of the date of the financial statement, then the Company discloses the range of possible loss. Expenses related to the defense of such claims are recorded by the Company as incurred and included in the accompanying statements of operations. Management, with the assistance of outside counsel, may, from time to time adjust such accruals according to new developments in the matter, court rulings, or changes in the strategy affecting the Company's defense of such matters. On the basis of current information, the Company does not believe there is a reasonable possibility that other than with regard to the Class Action described below, any material loss, if any, will result from any claims, lawsuits, and proceedings to which the Company is subject to either individually, or in the aggregate.

NOTE 10 — STOCKHOLDERS' EQUITY

Preferred stock

The Company is authorized to issue 20,000,000 shares of preferred stock, $0.0001 par value per share. The Company has designated 6,000,000 shares as series seed preferred stock ("Series Seed Shares"), 1,000,000 shares as series seed II preferred stock (Series Seed II Shares"), and 13,000,000 as undesignated preferred stock. The Company's Board of Directors may issue preferred stock in one or more series from time to time and fix or alter the powers, preferences, and rights, and the qualifications, limitations, and restrictions granted to or imposed upon any wholly unissued series of preferred stock, and within the limits or restrictions stated in any resolutions of the Board of Directors.

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company or any deemed liquidation event, before any payment shall be made to the holders of common stock, holders of shares of preferred stock then outstanding shall be entitled to be paid out of the funds and assets available for distribution to its stockholders at the greater of $2.40 per share for Series Seed and $6.68 per share for Series Seed II or such amount per share as would have been payable had all shares of preferred stock been converted into common stock.

NOTE 10 — STOCKHOLDERS' EQUITY (cont.)

The Company's management evaluated the series seed and series seed II preferred stock for features that qualify as embedded derivative liabilities. The management concluded that the conversion feature would not be a derivative to be accounted for as a liability.

On March 24, 2021, the Company filed a Certificate of Designation with the Secretary of the State of Delaware to create out of the total authorized and unissued shares of preferred stocks a series of preferred stocks constituting 6,000,000 shares designated as the series seed preferred stock. Each share from this series shall be convertible at any time, at the option of the holder, and without the payment into such number of fully paid and nonassessable shares of common stock as is determined by dividing the original issue price for such series of preferred stock by the conversion price for such series of preferred stock at the time of conversion. The initial conversion price is the original issue price of $2.40. In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation or any deemed liquidation event, before any payment shall be made to the holders of common stock by reason of their ownership, the holder of shares of preferred stock then outstanding shall be entitled to be paid out of the funds and assets available for distribution to its stockholders, an amount per share equal to or the greater of (a) the Original Issue Price for such share of preferred stock, plus any dividends declared but unpaid thereon, or (b) such amount per share as would have been payable had all shares of preferred stock been converted into common stock prior to liquidation.

On March 26, 2021, the Company and certain investors from the March 16, 2021, common stock private placement offering entered into a cancellation and exchange agreement to cancel 4,995,469 shares of the Company's common stock in exchange for the issuance of 4,995,469 shares of the Company's series seed preferred stocks.

In March 2021, the Company issued an additional 6,303 shares of the Company's series seed preferred stock for $2.40 per share for total cash proceeds of $15,000.

In April 2021, the Company issued an additional 118,815 shares of the Company's series seed preferred stock for $2.40 per share for total cash proceeds of $285,000.

On May 27, 2021, the Company offered the issuance of its series seed II preferred stock at $6.68 per share. The Company issued a total of 248,831 shares with total cash and cryptocurrency proceeds of $1,501,000 and $161,000, respectively.

On June 2, 2021, the Company granted 17,964 shares of series seed II preferred stock to one of its consultants as payment for services payable in 6 monthly installments of 2,994 shares per month. As of December 31, 2021, all shares were vested. Compensation expenses recognized amounted to $214,000.

Common stock

The Company is authorized to issue 100,000,000 shares of common stock, $0.0001 par value per share.

On December 10, 2020, the Company issued 9,550,000 shares of common stocks for $0.002 per share for cash. Of which $15,000 was received and the remaining $4,000 was received after December 31, 2020.

On February 2, 2021, the shareholders owning 9,550,000 shares of the Company's common stock (the "Original Shareholders") agreed to contribute an additional $0.002 per share for a total capital contribution of approximately $16,000. Also, the Company repurchased from one of the Original Shareholders 1,000,000 shares of the Company's common stock, and another Original Shareholder purchased an additional 161,250 for $0.004 per share. The capital contribution from the Original Shareholders totaled approximately $35,000 for total shares of 8,711,250.

Additionally, the Company agreed to sell 3,892,424 shares of the Company's common stock, including the 1,000,000 shares repurchased, to the Company's officers, directors, and seed stage advisors. As of February 2, 2021, the Company determined that the fair market value of a share of common stock was approximately $2.40. Therefore, the cash proceeds from the Investors were below the fair market value for the shares. The additional value was considered, by management, to be compensation to the Investors as they provided services to the Company.

NOTE 10 — STOCKHOLDERS' EQUITY (cont.)

The Company recorded a compensation expense of $1,671,000 for the shares sold to the seed stage advisors totaling 696,262 shares and $7,655,000 for the shares sold to officers and directors, totaling 3,189,675 shares. The officers, directors, and seed stage advisors ("Investors") purchased 6,487 shares of the Company's common stock for total proceeds of approximately $16,000.

On March 16, 2021, the Company closed a private placement offering with certain accredited investors for the sale of 5,876,426 shares of the Company's common stock at $2.40 per share for total proceeds of approximately $14,103,000, including $1,213,000 of cryptocurrency. Of which, 4,995,469 shares were converted to series seed preferred stock. Financing costs were de minimis.

On March 16, 2021, the Company had a private placement and issued 16,667 shares of common stock to DecentraNet at $2.40 per share totaling $40,000, and paid $64,000 in cash for advisory services provided. On March 26, 2021, the Company and DecentraNet entered into a cancellation and exchange agreement to cancel 16,667 shares of the Company's common stock in exchange for the issuance of 16,667 shares of the Company's series seed preferred stock.

On May 12, 2021, the Company entered into a director agreement with one of its directors. As part of the agreement, the Company agreed to repurchase 300,000 shares of the Company's common stock owned by the director for $1,000. The 300,000 shares were part of the 1,000,000 shares of the Company's common stock previously issued to the director on February 2, 2021, for a purchase price of $4,000, resulting in a $2,396,000 compensation expense recorded as of the date of issuance.

On June 3, 2021, the Company granted 1,859,434 shares of common stock to one of its consultants as payment for services payable in 40 quarterly installments of 46,486 shares per quarter. On April 4, 2022, the Company terminated this contract. As of the termination date, there was earned and unvested compensation expense of approximately $3,154,000, which was reversed and credited to stock-based compensation expense. For the year ended December 31, 2022, compensation expenses recognized amounted to $1,085,000.

During the year ended December 31, 2021, the Company entered into an agreement with the Company's President to include as part of additional paid-in capital the services contributed to the Company for a total of $250,000 annually. For the year ended December 31, 2022, additional paid-in capital for services contributed by the President amounted to approximately $252,000.

On April 4, 2022, the Company entered into an employment agreement with an individual. The agreement provided for an annual cash compensation of $230,000 paid in equal installments on a monthly basis. Also, the employee was granted equity compensation of 500,000 shares of the Company's common stock. The equity award vests 83,333 shares upon the six-month anniversary, 166,667 shares vest in equal quarterly installments commencing on the nine- month anniversary, and 250,000 shares vest in equal monthly installments commencing on the 19-month anniversary. The equity award was valued as of the grant date at $9.487 per share for a total of $4,744,000. As of December 31, 2022, issued and vested shares amounted to 83,333. Compensation expenses for the year ended December 31, 2022, amounted to $2,700,000 of which $1,910,000 was recorded as an accrued expense.

On May 26, 2022, the Company issued 43,689 and 4,191 shares of common stock due to the conversion of convertible debentures with a principal amount aggregating $414,000, less $137,000 unamortized discount, and accrued interest of $41,000, respectively, at a conversion rate of $9.4867.

On December 27, 2022, the Company issued 25,000 shares of common stock valued at $0.74 per share for the services of a board member. The shares' fair value was $18,000.

Restricted common stock awards

On December 10, 2020, the Company entered into two separate independent director agreements with two individuals. The individuals will serve as directors of the Company for an initial one-year period. As compensation, each director was granted 75,000 shares of the Company's common stock to vest over 18 months in four equal installments of 18,750 shares, per director, starting on January 1, 2021. The value of the shares on the issuance date was de minimis. As of December 31, 2021, a total of 75,000 shares were vested for the two directors for a total compensation expense recognized amounting to $330,000. During the year ended December 31, 2022, 18,750 shares for each of the two directors were vested for a total compensation expense recognized amounted to $30,000. As of December 31, 2022, a total of 150,000 shares were issued and vested for a total compensation expense recognized amounting to $360,000.

NOTE 10 — STOCKHOLDERS' EQUITY (cont.)

On February 9, 2021, the Company entered into a consulting agreement with a consultant. As compensation, the Company granted 62,340 shares of common stock amounting to $150,000 as payment for advisory services. The shares shall vest over 24 months at 2,598 shares per month starting February 9, 2021. On May 9, 2021, the Company and the consultant reached an agreement to modify and accelerate the vesting of all unvested shares to date totaling 54,548. Total compensation expense for the year ended December 31, 2021 was $150,000.

On March 10, 2021, the Company entered into a consulting agreement with a consultant. As compensation, the Company granted 92,000 shares of common stock amounting to $221,000 as payment for advisory services. The shares shall vest over 24 months at 3,833 shares per month starting March 10, 2021. In June 2021, the consultant resigned and retained ownership of the remaining 76,667 unvested restricted common stock awards valued at $2.40 per share. $184,000 was charged to deferred compensation expenses at the time of resignation.

On March 21, 2021, the Company entered into an agreement with an individual to serve as the Company's director for 24 months. As compensation, the director was granted 75,000 shares of the Company's common stock to vest over 18 months in four equal installments of 18,750 shares, starting on April 1, 2021. The first installment of 18,750 shares was issued on April 1, 2021. The value of the shares on the issue date was $2.40 per share. On June 2, 2021, the director resigned and forfeited 56,250 shares of restricted common stock awards.

On October 1, 2021, the Company entered into a consulting agreement with a consultant. As compensation, the Company granted 199,309 shares of common stock amounting to $6,206,000 as payment for advisory services. The shares shall vest over tranches of 25% increments, with the first tranche of shares vesting on October 31, 2021. The second, third, and fourth tranches of shares shall vest on December 31, 2021, March 31, 2022, and June 30, 2022, respectively. As of December 31, 2022, issued and vested shares amounted to 199,309. Compensation expenses for the year ended December 31, 2022, amounted to $1,804,000.

On October 20, 2021, the Company entered into an agreement with an individual to continue service to the Company. As compensation, the consultant was granted 10,000 shares of the Company's common stock, and all of the Shares shall vest over a period of two (2) years in accordance with the following vesting schedule: 2,500 Shares will vest on the six-month anniversary of the Effective Date, 2,500 Shares will vest on the first-year anniversary of the Effective Date, 2,500 Shares will vest on the eighteen-month anniversary, and the 2,500 Shares will vest on the second-year anniversary of the Effective Date. As of December 31, 2022, issued and vested shares amounted to 5,000. Compensation expenses for the year ended December 31, 2022, amounted to $241,000 of which $44,000 was recorded as an accrued expense.

On October 22, 2021, the Company entered into an agreement with an individual to continue service to the Company. As compensation, the consultant was granted 5,000 shares of the Company's common stock, and all of the Shares shall vest over a period of two (2) years in accordance with the following vesting schedule: 1,250 Shares will vest on the six-month anniversary of the Effective Date, 1,250 Shares will vest on the first-year anniversary of the Effective Date, 1,250 Shares will vest on the eighteen-month anniversary, and the 1,250 Shares will vest on the second-year anniversary of the Effective Date. As of December 31, 2022, issued and vested shares amounted to 2,500. Compensation expenses for the year ended December 31, 2022, amounted to $103,000 of which $19,000 was recorded as an accrued expense.

On October 26, 2021, the Company entered into an agreement with an individual to continue service to the Company. As compensation, the consultant was granted 10,000 shares of the Company's common stock, and all of the Shares shall vest over a period of two (2) years in accordance with the following vesting schedule: 2,500 Shares will vest on the six-month anniversary of the Effective Date, 2,500 Shares will vest on the first-year anniversary of the Effective Date, 2,500 Shares will vest on the eighteen-month anniversary, and the 2,500 Shares will vest on the second-year anniversary of the Effective Date. As of December 31, 2022, issued and vested shares amounted to 5,000. Compensation expenses for the year ended December 31, 2022, amounted to $206,000 of which $39,000 was recorded as an accrued expense.

NOTE 10 — STOCKHOLDERS' EQUITY (cont.)

The table below summarizes the compensation expense recognized related to the Company's restricted stock awards for the year ended December 31, 2022:

Directors	$	30,000
Consultants		2,351,000
Total	$	2,381,000

The table below summarizes the transactions related to the Company's restricted stock awards for the year ended December 31, 2022:

	Shares		Deferred compensation
Unvested, beginning balance	199,655	$	4,182,000
Vested	187,155		3,760,000
Unvested, ending balance	12,500	$	422,000

Warrants

In June 2021, the Company issued convertible notes with 956,857 warrants to purchase shares of the Company's common stock, see Note 8 — Convertible Debentures for more information. The warrants were valued using the Black Scholes option pricing model at a total of $8,851,000 based on the three-year term, volatility of 101.5% - 102.5%, a risk-free equivalent yield of 0.33%-0.48%, and stock price ranging from $13.05 to $25.37. The stock price used was calculated based on the share price equivalent of each share of the Company's common stock based on Sphere 3D's common stock price in relation to the Merger Agreement, see Note 1 Agreement and Plan Merger for more information. Volatility used was calculated based on the price of a pool of companies that are in the crypto mining industry and are actively traded in the market. The relative fair value of the warrants used in allocating the proceed of the Convertible Debenture amounted to $4,462,000.

In June 2021, the Company issued as payment for consulting services an aggregate of 120,000 warrants to purchase shares of the Company's common stock. The exercise price was $0.01, which is considered to be "penny warrants" Therefore, the Black Scholes option pricing model was not used to calculate the fair value of the penny warrants, but instead, the fair value amounting to $1,036,000 was calculated using the share price equivalent of the Company's common stock based on Sphere 3D's common stock price in relation to the Merger Agreement, see Note 1 Agreement and Plan Merger for more information.

On December 29, 2021, the Company completed a private placement offering of 111,111 units at a price per unit of $13.50 for an aggregate amount of approximately $1,500,000, each unit consisting of one share of the Company's common stock and one warrant ("Purchase Warrants") to purchase one share of the Company's common stock.

The Purchase Warrants will entitle the holder, for a period of three years from the Closing Date, to purchase one share of the Company's common stock, or its successor, at an exercise price equal to $0.01 per share, subject to an equitable adjustment for any stock splits, stock dividends or reorganization transactions having a similar effect. The Purchase Warrants will only be exercisable for cash. The Company may force the exercise of the Purchase Warrants if, at any time following the one year anniversary of the Closing Date, (i) the Company is listed on a national securities exchange or international equivalent as determined by the Company's board of directors, (ii) the underlying common stock is registered or the investors otherwise have the ability to trade the common stock without restriction, (iii) the 30-day volume-weighted daily average price of the common stock exceeds 200% of the exercise price, as adjusted and (iv) the average daily trading volume is at least 250,000 shares of common stock during such 30-day period.

NOTE 10 — STOCKHOLDERS' EQUITY (cont.)

The following tables summarizes the transactions involving our warrant for the years ended December 31, 2022 and 2021:

	Number of Shares	Weighted Average Strike Price/Share	Weighted Average Remaining Contractual Term (Years)	Weighted Average Grant Date Fair Value	Weighted Average Intrinsic Value
Outstanding – December 31, 2020	—	$ —	—	$ —	$ —
Granted	1,187,968	$ 15.28	2.24	$ 1.13	$ 3.22
Exercised	(70,000)	$ 0.01	1.00	$ 8.50	$ 16.56
Expired	—	$ —	—	$ —	$ —
Outstanding – December 31, 2021	1,117,968	$ 16.24	2.32	$ 1.24	$ 2.39
Vested and exercisable – December 31, 2021	1,117,968	$ 16.24	2.32	$ 1.24	$ 2.39
Unvested and non-exercisable – December 31, 2021	—	$ —	—	$ —	$ —

	Number of Shares	Weighted Average Strike Price/Share	Weighted Average Remaining Contractual Term (Years)	Weighted Average Grant Date Fair Value	Weighted Average Intrinsic Value
Outstanding – December 31, 2021	1,117,968	$ 16.24	2.32	$ 1.24	$ 2.39
Granted	—	$ —	—	$ —	$ —
Exercised	—	$ —	—	$ —	$ —
Expired	50,000	$ —	—	$ —	$ —
Outstanding – December 31, 2022	1,067,968	$ 17.00	1.39	$ 1.36	$ 0.99
Vested and exercisable – December 31, 2022	1,067,968	$ 17.00	1.39	$ 1.36	$ 0.99

NOTE 10 — STOCKHOLDERS' EQUITY (cont.)

The table below summarizes the transactions related to the Company's stock-based compensation expense for the years ended December 31, 2022 and 2021:

	2022	2021
Directors		
December 10, 2020: 75,000 share grant for common stock[(1)]	$ 15,000	$ 165,000
December 10, 2020: 75,000 share grans for common stock[(1)]	15,000	165,000
March 21, 2021: 75,000 share grant for common stock[(1)]		45,000
Consultants		
February 9, 2021: 62,340 share grant for common stock[(1)]	—	150,000
March 10, 2021: 92,000 share grant for common stock[(1)]	—	221,000
June 2, 2021: 17,964 share grants for series seed II preferred stock[(2)]	—	214,000
June 3, 2021: 1,859,434 share grant for common stock[(3)]	1,085,000	3,924,000
October 1, 2021: 199,309 share grant for common stock[(3)]	1,804,000	4,402,000
October 20, 2021: 10,000 share grant for common stock[(3)]	241,000	105,000
October 22, 2021: 5,000 share grant for common stock[(3)]	103,000	45,000
October 26, 2021: 10,000 share grant for common stock[(3)]	206,000	84,000
April 4, 2022; 500,000 share grant for common stock[(3)]	2,700,000	—
December 27, 2022: 25,000 share grant for common stock[(4)]	18,000	—
Stock based compensation expense reversal for June3, 2021 grant	(3,154,000)	—
Other		
Common stock issued for compensation to seed stage advisors[(1)]	—	1,671,000
Common stock issued for compensation to officers and directors[(1)]	—	7,655,000
Fair value of warrants issued for compensation	—	1,036,000
Officer contributed capital	252,000	250,000
	$ 3,285,000	$ 20,132,000

(1) The respective grant date fair value was estimated to be $2.40 based on the March 16, 2021 private placement.

(2) The respective grant date fair value was estimated to be $6.68 based on the May 27, 2021 private placement.

(3) The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the respective grant date fair value was estimated to be the per share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY).

(4) The Company was under a binding agreement to merge with Akerna Corp. as of the grant date. Therefore, the respective grant date fair value was estimated to be the per share value based on the exchange ratio as defined in the nonbinding letter of intent, as the Company believes that the Akerna trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Akerna Corp. is publicly traded (NASDAQ: KERN).

NOTE 11 — RELATED PARTY TRANSACTIONS

The Company had transactions with DecentraNet, LLC ("DecentraNet"), a company which is 48% owned by a party related to the Company's Chairperson. Transactions with DecentraNet are summarized as follows:

On February 9, 2021, the Company granted 62,340 restricted common stock awards amounting to $150,000 to DecentraNet as payment for advisory services. See Note 10 — Stockholders' Equity for more information.

On March 16, 2021, the Company had a private placement and issued 16,667 shares of common stock to DecentraNet at $2.40 per share totaling $40,000, and paid $64,000 in cash for advisory services provided. On March 26, 2021, the Company and DecentraNet entered into a cancellation and exchange agreement to cancel 16,667 shares of the Company's common stock in exchange for the issuance of 16,667 shares of the Company's series seed preferred stock.

NOTE 12 — INCOME TAXES

For the period ended December 31, 2022, the Company generated a current income tax provision of $176,000, whereas, for the period ended December 31, 2021, no provision for income taxes had been recorded due to the Company generating net operating losses. Additionally, no deferred income taxes have been recorded due to the uncertainty of the realization of any tax assets. On December 31, 2022, the Company has federal and state net operating loss carryforwards available to offset future taxable income of approximately $6,586,000. For federal purposes, there is an unlimited carryforward period, and for state purposes, the net operating losses begin to expire in 2041.

The income tax (benefit)/expense attributable to loss consisted of the following, for the year ended December 31,

	2022	2021
Current provision for income taxes:		
Federal	$ 176,000	$ —
State	—	—
Total current income tax	176,000	—
Deferred tax expense:		
Federal	—	—
State	—	—
Total deferred tax	—	—
Total income tax	$ 176,000	$ —

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate is as follows:

	2022	2021
Taxes calculated at federal rate	21.0%	21.0%
Permanent differences	(4.6)	(2.6)
State tax, net of federal impact	7.4	—
Return to provision	(14.2)	—
Other	0.3	—
Change in valuation allowance	(5.4)	(18.4)
Provision for income taxes	4.5%	—%

The tax effects, rounded to thousands, of temporary differences that give rise to significant portions of the deferred tax assets at December 31, are presented below:

	2022	2021
Deferred tax assets		
Net operating loss carryforwards	$ 1,681,000	$ 3,431,000
Stock based compensation	3,063,000	1,800,000
Mining equipment	788,000	—
Digital asset Impairment	2,721,000	166,000
Total deferred tax assets	8,253,000	5,397,000
Deferred tax liability		
Mining equipment	—	9,000
Realized gain on notes payable	3,084,000	—
Total deferred tax liability	3,084,000	9,000
Net deferred tax assets	5,169,000	5,388,000
Valuation allowance	(5,169,000)	(5,388,000)
Net deferred tax	$ —	$ —

NOTE 12 — INCOME TAXES (cont.)

Deferred tax assets and liabilities are computed by applying the federal and state income tax rates in effect to the gross amounts of temporary differences and other tax attributes, such as net operating loss carryforwards. In assessing if the deferred tax assets will be realized, the Company considers whether it is more likely than not that some or all of these deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these deductible temporary differences reverse.

For financial reporting purposes, the Company has incurred a loss in each period since its inception. Based on all available evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets on December 31, 2022, and 2021. During the years ended December 31, 2022, and 2021, the valuation allowance increased by $219,000 and $5,388,000, respectively. The increase was attributable to the increase in our net operating loss carryforwards and several other deferred tax assets. The total valuation allowance results from the Company's estimate of its inability to recover its net deferred tax assets.

On December 31, 2022, the Company has federal and state net operating loss carryforwards, which are available to offset future taxable income, of approximately $6,586,000 which for federal purposes has an unlimited carryforward period and begins to expire in 2041 for state purposes. These carryforwards may be subject to an annual limitation under Section 382 and 383 of the Internal Revenue Code of 1986, and similar state provisions if the Company experienced one or more ownership changes that would limit the amount of NOL and tax credit carryforwards that can be utilized to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Sections 382 and 383, results from transactions increasing ownership of certain stockholders or public groups in the stock of the corporation by more than 50 percentage points over a three-year period. The Company has not completed an IRC Section 382/383 analysis. If a change in ownership were to have occurred, NOL and tax credit carryforwards could be eliminated or restricted. If eliminated, the related asset would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance. Due to the existence of the valuation allowance, limitations created by future ownership changes, if any, will not impact the Company's effective tax rate.

The Company files income tax returns in the United States and various state jurisdictions. Due to the Company's carryforward of net operating losses all tax years are open and subject to income tax examination by tax authorities. The Company's policy is to recognize interest expenses and penalties related to income tax matters as a tax expenses. As of December 31, 2022 and 2021, there are no unrecognized tax benefits, and there are no significant accruals for interest related to unrecognized tax benefits or tax penalties.

The Company is in the process of analyzing its NOL and has not determined if the company has had any change of control issues that could limit the future use of NOL. The NOL carryforwards that were generated after 2017 of approximately $12,335,000 may only be used to offset 80% of future taxable income and are carried forward indefinitely.

NOTE 13 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of certain financial instruments, including cash and cash equivalents and accounts payable and accrued expenses, approximate their respective fair values due to the short-term nature of such instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them for each reporting period. This determination requires significant judgments to be made. The Company had the following financial assets and liabilities as of December 31, 2022:

	Balance as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$ 235,000	$ 235,000	$ —	$ —
Liabilities				
BTC Note	$ 12,636,000	$ 12,636,000	$ —	$ —

NOTE 14 — SUBSEQUENT EVENT

The Company has evaluated subsequent events through the date the financial statements are available to be issued. The Management of the Company determined the following reportable non-adjusting events:

Mining Equipment Purchase Agreement

On January 3, 2023, the Company entered into an agreement with SunnySide Digital, Inc. to purchase twenty-five (25) units of Antminer for $41,250.

Banking Relationship

On March 12, 2023, Signature Bank was closed by the New York State Department of Financial Services, which appointed the Federal Deposit Insurance Corporation (FDIC) as a receiver. All of Signature's deposit accounts and loans were transferred into Signature Bridge Bank, N.A. On March 19, 2023, Flagstar Bank, N.A. entered into an agreement with FDIC to purchase the deposits and loans from Signature Bridge Bank.

On March 12, 2023, a Joint Statement by the U.S. Treasury, Federal Reserve, and FDIC, and a statement by the Federal Reserve Board, was issued stating that actions were approved, enabling the FDIC to complete its resolutions of Signature Bank in a manner that fully protects all depositors. As of the issuance date of these consolidated financial statements, the Company has full access to its funds deposited with Flagstar Bank.

Resignation

On January 25, 2023, the Company's chief financial officer resigned and agreed to provide consulting services until February 28, 2023.

Amendment Equipment Loan and Security Agreement

On March 27, 2023, the Company executed an amendment to the BTC Note ("Amendment"). The maturity date was extended from June 2021 to March 2026 and the interest rate was increased to 6% per annum.

NOTE 14 — SUBSEQUENT EVENT (cont.)

The monthly principal and interest payments have been adjusted to be 100% of net monthly mining revenue, defined as, for each calendar month, the sum of (a) all of Borrower's revenue generated from all Bitcoin generated by the Borrower with the Collateral *less* (b) the sum of the Borrower SG&A in connection with Bitcoin mining operations, but not to exceed the greater of (x) $100,000 and (y) the amount that is previously preapproved by the Lender in writing for such calendar month; provided, however that, to the extent that SG&A is capped by clause (b) above, any unapplied SG&A may be rolled forward to subsequent months until fully deducted. Notwithstanding the foregoing, unless otherwise approved by Lender, the aggregate amount of SG&A during any rolling twelve-month period shall not exceed $750,000. Provided that if at the end of a fiscal quarter, commencing with the fiscal quarter ending June 30, 2023, if (x) the aggregate principal amount payment received by the Lender for such fiscal quarter exceeds 38.6363638 Bitcoin and (y) the average principal amount payment received by the Lender for each fiscal quarter (commencing fiscal quarter ending June 30, 2023 and through and including the fiscal quarter for which such determination is to be made) exceeds 38.6363638 Bitcoin per fiscal quarter, then, the Borrower shall pay to the Lender 75% of Net Monthly Mining Revenue for the immediately succeeding fiscal quarter (and thereafter, in the following fiscal quarter would shift to 100%).

As consideration for the Amendment, the Company agreed to make a one-time payment of 173.17bitcoins, therefore, reducing the principal balance of bitcoins from 636.81 to 463.64, and a closing fee of $45,000.

Litigation

On or about April 7, 2023, Sphere 3D filed a complaint against the Company in the case styled *Sphere 3D Corp. v. Gryphon Digital Mining, Inc.,* Case No. 23-cv-02954, in the United States District Court for the Southern District of New York (the "Complaint"). The Complaint alleges causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, and breach of fiduciary duty in connection with the Company's alleged failure to meet its obligations under the Sphere 3D MSA, and for the Company's allegedly prioritizing its own interest over Sphere 3D.

In light of the inherent uncertainties involved in such matters and based on the information currently available to the Company, no conclusion has been formed as to whether an unfavorable outcome is either probable or remote, therefore, no opinion is expressed as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company. The Company believes the Complaint is without merit and intends to vigorously defend this lawsuit and will seek dismissal of the lawsuit at the earliest possible opportunity.

In addition, the Complaint alleges two separate data security incidents incurred by the Company on January 27, 2023 and February 1, 2023, the Company was the victim of an email spoofing attack in which a hostile actor impersonated the Chief Financial Officer of Sphere 3D ("CFO").

A threat actor representing to be the CFO inserted themselves into an email exchange between the CFO and the Company's CEO, which also included Sphere 3D's CEO, regarding the transfer of Sphere 3D's BTC from the Company's wallet to Sphere 3D's wallet. The threat actor requested that the BTC be transferred to an alternate wallet. As a result, 26 BTC, with a value of approximately $560,000 at the time, was transferred to a wallet controlled by the threat actor. Via counsel, Gryphon engaged with US Federal law enforcement to recover the BTC. Despite these attempts by law enforcement to recover the BTC, recovery was not possible. Gryphon subsequently wired the commensurate amount in USD to Sphere 3D to make them whole for the stolen BTC. Gryphon also engaged a nationally recognized third-party firm to perform a forensic analysis. The analysis revealed that the threat actor did not enter the email exchange via Gryphon's IT systems. The Company has also subsequently modified its control systems to protect against any future attempted incursions.

Exhibit 99.2

Gryphon Digital Mining, Inc.
Condensed Consolidated Balance Sheets

	As of September 30, 2023 (Unaudited)	As of December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 1,405,000	$ 267,000
Restricted cash	42,000	2,000
Accounts receivable	289,000	470,000
Prepaid expense	178,000	85,000
Marketable securities	161,000	235,000
Digital assets held for other parties	91,000	41,000
Digital asset	1,418,000	6,746,000
Total current assets	3,584,000	7,846,000
Mining equipment, net	18,519,000	34,368,000
Deposits	420,000	60,000
Intangible asset	100,000	100,000
Total assets	$ 22,623,000	$ 42,374,000
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,275,000	$ 2,993,000
Liability related to digital assets held for other parties	133,000	41,000
Note payable – current portion	10,072,000	9,126,000
Total current liabilities	12,480,000	12,160,000
Note payable – long term	—	3,510,000
Total liabilities	12,480,000	15,670,000
Stockholders' equity		
Preferred stock, par value $0.0001, 13,000,000 authorized and none outstanding	—	—
Series seed preferred stock, par value $0.0001, 6,000,000 shares authorized, and 5,120,587 shares issued and outstanding, respectively	—	—
Series seed II preferred stock, par value $0.0001, 1,000,000 shares authorized and 266,795 issued and outstanding, respectively	—	—
Common stock, $0.0001 par value, 100,000,000 shares authorized; 14,479,384 and 14,389,717 shares issued and outstanding, respectively	2,000	2,000
Additional paid-in capital	46,361,000	45,303,000
Subscription receivable	(25,000)	(25,000)
Accumulated deficit	(36,195,000)	(18,576,000)
Total stockholders' equity	10,143,000	26,704,000
Total liabilities and stockholders' equity	$ 22,623,000	$ 42,374,000

See accompanying notes to these condensed consolidated financial statements.

Gryphon Digital Mining, Inc.
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Mining revenues	$ 5,189,000	$ 5,568,000	$ 14,992,000	$ 17,240,000
Management services	288,000	60,000	844,000	345,000
Total revenues	5,477,000	5,628,000	15,836,000	17,585,000
Operating expenses				
Cost of revenues (excluding depreciation)	3,982,000	4,477,000	9,542,000	9,214,000
General and administrative expenses	804,000	487,000	3,250,000	1,722,000
Stock-based compensation (income) expense	392,000	1,222,000	(629,000)	2,481,000
Impairment of digital assets	17,000	648,000	250,000	6,520,000
Realized gain on sale of digital assets	(17,000)	(125,000)	(484,000)	(137,000)
Impairment of miners	5,430,000	—	5,430,000	—
Depreciation	4,067,000	3,740,000	11,906,000	8,593,000
Total operating expenses	14,675,000	10,449,000	29,265,000	28,393,000
Loss from operations	(9,198,000)	(4,821,000)	(13,429,000)	(10,808,000)
Other income (expense)				
Unrealized loss on marketable securities	(75,000)	(80,000)	(74,000)	(1,358,000)
Realized gain from use of digital assets	9,000	—	3,809,000	—
Loss on disposal of asset	(2,000)	—	(55,000)	—
Gain on extinguishment of debt	—	—	—	12,966,000
Loss on extinguishment of debt	—	—	—	(2,746,000)
Gain on termination of merger agreement	—	—	—	1,734,000
Change in fair value of notes payable	1,342,000	320,000	(7,607,000)	9,447,000
Other income	—	—	267,000	30,000
Interest expense	(162,000)	(234,000)	(530,000)	(915,000)
Amortization of debt discount	—	—	—	(788,000)
Total other income (expense)	1,112,000	6,000	(4,190,000)	18,370,000
(Loss) income before provision for income taxes	(8,086,000)	(4,815,000)	(17,619,000)	7,562,000
Provision for income taxes	—	—	—	—
Net (loss) income	$ (8,086,000)	$ (4,815,000)	$ (17,619,000)	$ 7,562,000
Net (loss) income per share, basic	$ (0.56)	$ (0.34)	$ (1.22)	$ 0.53
Net (loss) income per share, diluted	(0.56)	(0.34)	(1.22)	0.37
Weighted average shares outstanding – basic	14,450,688	14,281,384	14,437,279	14,242,715
Weighted average shares outstanding – diluted	14,450,688	14,281,384	14,437,279	20,478,065

See accompanying notes to these condensed consolidated financial statements.

Gryphon Digital Mining, Inc.
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three and Nine Months Ended September 30, 2023 and 2022

	Series Seed Preferred Stock		Series Seed II Preferred Stock		Common Stock		Additional Paid-in Capital	Subscription Receivable	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2022	5,120,587	$ —	266,795	$ —	$ 14,389,717	$ 2,000	$ 45,303,000	$ (25,000)	$ (18,576,000)	$ 26,704,000
Restricted common stock awards issued for compensation	—	—	—	—	41,667	—	620,000	—	—	620,000
Additional paid-in capital for services contributed by the Company's President	—	—	—	—	—	—	63,000	—	—	63,000
Net loss	—	—	—	—	—	—	—	—	(6,910,000)	(6,910,000)
Ending Balance March 31, 2023	5,120,587	—	266,795	—	14,431,384	2,000	45,986,000	(25,000)	(25,486,000)	20,477,000
Additional paid-in capital for services contributed by the Company's President	—	—	—	—	—	—	63,000	—	—	63,000
Net loss	—	—	—	—	—	—	—	—	(2,623,000)	(2,623,000)
Ending Balance June 30, 2023	5,120,587	—	266,795	—	14,431,384	2,000	46,049,000	(25,000)	(28,109,000)	17,917,000
Restricted common stock awards issued for compensation	—	—	—	—	—	—	225,000	—	—	225,000
Restricted common stock awards issued for payment of service	—	—	—	—	48,000	—	24,000	—	—	24,000
Additional paid in capital for services contributed by the Company's president	—	—	—	—	—	—	63,000	—	—	63,000
Net loss	—	—	—	—	—	—	—	—	(8,086,000)	(8,086,000)
Ending Balance September 30, 2023	5,120,587	$ —	$ 266,795	$ —	$ 14,479,384	$ 2,000	$ 46,361,000	$ (25,000)	$ (36,195,000)	$ 10,143,000

Gryphon Digital Mining, Inc.
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity — (Continued)
For the Three and Nine Months Ended September 30, 2023 and 2022

	Series Seed Preferred Stock		Series Seed II Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Subscription Receivable	Retained Earnings	Total
Balance as of December 31, 2021	5,120,587	$ —	266,795	$ —	14,180,377	$ 2,000	$ 41,192,000	$ (25,000)	$ (22,112,000)	$ 19,057,000
Common stock issued for compensation	—	—	—	—	46,486	—	395,000	—	—	395,000
Restricted common stock awards issued for compensation	—	—	—	—	—	—	1,536,000	—	—	1,536,000
Additional paid-in capital for services contributed by the Company's President	—	—	—	—	—	—	63,000	—	—	63,000
Net loss	—	—	—	—	—	—	—	—	(2,477,000)	(2,477,000)
Ending Balance March 31, 2022	5,120,587	—	266,795	—	14,226,863	2,000	43,186,000	(25,000)	(24,589,000)	18,574,000
Common stock issued for compensation	—	—	—	—	6,641	—	56,000	—	—	56,000
Common stock issued for conversion of notes	—	—	—	—	43,689	—	277,000	—	—	277,000
Common stock issued for conversion of accrued interest on notes payable	—	—	—	—	4,191	—	41,000	—	—	41,000
Additional paid-in capital for services contributed by the Company's President	—	—	—	—	—	—	63,000	—	—	63,000
Restricted common stock awards issued for compensation	—	—	—	—	—	—	520,000	—	—	520,000
Net income	—	—	—	—	—	—	—	—	14,854,000	14,854,000
Ending Balance June 30, 2022	5,120,587	—	266,795	—	14,281,384	2,000	44,143,000	(25,000)	(9,735,000)	34,385,000
Restricted common stock awards issued	—	—	—	—	—	—	226,000	—	—	226,000
Additional paid in capital for services contributed by the Company's president	—	—	—	—	—	—	63,000	—	—	63,000
Net loss	—	—	—	—	—	—	—	—	(4,815,000)	(4,815,000)
Ending Balance September 30, 2022	5,120,587	$ —	$ 266,795	$ —	$ 14,281,384	$ 2,000	$ 44,432,000	$ (25,000)	$ (14,550,000)	$ 29,859,000

See accompanying notes to these condensed consolidated financial statements.

Gryphon Digital Mining, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30,

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (17,619,000)	$ 7,562,000
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities		
Impairment of digital assets	250,000	6,520,000
Realized gain on sale of digital assets	(484,000)	(137,000)
Realized gain from use of digital assets	(3,809,000)	—
Impairment of miners	5,430,000	—
Amortization of debt discount	—	788,000
Depreciation expense	11,906,000	8,593,000
Forfeiture of restricted stock grants	(1,910,000)	—
Compensation cost related to common stock awards	—	2,190,000
Compensation cost related to restricted common stock awards	1,093,000	102,000
Compensation for services contributed by the Company's President	188,000	189,000
Unrealized loss on marketable securities	74,000	1,358,000
Gain on termination of merger agreement	—	(1,734,000)
Gain on extinguishment of debt	—	(12,966,000)
Loss on extinguishment of debt	—	2,746,000
Loss on asset disposal	55,000	—
Change in fair value of notes payable	7,711,000	(9,447,000)
Interest expense	530,000	337,000
Digital asset revenue	(14,992,000)	(17,250,000)
Changes in operating assets and liabilities		
Proceeds from the sale of digital assets	13,958,000	26,295,000
Accounts receivable	(114,000)	(624,000)
Prepaid expense	7,000	12,000
Accounts payable and accrued liabilities	790,000	(53,000)
Net cash provided by operating activities	3,062,000	14,481,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit for purchase of bitcoin mining machines	—	(8,150,000)
Purchase of mining equipment	(1,542,000)	(846,000)
Refundable deposit	(360,000)	—
Net cash used in investing activities	(1,902,000)	(8,996,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of notes payable	—	2,500,000
Payment for insurance payable	(52,000)	(21,000)
Issuance of note payable for insurance premiums	132,000	—
Loan modification payment for BTC note	(104,000)	—
Payment for convertible debentures	—	(8,665,000)
Net cash used in financing activities	(24,000)	(6,186,000)

Gryphon Digital Mining, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows — (Continued)
For the Nine Months Ended September 30,

	2023	2022
Net change in cash	1,138,000	(701,000)
Cash-beginning of period	267,000	914,000
Cash-end of period	$ 1,405,000	$ 213,000
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents	$ 1,405,000	$ 213,000
Restricted cash	42,000	2,000
Cash and cash equivalents, and restricted cash	$ 1,447,000	$ 215,000
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ 176,000	$ —
Non-cash investing and financing activities		
Deposits reclassed upon receipt of mining equipment	$ —	$ 22,006,000
Proceeds from loan – digital assets	$ —	$ 27,592,000
Convertible debt conversion to equity	$ —	$ 277,000
Interest conversion to equity	$ —	$ 41,000
Accrued expense for issuance of common stock	$ 620,000	$ —
Digital assets used for principal and interest payment of note payable	$ 7,005,000	$ 1,995,000

See accompanying notes to these condensed consolidated financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Gryphon Digital Mining, Inc. (formerly known as Ivy Crypto, Inc.) (the "Company") was incorporated under the provisions and by the virtue of the provisions of the General Corporation Law of the State of Delaware on October 22, 2020, with the office located in Las Vegas, Nevada. The Company will operate a digital asset (commonly referred to as cryptocurrency) mining operation using specialized computers equipped with application-specific integrated circuit (ASIC) chips (known as "miners") to solve complex cryptographic algorithms in support of the Bitcoin blockchain (in a process known as "solving a block") in exchange for cryptocurrency rewards (primarily Bitcoin).

On April 20, 2022, the Company formed a limited liability company named Gryphon Opco I LLC ("GOI"). GOI aims to engage in any activity for which limited liability companies may be organized in the State of Delaware.

Termination of Merger — Sphere 3D Corp.

On June 3, 2021, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with Sphere 3D Corp. ("Sphere 3D"). Upon completion of the merger (the "Merger"), the Sphere 3D Corp. will change its name to Gryphon Digital Mining, Inc.

As consideration for the merger transaction, Sphere 3D will issue 111,000,000 shares of its common stock to the shareholders of the Company, such that on closing, the Sphere 3D shareholders will own approximately 23% of the consolidated company and the Company shareholders will own approximately the remaining 77% on a fully diluted basis, subject to adjustments for additional capital raises by either entity. As of the Merger Agreement, the Company had 21,282,593 shares of common stock and share equivalents. Each share, and share equivalent, will be converted into 5.22 shares of Sphere 3D common stock. As of the Merger Agreement, the value of a share of the Company's common stock was approximately $8.50, for total consideration of approximately $181,000,000.

On December 29, 2021, the Company and Sphere 3D entered into Amendment No. 1 to the Merger Agreement to give effect to the issuances by the Company of its equity securities subsequent to June 3, 2021. The parties agreed upon an increase in the number of Sphere 3D common shares that will be issued by Sphere 3D in the Merger from approximately 111,000,000 to approximately 122,000,000, with an effective exchange ratio of approximately 5.31. In addition, among other matters, the parties revised the termination provisions of the Merger Agreement to allow either party to terminate the Merger Agreement prior to March 31, 2022, upon a breach of the agreement by the other party following an opportunity to cure such breach, and to allow either party to terminate the Merger Agreement on or after March 31, 2022, for any reason or no reason by notice to the other party. In addition, upon termination, each party agreed to release the other party and its affiliates from any claims or proceedings such party shall have at the time of such termination against the other party existing by reason of, based upon, or arising out of the Merger Agreement.

On April 4, 2022, the Company and Sphere 3D mutually agreed to terminate their Merger Agreement announced on June 3, 2021, and as amended on December 29, 2021, due to changing market conditions, the passage of time, and the relative financial positions of the companies, among other factors.

The companies will continue their relationship through the previously disclosed Master Services Agreement, enabling Sphere 3D to leverage the Company's expertise in bitcoin mining and the Company to generate additional operating income by managing Sphere 3D's mining machines.

Lastly, in accordance with the Amended Merger Agreement, the Company received 850,000 shares of Sphere 3D's restricted common stock that were held in a third-party escrow account, and the existing indebtedness owed by the Company to Sphere 3D in the principal amount of $12,500,000 and accrued interest of $466,000 shall be forfeited.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Akerna Merger Agreement

On January 27, 2023, the Company and Akerna Corp. ("Akerna"), entered into an agreement and plan of merger, as may be amended from time to time (the "Akerna Merger"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Akerna Merger Agreement, with the Company surviving as a wholly owned subsidiary of Akerna.

At the effective time of the Akerna Merger, each share of the Company's common stock, series seed preferred stock, series seed II preferred stock, and any outstanding warrants (collectively "Gryphon Shares"), outstanding immediately prior to the effective time will be converted into the right to receive a per share portion of the aggregate number of shares of Akerna's common stock, par value $0.0001 per share (the "Akerna Common Stock"), to be issued at the effective time as consideration for the Akerna Merger. The estimated exchange ratio of shares of Akerna Common Stock for Gryphon Shares is estimated to be approximately 1.56 shares ("Exchange Ratio") of Akerna Common Stock for each one share of Gryphon Shares.

Immediately after the consummation of the Akerna Merger, the Akerna equity holders as of immediately prior to the Akerna Merger are expected to own approximately 7.5% of the outstanding equity interests of the combined company on a fully diluted basis, and the Company's equity holders are expected to own approximately 92.5% of the outstanding equity interests of the combined company on a fully diluted basis. Actual ownership percentages will depend on the actual calculation of the Merger Consideration at closing, which will depend on a number of variables. Following the Akerna Merger, the Company's business will be the business of the combined company.

Reclassification

Certain reclassifications have been made to the December 31, 2022 consolidated financial statements and the three month and nine month September 30, 2022 consolidated statement of operations in order to conform to the current period presentations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements include the accounts of the Company and its subsidiary from the date of inception (April 20, 2022).

Amendments to Certificate of Incorporation

On February 16, 2021, the Company filed its Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to change its name from "Ivy Crypto, Inc." to "Gryphon Digital Mining, Inc.".

Going Concern

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate the continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the ordinary course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Since the Company began revenue generation in September 2021, management has financed the Company's operations through equity and debt financing and the sale of the digital assets earned through mining operations.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company may incur additional losses from operations and negative cash outflows from operations in the foreseeable future. In the event the Company continues to incur losses, it may need to raise debt or equity financing to finance its operations until operations are cashflow positive. However, there can be no assurance that such financing will be available in sufficient amounts and on acceptable terms, when and if needed, or at all. The precise amount and timing of the funding needs cannot be determined accurately at this time and will depend on several factors, including the market price for the underlying commodity mined by the Company and its ability to procure the required mining equipment and operate profitably. The Company's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The Company adopted the provisions of Accounting Standards Codification ("ASC") subtopic 825-10, Financial Instruments ("ASC 825-10") which defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with a remaining maturity at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates their fair value. The Company maintains its cash and cash equivalents in banks insured by the Federal Deposit Insurance Corporation ("FDIC") in accounts that at times may be in excess of the federally insured limit of $250,000 per bank. The Company minimizes this risk by placing its cash deposits with major financial institutions. As of September 30, 2023 and December 31, 2022, the Company had cash and equivalents of $1,155,000 and $17,000, in excess of the federal insurance limit and restricted cash of $42,000 and $2,000, respectively.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Accounts Receivable

Accounts receivable pertain to proceeds (fiat currency) not yet received for the sale of digital assets or cryptocurrencies due to the cut-off period and accounts receivable related to the revenue share from Sphere 3D. Management has assessed the consideration of credit risk and subsequent to the reporting periods where a balance existed, the Company has received payment in full of all outstanding accounts receivable and as such does not believe an allowance is necessary.

Prepaid Expense

Prepaid expenses which consist of payments for an insurance policy and are expected to be realized and consumed within twelve months after the reporting period.

Digital Assets Held for Other Parties

In accordance with the Securities and Exchange Commission's Staff Accounting Bulletin 121, the Company records an obligation liability and a corresponding digital asset held for other parties' assets based on the fair value of the cryptocurrency held for other parties at each reporting date. In accordance with ASC 820, the Company has fair valued these digital assets and the associated liability by using the Coinbase closing price of Bitcoin on the reporting date. This balance also includes the cash balance held for other parties.

Digital Assets

Digital assets or cryptocurrencies consist of Bitcoin, which were derived from our mining operations, are included in current assets in the accompanying consolidated balance sheets.

The Company accounts for digital assets as indefinite-lived intangible assets in accordance with ASC 350, Intangibles — Goodwill and Other. The Company has ownership of and control over cryptocurrencies and uses third-party custodial services to secure them. The digital assets are initially recorded at cost using the daily average trading price for the day calculated by averaging the daily open and daily close prices quoted on Coinbase, which is the active exchange that the Company has determined is its principal market for cryptocurrencies. The Company previously recorded its digital assets and the corresponding revenues for the years ended December 31, 2021 and 2022, three month period ending March 31, 2023 and three month period ending June 30, 2023 utilizing the daily low as quoted on Yahoo Finance which amalgamates the price from various exchanges.

As of July 1, 2023, the Company changed its accounting policy and recognized revenue utilizing the daily average instead of the daily low as reported by its principal market, Coinbase, given the fact pattern that the contracts with the mining pool operators are continuously renewing every 24 hours with a static beginning and end point each day. The Company relied on guidance interpreted under ASC 606-10-25-27 through 25-30 and evaluated the contract with the mining pool operator, performance obligations involved, methodology for recognizing revenue over time, if applicable, criteria for satisfaction over time, historical volatility in daily quoted price, timing of receipt of consideration, specific facts and circumstances of the bitcoin blockchain as it relates to the continuous renewal every 24 hours and determined utilizing the daily open and daily low to arrive at a simple average (or "Daily Average") was the most appropriate measurement for determining the fair market value of the consideration received for satisfaction of the contract every 24 hours. In completing the change in accounting policy, the Company completed a SAB 99 analysis to evaluate the materiality of any potential financial statement misstatements.

Pursuant to ASC Topic 210-10-20, the Company considered the operating cycle, intent and purpose and realizability of bitcoin to properly classify the asset on its balance sheet. As the Company intends to convert its mined bitcoin rewards received into cash and use the proceeds generated within its normal operating cycle of business (within one year of receipt), the Company may classify bitcoin as a current asset under ASC 210-10-20. As such, the Company classified the bitcoin mined and earned as a current asset. Given the volatility of the bitcoin market, the Company regularly reviews and reassesses the classification of bitcoin to ensure alignment with the Company's current intent and market conditions.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

An impairment analysis is performed at each reporting period to identify whether events or changes in circumstances, in particular decreases in the quoted prices on active exchanges, indicate that it is more likely than not that the digital assets held by the Company are impaired. The fair value of digital assets is determined on a nonrecurring basis in accordance with ASC 820, Fair Value Measurement, based on quoted prices (the lowest trading price for the day) on our Principal Market. The Company uses the lowest day trading value, as of the reporting date, as disclosed on Principal Market. If the carrying value of the digital asset exceeds the fair value based on the lowest price quoted in the active exchanges during the period, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the price determined.

Impairment losses are recognized within "Operating expenses" in the consolidated statement of operations in the period in which the impairment is identified. The impaired digital assets are written down to their fair value, which is the lowest value for the day, at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale or disposition of the digital asset.

Cryptocurrencies awarded to the Company through its mining activities are included within operating activities in the accompanying consolidated statements of cash flows. The cash received from the sales of cryptocurrencies earned through our mining activities is included within operating activities in the accompanying consolidated statements of cash flows, and any realized gains or losses from such sales are included in operating expenses in the consolidated statements of operations.

Mining Equipment

Mining Equipment is stated at cost, including purchase price and all shipping and customs fees, and depreciated using the straight-line method over the estimated useful lives of the assets, generally three years for cryptocurrency mining equipment.

In accordance with ASC 360-10-35, the Company reviews the carrying amounts of mining equipment when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

At the point in time a miner becomes inoperable and not repairable, the Company records an expense amounting to the carrying value, which is the cost basis less accumulated depreciation at the time of write off.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Derivatives

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and would then be re-valued at each reporting date, with changes in the fair value reported in the condensed statements of operations. If there are stock-based derivative financial instruments, the Company will use a probability-weighted average series Binomial lattice option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. Derivative liability will be measured initially and subsequently at fair value.

Revenue Recognition

The Company recognizes revenue under ASC 606, Revenue from Contracts with Customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the Company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met: The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a distinct bundle of goods or services is identified.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Cryptocurrency mining:

The Company has entered into contracts with digital asset mining pool operators to provide the service of performing hash computations for the mining pool operator. The contracts are terminable at any time for any reason by either party without cause and without penalty and the Company's enforceable right to compensation only begins when the Company provides the service of performing hash computations for the mining pool operator. The contract is for a continuous 24-hour period each day. The Company's access and usage rights to the pool and service automatically renew for a successive 24-hour period (00:00:00 UTC and 23:59:59 UTC) unless terminated in accordance with the terms set forth by the terms of service. In exchange for performing hash computations for the mining pool, Gryphon is entitled to a fractional share of the fixed cryptocurrency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are netted as a recduction of the transaction price). Gryphon's fractional share is based on the proportion of hash computations Gryphon performed for the mining pool operator to the total hash computations contributed by all mining pool participants in solving the current algorithm during the 24-hour period. Hashrate is the measure of the computational power per second used when mining. It is measured in units of hash per second, meaning how many calculations per second that can be performed. The consideration the Company will receive, comprised of block rewards, transaction fees less mining pool operator fees are aggregated in a sub-balance account held by the mining pool operator. That balance, due to the Company, is calculated by the mining pool operator based on the hashrate provided and hash computations completed by the Company for the mining pool from midnight-to-midnight (00:00:00 UTC and 23:59:59 UTC) UTC time, and a sub-account balance is credited one hour later at 1AM UTC time. The balance is then withdrawn to the Company's whitelisted wallet address, once a day, between the hours of 9am to 5pm UTC time. The rate of payment occurs once per day, as long as the minimum payout threshold of 0.01 bitcoin has accumulated in the sub-account balance, in accordance with the mining pool operator's terms of service. Pursuant to ASC 606-10-55-42, the Company assessed if the customer's option to renew represented a material right that represents a separate performance obligation and noted the renewal is not a material right. The definition of a material right is a promise in a contract to provide goods or services to a customer at a price that is significantly lower than the stand-alone selling price of the good or service. The mining pool operator does not provide any discounts and as such there is no economic benefit to the customer and as such a separate performance obligation does not exist under 606-10-55-42. In addition, there are no options for renewal that are separately identifiable from other promises in the contract such as an ability to extend the contract at a reduced price.

The performance obligation of the Bitcoin miner under the mining contracts with Foundry Pool USA involves the service of performing hash computations to facilitate the verification of digital asset transactions. The Company's miners contribute computing power (ie. hashrate) that perform hash calculations to the mining pool operator, engaging in the process of validating and securing transactions through the generation of cryptographic hashes. The mining pool then utilizes a specific mining algorithm (e.g. SHA-256) to submit shares (proofs of work) to the mining pool's server as they contribute to solving the cryptographic puzzles required to mine a block. The Company reviews and analyzes its individual pool performance using a dashboard provided by Foundry Pool USA that includes real-time statistics on hashrate, shares submitted and earnings. The service of performing hash computations in digital asset transaction verification services is an output of the Company's ordinary activities. The provision of providing these services is the only performance obligation in the Company's contracts with mining pool operators. The Company performs hash computations for one mining pool operator, Foundry USA. Foundry USA operates its pool on the Full Pay Per Share (FPPS) payout method. FPPS is a variant of the Pay Per Share (PPS) method, where miners receive a fixed payout for each valid share submitted, regardless of whether the pool finds a block.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Regardless of the pool's success, the Company will receive consistent rewards based on the number of valid shares it contributes. The transaction consideration the Company receives is non-cash consideration, in the form of bitcoin. The Company measures the bitcoin at fair value on the date earned using the average price (calculated by averaging the daily open price and the daily close price) quoted by its Principal Market at the date the Company completed the service of performing hash computations for the mining pool operator. There are no deferred revenues or other liability obligations recorded by the Company since there are no payments in advance of the performance. At the end of each 24 hour period (00:00:00 UTC and 23:59:59 UTC), there are no remaining performance obligations. By utilizing the average daily price of bitcoin on the date earned, the Company eliminates any differences that may arise due to the volatility in trading price between bitcoin and fiat currency during the period where the Company establishes and completes the contract. The consideration is all variable. There is no significant financing component in these transactions.

If authoritative guidance is enacted by the Financial Accounting Standards Board ("FASB"), the Company may be required to change its policies, which could affect the Company's financial position and results from operations.

Master service agreement:

The Company has entered into an agreement with Sphere 3D to be an exclusive provider of management services for all blockchain and cryptocurrency-related operations including but not limited to services relating to all mining equipment owned, purchased, leased, operated, or otherwise controlled by Sphere 3D and/or its subsidiaries and/or its affiliates at any location. For the said services the Company will receive 22.5% of the net operating profit of all of Sphere 3D's blockchain and cryptocurrency-related operations. The net operating profits in defined as the value of the digital asset mined less energy cost and profit paid to the host facility.

As Sphere 3D has the ultimate right to determine the facility location for each machine. The Company has the responsibility for the following:

1) Ensuring the machines are installed in the facility selected by Sphere.

2) Selecting and connecting the machines to a mining pool.

3) To review the mining reports and maintain a wallet for the coins earned for the mining operation.

4) To maintain a custodial wallet for the coins earned from the Sphere machines.

5) To sell and/or transfer the coins at the request of Sphere.

At the time the digital assets are mined, they are transferred into the custodial wallet maintained by the Company. As of the receipt of the digital asset, the Company has completed its performance obligation, the transaction price is determinable, net operating profit can be calculated so that the Company can determine its revenue under the contract; therefore, the Company records as revenue the management fee received. See Note 8 — Commitment and contingencies "Sphere 3D MSA".

Cost of Revenues

The Company's cost of revenue consists primarily of direct costs of earning bitcoin related to mining operations, including electric power costs, other utilities, labor, insurance whether incurred directly from self-mining operations or reimbursed, including any revenue sharing arrangements under co-location agreements, but excluding depreciation and impairment of digital assets, which are separately stated in the Company's statements of operations.

ASC 606-10-32-25 through 32-27 in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) provides guidance on the consideration of whether fees paid to a mining pool operator should be considered payments to a customer and treated as a reduction of the transaction price or revenue. Gryphon's management reviewed the standards and completed the following assessment.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Identifying the Customer: ASC 606-10-32-25 states that an entity should determine whether the counterparty to a contract is a customer. If the counterparty is a customer, the entity should apply the revenue recognition guidance to that contract. Under ASC 606-10-32-25, the Company identified the mining pool operator as the customer as the Company entered into a contractual agreement with the pool operator whereas the Company is to provide services in the form of contributing hashing power to the pool.

Mining Pool Operator as a Customer: As the Company has determined the mining pool operator to be a customer, any fees paid to the mining pool operator would be part of the transaction price of the contract. Any fees paid by the Company as a miner to the pool operator would be revenue earned by the pool operator, and the pool operator is treated as the customer.

Transaction Price: ASC 606-10-32-26 provides guidance on determining the transaction price. The Company considered the effects of variable consideration, constraints on variable consideration, the existence of a significant financing component in the contract, and non-cash consideration. The Company receives variable consideration given the variable nature of the amount of mining power (hashrate) contributed on a daily basis (24-hour period per recurring contract term). The Company completes an analytical procedure as part of its monthly close process to determine the reasonableness of consideration received. There are no significant financing components of the transaction or delays in the timing of payments from the customer to the Company, whereas the Company would need to adjust the transaction price for the time value of money. As the Company receives non-cash consideration, in the form of bitcoin, ASC 606-10-32-26 specifies that the Company should measure non-cash consideration at fair value. The fair value of the non-cash consideration would be included in the determination of the transaction price. The Company does not receive the gross amounts of bitcoin earned prior to the transaction fees deduction by the pool operator. As such, the consideration received is net or inclusive of the transaction fees incurred and charged by the customer (pool operator).

Variable Consideration: If the fees paid to the mining pool operator are variable, an entity should estimate the amount of consideration to which it will be entitled. This involves considering the likelihood and magnitude of a significant revenue reversal. ASC 606-10-32-26 emphasizes the need to assess whether there are constraints on variable consideration. In the instance where there is uncertainty about the amount of consideration, it is reasonable for the Company to consider a likelihood of a significant reversal of revenue. The Company reviews daily bitcoin rewards received and reviews various factors, such as mining difficulty, the price of bitcoin and the Company's contribution to the pool operator. The Company estimates the amount of variable consideration the Company should receive and prepares a monthly workpaper documenting the difference in actual bitcoin rewards received vs. estimated bitcoin earned. For the nine-month period ending September 30, 2023, the Company received approximately 575.19 bitcoin. The Company expected to receive approximately 574.95 bitcoin based on the contributed hashrate generated as a percentage of the global hashrate given the electricity consumed and the miner fleet specifications resulting in a quantitative immaterial variance of 0.04% for the nine-month period. The Company assessed, given the pool operators payout methodology and the revenue reasonableness test completed by management, there does not exist a likelihood of a significant reversal of revenue.

Reduction of Transaction Price: ASC 606-10-32-27 states that an entity should reduce the transaction price for variable consideration only to the extent that it is probable that a significant revenue reversal will not occur when the uncertainty is subsequently resolved. The Company assessed various factors, identifying the variable consideration, estimating the variable consideration, considered constraints (although none existed such as performance metrics or targets), probability, documentation, regular review and monitoring of performance with open communication with pool operators combined with dashboard usage. Due to the Company utilizing Foundry Pool's FPPS methodology and the previous mentioned factors, there was zero likelihood of a significant reversal of revenue as the Company receives payouts as a pool participant on a daily basis calculated from midnight-to-midnight UTC time, regardless of if the Pool Operator receives any block rewards.

In summary, fees paid to the mining pool operator are considered payments to a customer and treated as a reduction of the transaction price/revenue. The Company has carefully assessed the variable nature of these fees, considered the likelihood and magnitude of any potential adjustments, and documented that management has applied the revenue recognition guidance accordingly.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Stock-Based Compensation

We account for our stock-based compensation under ASC 718 “*Compensation — Stock Compensation*” using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments, or the issuance of those equity instruments may settle that.

We use the fair value method for equity instruments granted to non-employees and use the Black-Scholes model for measuring the fair value of options. The stock-based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

Common stock awards

The Company grants common stock awards to non-employees in exchange for services provided. The Company measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees are recorded in accordance with ASC 718 on the statement of operations in the same manner and charged to the same account as if such settlements had been made in cash.

Warrants

The Company has issued warrants to purchase shares of its common stock in connection with certain financing, consulting, and collaboration arrangements. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants are recorded at fair value as expense over the requisite service period or at the date of issuance if there is not a service period.

Income Taxes

The Company accounts for income taxes under the asset and liability method, in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is required to the extent any deferred tax assets may not be realizable.

ASC Topic 740, Income Taxes, (“ASC 740”), also clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. ASC 740 also provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. Based on the Company’s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company’s financial statements. The Company believes that its income tax positions and deductions would be sustained at the audit and does not anticipate any adjustments that would result in material changes to its financial position.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Earnings Per Share

The Company uses ASC 260, "Earnings Per Share" for calculating the basic and diluted earnings (loss) per share. The Company computes basic earnings (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of warrants potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and warrants and stock awards. For periods with a net loss, basic and diluted loss per share is the same, in that any potential common stock equivalents would have the effect of being anti-dilutive in the computation of net loss per share.

Securities that could potentially dilute loss per share in the future were not included in the computation of diluted loss per share for the three and nine months ended September 30, 2023, and 2022 because their inclusion would be anti-dilutive. Common stock equivalents amounted to 6,344,239 and 6,505,350 for both three months and nine months ended September 30, 2023, and 2022, respectively.

Recent Accounting Pronouncements

The Company's management reviewed all recently issued accounting standard updates ("ASU's") not yet adopted by the Company and does not believe the future adoptions of any such ASU's may be expected to cause a material impact on the Company's consolidated financial condition or the results of its operations.

NOTE 2 — DIGITAL ASSETS

The following table summarizes the digital currency (Bitcoins) transactions for:

	September 30, 2023	December 31, 2022
Digital assets beginning balance	$ 6,746,000	$ 6,000
Revenue recognized from mined digital assets	14,992,000	21,362,000
Revenue share from Sphere 3D	321,000	618,000
Cost of digital assets sold for cash	(13,386,000)	(30,270,000)
Cost of digital assets transferred for noncash expenditures	(7,005,000)	(3,978,000)
Reversal of receivables from BitGo	—	120,000
Impairment loss on digital assets	(250,000)	(8,704,000)
Digital asset loan from Anchorage	—	27,592,000
Digital assets ending balance	$ 1,418,000	$ 6,746,000

During the three and nine months ended September 30, 2023, the Company realized gains amounting to $17,000 and $484,000, respectively, related to the sale of digital assets for cash. Also, during the three and nine months ended September 30, 2023, the Company realized gains amounting to $9,000 and $3,809,000, respectively, for the transfer of digital assets for payment of expenditures and payment of interest and principal for the Bitcoin loan.

During the three and nine months ended September 30, 2022, the Company realized gains amounting to $125,000 and $137,000, respectively, related to the sale of digital assets for cash.

The table below shows the costs of the digital assets transferred for payment of expenses for the nine months ended September 30:

	2023	2022
Payment for principal and interest	$ 7,005,000	$ 26,000

NOTE 3 — MARKETABLE SECURITIES

In accordance with the Amended Merger Agreement, the Company received 850,000 shares of Sphere 3D's restricted common stock that are held in a third-party escrow account upon providing written notice of the merger termination.

On April 4, 2022, the Company and Sphere 3D mutually agreed to terminate their Merger Agreement announced on June 3, 2021, and as amended on December 29, 2021, due to changing market conditions, the passage of time, and the relative financial positions of the companies, among other factors.

According to the terms, the Company has received 850,000 shares of Sphere 3D.

On June 29, 2023, Sphere 3D has a 1:7 reverse stock split. Shares were reduced from 850,000 to 121,428 given effect for the reverse stock split.

The shares are accounted for in accordance with ASC 320 — Investments — Debt and Equity Securities, as such the shares will be classified as available-for-sale securities and will be measured at each reporting period at fair value with the unrealized gain or (loss) as a component of other income (expense).

The table below summarizes the movement in this account for the periods:

	September 30, 2023	December 31, 2022
Fair value beginning of period	$ 235,000	$ 1,734,000
Change in fair value	(74,000)	(1,499,000)
Fair value end of period	$ 161,000	$ 235,000

NOTE 4 — DEPOSITS

The deposits are summarized as follows:

	As of September, 2023	As of December 31, 2022
Beginning Balance	$ 60,000	$ 16,365,000
Cash deposit	—	8,150,000
Deposit paid	360,000	—
Delivered mining equipment	—	(24,355,000)
Converted carbon credit	—	(100,000)
Ending Balance	420,000	60,000

In 2021, the Company entered into a purchase agreement with Bitmain to acquire a total of 7,200 miners, to be shipped and delivered during 2021 and 2022. As of December 31, 2022, the Company received 7,130 miners and the contract was deemed to be completed by the Company.

In 2022, the Company paid $100,000 for 74,705 carbon credits.

As of September 30, 2023, the Company had a $420,000 refundable deposit paid to Coinmint.

NOTE 5 — MINING EQUIPMENT, NET

Mining equipment consisted of 8,295 and 7,410 units of bitcoin mining machines as of September 30, 2023, and December 31, 2022, respectively. The following table summarizes the carrying amount of the Company's mining equipment:

	As of September 30, 2023	As of December 31, 2022
Mining equipment		
Balance, beginning of year	$ 47,599,000	$ 21,844,000
Additions	1,542,000	25,755,000
Disposals	(106,000)	—
Impairment	(5,430,000)	—
Ending balance	$ 43,605,000	$ 47,599,000
Accumulated depreciation		
Balance, beginning of year	$ 13,231,000	$ 695,000
Additions	11,906,000	12,536,000
Disposals	(51,000)	—
Ending balance	$ 25,086,000	$ 13,231,000
Net carrying amount	$ 18,519,000	$ 34,368,000

During the three and nine months ended September 30, 2023, the Company retired 1 and 18 miners, respectively, of bitcoin mining machines. The cost of the fixed assets retired, and the corresponding accumulated depreciation amounted to $106,000 and $51,000, respectively, for a loss on disposition of approximately $55,000.

As of September 30, 2023, the management determines an impairment of machines amounting to $5,430,000 pursuant to ASC 360. ASC 360, or Accounting Standards Codification Topic 360, provides guidance on accounting for the impairment of long-lived assets, including determining their fair value. The Company assessed various indicators of impairment including but not limited to, market value, asset use, physical damage, economic deterioration, operating losses, legal or regulatory changes, customer base erosion, changes in technological environment, adverse changes in the business model and cash flow projections.

The standard does not specify a specific number of price quotes needed to satisfy the market value of an asset. Instead, it emphasizes using a fair value measurement approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs, often referred to as Level 1, Level 2, and Level 3 inputs. The number of price quotes required to determine fair value depends on the specific circumstances of the asset and the availability of relevant market data. If there is a readily available market for the asset in question, it is recommended to utilize market prices and other observable market inputs as much as possible. In the case of bitcoin mining machines, there is a readily available market in the form of online retailers. The Company researched various online quotes for the replacement/market value of the current fleet and identified an industry specialized vendor that offers a wide range of product availability.

Due to indicators of impairment being present as of September 30, 2023, the Company had assessed whether the carrying amount of the long-lived asset group is in line with Level 1 inputs of quoted prices in active markets for identical assets. As of September 30, 2023, the Company's mining fleet consisted of approximately 8,300 bitcoin mining machines, of which about 6,000 were subject to impairment pursuant to ASC 360 as their respective net book value was above market value. The net book value of those machines was approximately $19,780,000 ($3,300 per machine). The estimated recoverable amount of proceeds it would receive for those exact machines would be approximately $14,350,000 ($2,399 per machine) based on the market value of identical machines. As such, the Company incurred an impairment expense of approximately $5,430,000 as of September 30, 2023 pursuant to ASC 360.

NOTE 6 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table summarizes accounts payable and accrued expenses:

	As of September 30, 2023	As of December 31, 2022
Accounts payable	$ 1,378,000	$ 753,000
Accrued expenses	897,000	2,240,000
Total	$ 2,275,000	$ 2,993,000

NOTE 7 — NOTES PAYABLE

The following table summarizes the outstanding balance of the Company's notes payable:

	As of September 30, 2023	As of December 31, 2022
Equipment loan (BTC Note)	$ 10,072,000	$ 12,636,000
Less – current portion	10,072,000	9,126,000
Notes payable – noncurrent portion	$ —	$ 3,510,000

BTC Note

On May 25, 2022, GOI (the "Borrower") entered into an Equipment Loan and Security Agreement (the "BTC Note") with a lender amounting to 933.333333 Bitcoin ("BTC") at an annual interest rate of 5%.

The Loan is secured by (1) 7,200 S19j Pros Application Specific Integrated Circuit (ASIC) miners used for Bitcoin mining, (2) The Colocation Mining Services Agreement, dated as of July 1, 2022, by and between Borrower and Coinmint, and (3) The Contribution Agreement, dated as of May 25, 2022, by and between Borrower and the Company.

The Company evaluated the Loan in accordance with ASC 815 Derivatives and Hedging. Based on this evaluation, the Company has determined that the Loan will require derivative accounting and will be adjusted to fair value every reporting period. The fair value is determined by using the trading value at closing, as of the reporting date, as disclosed on Coinbase.

On March 29, 2023, the Company executed an amendment to the BTC Note ("Amendment"). The maturity date was extended from May 2024 to March 2026, and the interest rate was increased to 6% per annum, to be applied to the number of bitcoins remaining to be paid at the beginning of each month.

The monthly principal and interest payments, starting with the April 2023 payment, have been adjusted to be 100% of net monthly mining revenue, defined as, for each calendar month, the sum of (a) all of Borrower's revenue generated from all Bitcoin generated by the Borrower with the Collateral *less* (b) the sum of the Borrower SG&A in connection with Bitcoin mining operations, but not to exceed the greater of (x) $100,000 and (y) the amount that is previously preapproved by the Lender in writing for such calendar month; provided, however that, to the extent that SG&A is capped by clause (b) above, any unapplied SG&A may be rolled forward to subsequent months until fully deducted. Notwithstanding the foregoing, unless otherwise approved by Lender, the aggregate amount of SG&A during any rolling twelve-month period shall not exceed $750,000. Provided that if at the end of a fiscal quarter, commencing with the fiscal quarter ending September 30, 2023, if (x) the aggregate principal amount payment received by the Lender for such fiscal quarter exceeds 38.6363638 Bitcoin and (y) the average principal amount payment received by the Lender for each fiscal quarter (commencing fiscal quarter ending September 30, 2023 and through and including the fiscal quarter for which such determination is to be made) exceeds 38.6363638 Bitcoin per fiscal quarter, then, the Borrower shall pay to the Lender 75% of Net Monthly Mining Revenue for the immediately succeeding fiscal quarter (and thereafter, in the following fiscal quarter would shift to 100%).

NOTE 7 — NOTES PAYABLE (cont.)

Also, as part of the Amendment, the Company has agreed not to convey, sell, lease, transfer, assign, or otherwise dispose of any of the Company's digital assets outside of the ordinary course of business.

Additionally, the Company is required thereunder to maintain a collateral (mining equipment, digital assets or US dollars) coverage ratio of 110% (Collateral Coverage Ratio"). A breach of the Collateral Coverage Ratio shall not be deemed to have occurred until the lender has provided notice to the Company of such breach. If the Collateral Coverage Ratio decreases below 110%, the Company will have to provide the lender with additional collateral in the form of bitcoin, U.S. dollars, or additional equipment. If the Company is unable to do so within 15 days, the Company may default on the BTC Note, which could have a material adverse effect on the Company's operations, financial condition, and results of operations. As of September 30, 2023, the Company was not aware of a breach of the Collateral Coverage Ratio.

The Amendment also added a conversion provision whereby the lender has a limited right to convert all or any portion of the outstanding principal on the BTC Note into a number of shares of the Company or any public company that the Company is a subsidiary of, if the Company is not the public company (the "Conversion Right"). The Conversion Right is available at any time during the one-month period (the "Conversion Period") after which the market capitalization of the Company, or its public company parent if the Company is not the public company, for the first time exceeds $125,000,000 for five consecutive days. The conversion price is equal to $150,000,000 divided by the number of shares of the Company, or its public company parent if the Company is not the public company, common stock outstanding immediately prior to the lender's exercise of the Conversion Right during the Conversion Period.

As consideration for the Amendment, the Company agreed to make a one-time payment of 173.17 bitcoins, which had a fair value of approximately $4,856,000 on the date of payment, therefore, reducing the principal balance of bitcoins from 636.81 to 463.64, and a closing fee of $104,000, which was offset with the adjustment for the change in fair value, as defined under debt modification accounting.

The Company has evaluated the Amendment in accordance with ASC 470-50 Modification and Extinguishments. Based on the change in the interest rate from 5.0% to 6.0%, caused there to be a significant change in the cashflows of the BTC Note. Also, given that the BTC Note carried on the Condensed Consolidated Balance Sheet at fair value, any gain on loss from the extinguishment would be adjusted through the change in fair value as of March 31, 2023.

Also, based on the repayment terms and the interest calculation, the Company is unable to determine what would be the current portion and long-term portions as of September 30, 2023, so the Company will present the BTC Note as current.

The following table summarizes the fair value of the BTC Note:

As of September 30, 2023		Principal
Beginning Balance	$	12,636,000
Payments		(5,315,000)
Adjustment to fair value		7,607,000
Amendment principal payment		(4,856,000)
Ending balance	$	10,072,000
Less – current portion		10,072,000
Balance – noncurrent portion	$	—

For the three and nine months ended September 30, 2023, the Company recognized interest expense amounting to $159,000 and $526,000 (of which $50,000 is accrued), respectively.

For the three and nine months ended September 30, 2022, the Company recognized interest expense amounting to $234,000 and $337,000, respectively.

NOTE 8 — COMMITMENTS AND CONTINGENCIES

Commitments

On January 14, 2021, the Company entered into a consulting agreement ("Consulting Agreement") with Chang Advisory Inc. for Robby Chang ("Consultant"), to serve as the Company's Chief Executive Officer and as a member of the Board of Directors. The Consulting agreement will continue until terminated by either the Consultant or the Company. The Consultant will be paid $175,000 (Canadian dollars) per year and shall increase to approximately $300,000 (Canadian dollars) upon the closing of either i) an equity financing totaling at least $5,000,000 (Canadian dollars); or (ii) a debt and equity financing totaling at least $10,000,000 (Canadian dollars) (either (i) or (ii) being a "Qualifying Financing"). If a Qualifying Financing occurs within 90 days from the Effective Date, then the invoicing exception for the first ninety days shall no longer apply and the Consultant shall be entitled to immediately invoice for all completed 30-day periods up to the date of the Qualifying Financing. Upon the closing of the private placement offering on March 16, 2021, the Company meet the criteria for a Qualified Offering; therefore, the consulting compensation increased to $300,000 (Canadian dollars) annually.

The Compensation Committee shall review Consultant's Annual Fee not less frequently than on December 31st during the Engagement Term. The consultant will be eligible for periodic increases in the Annual Fee under the Company's normal policies and procedures for executive salary increases, which currently provide for annual reviews of executive salaries. Consultant's Annual Fee for any year may not be reduced below the Consultant's Annual Fee for the prior year without the written consent of both Consultant and the Company.

Also, Robby Chang has shares of common stock of the Company. On February 2, 2021, the Company determined that the fair market value of a share of common stock was approximately $2.40; therefore, the cash proceeds amounting to that were initially received by the Company were below the fair market value of the shares. The additional value was considered by management to be compensation for Robby Chang as he provides services to the Company. Compensation expenses recognized amounted to $4,540,000.

Coinmint Co-location Mining Services Agreement

On July 1, 2021, the Company entered into an agreement with Coinmint, (the "Coinmint Agreement"), pursuant to which Coinmint agreed to provide up to approximately 22.0 MW of power and to perform all maintenance necessary to operate Company's miners at the Coinmint facility. In exchange, Coinmint is reimbursed for direct production expenses and receives a performance fee based on the net cryptocurrencies generated by the Company's miners deployed at the Coinmint facility. The initial term of the Coinmint Agreement is fifteen months with automatic renewals for subsequent three (3) month terms until and unless terminated as provided in the agreement.

The Company entered into the second amendment of the colocation mining service agreement ("CMS Amendment") with Coinmint, LLC. The CMS Amendment has an effective date of July 1, 2023. The CMS Amendment provides (1) for the Company to obtain an additional 3MW of capacity for a total capacity of 27.5 MW, (2) the performance fee rate was set at 30% for less than or equal to 29.5 W/TH for Bitmain Antminer S19 ProXP, Bitmain Antminer S19j Pro+, and Bitmain Antminer S19 in low power mode and 33% for greater than 29.5 W/TH for Bitmain Antminer S19 in normal mode.

The Company determined the agreement with Coinmint does not meet the definition of a lease in accordance with Accounting Standards Codification ("ASC") 842, Leases.

Core Scientific Co-location Mining Service Agreement and Sub-License and Delegation Agreement

On September 12, 2021, the Company entered into an agreement with Core Scientific, Inc. ("Core") (the "Core Agreement") pursuant to which Core agreed to provide the power to operate the Company's miners and to provide all services required to maintain and operate the Company's miners for a set fee for each KWh used by the Company's miners. The term of the Core Agreement is forty-eight months, with automatic renewals for subsequent twelve-month periods.

NOTE 8 — COMMITMENTS AND CONTINGENCIES (cont.)

The Company determined the agreement with Core does not meet the definition of a lease in accordance with Accounting Standards Codification (“ASC”) 842, Leases.

On October 8, 2021, the Company entered into a Sub-License and Delegation Agreement (“SL&DA”) with Sphere 3D, whereby the Company (i) exclusively sub-licensed to Sphere its rights to access and use the Company Facility pursuant to Order 2 and (ii) delegated to Sphere all its obligations to make payments to Core pursuant to Order 2. Sphere accepted such sub-license and delegation in all respects. Per SL&DA, Sphere sent $16,308,000 to the Company, which was subsequently sent to Core as part of the prepayments outlined in Order 2.

On December 29, 2021, the Company and Sphere 3D, agreed to amend the SL&DA to provide the Company the right to recapture the usage of up to 50% of the hosting capacity to be managed by Core if the Merger Agreement is terminated prior to consummation of the Merger.

As of September 30, 2023, and December 31, 2022, the Company made the following payments to Core which were fully reimbursed by Sphere 3D as follows:

Payment Amount	Percentage and Period covered
$ 73,000	100% prepayment for October 2021 services made in October 2021
205,000	70% prepayment of the estimated services for November 2021 through February 2022 made in October 2021
15,296,000	30% prepayment of the estimated services for March 2022 through November 2022 made in October 2021
756,000	40% prepayment of the estimated services for March 2022; and 30% prepayment for the estimated services for November 2021 made in October 2021
1,489,000	40% prepayment for hosting services for April 2022; and 30% prepayment for the estimated hosting services for December 2021 made in November 2021
2,223,000	40% prepayment for hosting services for May 2022; and 30% prepayment for the estimated hosting services for January 2022 made in December 2021
2,957,000	40% prepayment for hosting services for June 2022; and 30% prepayment for the estimated hosting services for February 2022 made in January 2022
3,485,000	40% prepayment for hosting services for July 2022; and 30% prepayment for the estimated hosting services for March 2022 made in February 2022
4,035,000	40% prepayment for hosting services for August 2022; and 30% prepayment for the estimated hosting services for April 2022 made in March 2022
4,585,000	40% prepayment for hosting services for September 2022; and 30% prepayment for estimated hosting services for May 2022 made in April 2022
$ 35,104,000	

Sphere 3D MSA

On August 19, 2021, Gryphon entered into a Master Services Agreement, or the Sphere MSA, with Sphere 3D. The Sphere 3D MSA has a term of three years, beginning on August 19, 2021, and terminating on August 18, 2024, with one-year automatic renewal terms thereafter. Under the Sphere MSA, Gryphon is Sphere 3D’s exclusive provider of management services for all blockchain and cryptocurrency-related operations, including but not limited to services relating to all mining equipment owned, purchased, leased, operated, or otherwise controlled by Sphere 3D and/or its subsidiaries and/or its affiliates at any location, with Gryphon receiving a percentage of the net operating profit of all of Sphere 3D’s blockchain and cryptocurrency-related operations.

NOTE 8 — COMMITMENTS AND CONTINGENCIES (cont.)

On December 29, 2021, the Company and Sphere 3D entered into Amendment No. 1 to the Sphere 3D MSA, to provide greater certainty as to the term of the Sphere 3D MSA. Sphere 3D and Gryphon agreed to extend the initial term of the Sphere 3D MSA from three to four years, or to five years in the event Sphere 3D does not receive delivery of a specified minimum number of Bitcoin mining machines during 2022.

The cryptocurrency earned from the Sphere 3D's mining operations is held in a wallet, in which the Company holds the cryptographic key information and maintains the internal recordkeeping of the cryptocurrency. The Company's contractual arrangements state that Sphere 3D retains legal ownership of the cryptocurrency; has the right to sell, pledge, or transfer the cryptocurrency; and benefits from the rewards and bears the risks associated with the ownership, including as a result of any cryptocurrency price fluctuations. Sphere 3D also bears the risk of loss as a result of fraud or theft unless the loss was caused by the Company's gross negligence or the Company's willful misconduct. The Company does not use any of the cryptocurrency resulting from the Sphere 3D MSA as collateral for any of the Company's loans or other financing arrangements, nor does it lend, or pledge cryptocurrency held for Sphere.

A threat actor representing to be the Sphere 3D CFO inserted themselves into an email exchange between the Sphere 3D CFO and the Company's CEO, which also included Sphere 3D's CEO, regarding the transfer of Sphere 3D's BTC from the Company's wallet to Sphere 3D's wallet. The threat actor requested that the BTC be transferred to an alternate wallet. As a result, 26 BTC, with a value of approximately $560,000 at the time, was transferred to a wallet controlled by the threat actor. Via counsel, Gryphon engaged with US Federal law enforcement to recover the BTC. Despite these attempts by law enforcement to recover the BTC, recovery was not possible. Gryphon subsequently wired the commensurate amount in USD to Sphere 3D to make them whole for the stolen BTC. Gryphon also engaged a nationally recognized third-party firm to perform a forensic analysis. The analysis revealed that the threat actor did not enter the email exchange via Gryphon's IT systems. Sphere 3D made a claim with its insurance carrier. If Sphere 3D is reimbursed by its insurance carrier, the Company would request reimbursement from Sphere 3D. The Company has also subsequently modified its control systems to protect against any future attempted incursions. During the quarter ended June 30, 2023, the Company made a payment to Sphere 3D for $560,000, which was classified as a general and administrative expense on the unaudited condensed consolidated statement of operations.

As of September 30, 2023, and December 31, 2022, the Company held approximately 3.3501 and 2.498 bitcoin, respectively, with a value of approximately $91,000 and $41,000, respectively. Also, as of September 30, 2023 and December 31, 2022, they held approximately $42,000 and $2,000, respectively, of cash, generated from the sale of Sphere 3D BTC, to be used to make payment related to the Sphere MSA.

Banking Relationship

On March 12, 2023, Signature Bank was closed by the New York State Department of Financial Services, which appointed the Federal Deposit Insurance Corporation (FDIC) as a receiver. All of Signature›s deposit accounts and loans were transferred into Signature Bridge Bank, N.A. On March 19, 2023, Flagstar Bank, N.A. entered into an agreement with FDIC to purchase the deposits and loans from Signature Bridge Bank.

On March 12, 2023, a Joint Statement by the U.S. Treasury, Federal Reserve, and FDIC, and a statement by the Federal Reserve Board, was issued stating that actions were approved, enabling the FDIC to complete its resolutions of Signature Bank in a manner that fully protects all depositors. As of the issuance date of these consolidated financial statements, the Company has full access to its funds deposited with Arival Bank.

NOTE 8 — COMMITMENTS AND CONTINGENCIES (cont.)

Employment Agreement

The Company entered into an employment agreement ("Employment Agreement") with an individual to be the Company's CFO. The Employment Agreement is effective on June 19, 2023 ("Effective Date"), with the first two full financial reporting quarters (six months ended June 30, 2023, and the nine months ended September 30, 2023) of the Company to be defined as an introductory period, so as to, provide the Company an opportunity to observe and evaluate the Employee's capacity in satisfactorily performing the essential functions of the CFO position, CFO's work habits and conduct, and to provide the CFO with an opportunity to assess whether the Company and CFO's position of employment are the right fit for CFO. The CFO will have a base salary of $200,000 and shall be eligible to receive an annual bonus with a target of up to fifty percent (50%) of the CFO's then-current base salary under a short-term incentive bonus plan as approved by the Company's compensation committee of the Board ("Compensation Committee").

Also, the CFO was granted a time-based equity grant covering 390,800 shares of the Company's common stock (the "Equity Grant") pursuant to an equity incentive plan (the "Equity Plan"). The Equity Grant shall vest over a three (3)-year period beginning on the Effective Date, subject to CFO's continued employment with the Company through the relevant vesting date, in accordance with the following schedule:

(i) 1/6 of the Equity Grant shall vest upon the six (6)-month anniversary of the Effective Date;

(ii) 5/6 of the Equity Grant shall vest in substantially equal quarterly installments commencing with the first quarter following the six (6) month anniversary of the Effective Date;

The vesting of the Equity Grant shall be accelerated in full if the CFO is continuously employed through a Change in Control (as defined in the Equity Plan and the award agreement), provided that a reverse takeover transaction or merger for the purposes of listing the Company on a public exchange shall not constitute such a Change in Control.

The Equity Grant is subject to the approval by the Company's stockholders of the Equity Plan and shall be subject to the terms and conditions of the Equity Plan and the Company's standard award agreements.

Contingencies

The Company is subject at times to various claims, lawsuits, and governmental proceedings relating to the Company's business and transactions arising in the ordinary course of business. The Company cannot predict the final outcome of such proceedings. Where appropriate, the Company vigorously defends such claims, lawsuits, and proceedings. Some of these claims, lawsuits and proceedings seek damages, including, consequential, exemplary, or punitive damages, in amounts that could, if awarded, be significant. Certain of the claims, lawsuits, and proceedings arising in the ordinary course of business are covered by the Company's insurance program. The Company maintains the property and various types of liability insurance in an effort to protect the Company from such claims. In terms of any matters where there is no insurance coverage available to the Company, or where coverage is available and the Company maintains a retention or deductible associated with such insurance, the Company may establish an accrual for such loss, retention, or deductible based on currently available information. In accordance with accounting guidance, if it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements, and the amount of loss is reasonably estimable, then an accrual for the cost to resolve or settle these claims is recorded by the Company in the accompanying balance sheets. If it is reasonably possible that an asset may be impaired as of the date of the financial statement, then the Company discloses the range of possible loss. Expenses related to the defense of such claims are recorded by the Company as incurred and included in the accompanying statements of operations. Management, with the assistance of outside counsel, may, from time to time adjust such accruals according to new developments in the matter, court rulings, or changes in the strategy affecting the Company's defense of such matters. On the basis of current information, the Company does not believe there is a reasonable possibility that other than with regard to the Class Action described below, any material loss, if any, will result from any claims, lawsuits, and proceedings to which the Company is subject to either individually, or in the aggregate.

NOTE 8 — COMMITMENTS AND CONTINGENCIES (cont.)

On or about April 7, 2023, Sphere 3D filed a complaint against the Company in the case styled *Sphere 3D Corp. v. Gryphon Digital Mining, Inc.,* Case No. 23-cv-02954, in the United States District Court for the Southern District of New York (the "Complaint"). The Complaint alleges causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, and breach of fiduciary duty in connection with the Company's alleged failure to meet its obligations under the Sphere 3D MSA, and for the Company's allegedly prioritizing its own interest over Sphere 3D.

In light of the inherent uncertainties involved in such matters and based on the information currently available to the Company, no conclusion has been formed as to whether an unfavorable outcome is either probable or remote, therefore, no opinion is expressed as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company. The Company believes the Complaint is without merit and intends to vigorously defend this lawsuit and will seek dismissal of the lawsuit at the earliest possible opportunity.

In addition, the Complaint alleges two separate data security incidents incurred by the Company on January 27, 2023 and February 1, 2023, the Company was the victim of an email spoofing attack in which a hostile actor impersonated the Chief Financial Officer of Sphere 3D ("CFO").

NOTE 9 — STOCKHOLDERS' EQUITY

Preferred stock

The Company is authorized to issue 20,000,000 shares of preferred stock, $0.0001 par value per share. The Company has designated 6,000,000 shares as series seed preferred stock ("Series Seed Shares"), 1,000,000 shares as series seed II preferred stock (Series Seed II Shares"), and 13,000,000 as undesignated preferred stock. The Company's Board of Directors may issue preferred stock in one or more series from time to time and fix or alter the powers, preferences, and rights, and the qualifications, limitations, and restrictions granted to or imposed upon any wholly unissued series of preferred stock, and within the limits or restrictions stated in any resolutions of the Board of Directors.

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company or any deemed liquidation event, before any payment shall be made to the holders of common stock, holders of shares of preferred stock then outstanding shall be entitled to be paid out of the funds and assets available for distribution to its stockholders at the greater of $2.40 per share for Series Seed and $6.68 per share for Series Seed II or such amount per share as would have been payable had all shares of preferred stock been converted into common stock.

The Company's management evaluated the series seed and series seed II preferred stock for features that qualify as embedded derivative liabilities. The management concluded that the conversion feature would not be a derivative to be accounted for as a liability.

Common stock

On August 23, 2023, the Company entered into a consulting agreement ("Agreement") with PI Financial Corp. to provide strategic advice which includes the following:

a) Identify and discuss potential strategic and operational partners;

b) Make introductions to and / coordinate meetings with potential partners for the Company

The Engagement of PI Financial pursuant to this Agreement shall begin August 24, 2023 and terminated on September 29, 2023. For the Services provided by PI Financial, the former received 48,000 shares of the Company's Common Stock. The fair value was estimated to be the per-share value based on the exchange ratio defined in the Akerna Merger, as the Company believes that the Akerna trading is the most readily determined value in accordance with ASC 718-10-55-10 to 12. Akerna is publicly traded (NASDAQ: KERN) The equity compensation expense for the issuance of the shares amounted to $24,000.

NOTE 9 — STOCKHOLDERS' EQUITY (cont.)

On June 19, 2023, the Company's CFO was granted a time-based equity grant covering 390,800 shares of the Company's common stock pursuant to an equity incentive plan (the "Equity Plan"). The Equity Grant shall vest over a three (3)-year period beginning on the Effective Date, subject to CFO's continued employment with the Company through the relevant vesting date, in accordance with the following schedule (see Note 8 "Employment Agreement"). The equity award was valued as of the grant date at $2.42 per share for a total of $946,000. The Company was under a binding agreement to merge with Akerna as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio defined in the Akerna Merger, as the Company believes that the Akerna trading is the most readily determined value in accordance with ASC 718-10-55-10 to 12. Akerna is publicly traded (NASDAQ: KERN) The equity compensation expense for the nine months ended September 30, 2023 amounted to $325,000.

On April 4, 2022, the Company entered into an employment agreement with an individual. The agreement provided for an annual cash compensation of $230,000 paid in equal installments on a monthly basis. Also, the employee was granted equity compensation of 500,000 shares of the Company's common stock. The equity award vests 83,333 shares upon the six-month anniversary, 166,667 shares vest in equal quarterly installments commencing on the nine-month anniversary, and 250,000 shares vest in equal monthly installments commencing on the 19-month anniversary. The equity award was valued as of the grant date at $9.487 per share for a total of $4,744,000. The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY). In January 2023, the employee resigned and vested ownership over 41,667 restricted common stock awards valued at $9.487 per share. Compensation expense for the period ended September 30, 2023, amounted to $395,000. The remaining unissued shares were canceled and the associated compensation expense in prior years of $1,910,000 was recaptured.

On October 26, 2021, the Company entered into an agreement with an individual to continue service to the Company. As compensation, the consultant was granted 10,000 shares of the Company's common stock, and all of the Shares shall vest over a period of two (2) years in accordance with the following vesting schedule: 2,500 Shares will vest on the six-month anniversary of the Effective Date, 2,500 Shares will vest on the first-year anniversary of the Effective Date, 2,500 Shares will vest on the eighteen-month anniversary, and the 2,500 Shares will vest on the second-year anniversary of the Effective Date. The equity award was valued as of the grant date at $33.48 per share for a total of $322,000. The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY). Compensation expenses for the nine months ended September 30, 2023, and 2022, amounted to $129,000, and $184,000, respectively.

On October 22, 2021, the Company entered into an agreement with an individual to continue service to the Company. As compensation, the consultant was granted 5,000 shares of the Company's common stock, and all of the Shares shall vest over a period of two (2) years in accordance with the following vesting schedule: 1,250 Shares will vest on the six-month anniversary of the Effective Date, 1,250 Shares will vest on the first-year anniversary of the Effective Date, 1,250 Shares will vest on the eighteen-month anniversary, and the 1,250 Shares will vest on the second-year anniversary of the Effective Date. The equity award was valued as of the grant date at $33.90 per share for a total of $163,000. The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY). Compensation expenses for the nine months ended September 30, 2023 and 2022, amounted to $154,000 and $213,000.

NOTE 9 — STOCKHOLDERS' EQUITY (cont.)

On October 20, 2021, the Company entered into an agreement with an individual to continue service to the Company. As compensation, the consultant was granted 10,000 shares of the Company's common stock, and all of the Shares shall vest over a period of two (2) years in accordance with the following vesting schedule: 2,500 Shares will vest on the six-month anniversary of the Effective Date, 2,500 Shares will vest on the first-year anniversary of the Effective Date, 2,500 Shares will vest on the eighteen-month anniversary, and the 2,500 Shares will vest on the second-year anniversary of the Effective Date. The equity award was valued as of the grant date at $39.48 per share for a total of $380,000. The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY). Compensation expenses for the nine months ended September 30 2023 and 2022, amounted to $66,000 and $92,000, respectively.

On October 1, 2021, the Company entered into a consulting agreement with a consultant. As compensation, the Company granted 199,309 shares of common stock amounting to $6,206,000, or $31.14 per share, as payment for advisory services. The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY). The shares shall vest over tranches of 25% increments, with the first tranche of shares vesting on October 31, 2021. The second, third, and fourth tranches of shares shall vest on December 31, 2021, March 31, 2022, and June 30, 2022, respectively. Compensation expenses for the nine months ended September 30, 2023 and 2022, amounted to nil and $1,804,000, respectively.

On June 3, 2021, the Company granted 1,859,434 shares of common stock to one of its consultants as payment for services payable in 40 quarterly installments of 46,486 shares per quarter. The first tranche vesting on June 3, 2021. Upon consummation of the planned merger, see Note 1 Agreement and Plan Merger for more information, all of the unvested shares, at the time of the event, will vest immediately. The equity award was valued as of the grant date at $8.18 per share for a total of $13,002,000. The Company was under a binding agreement to merge with Sphere 3D as of the grant date. Therefore, the grant date fair value was estimated to be the per-share value based on the exchange ratio as defined in the Merger Agreement, as the Company believes that the Sphere 3D trading is the most readily determinable value in accordance with ASC 718-10-55-10 to 12. Sphere 3D is publicly traded (NASDAQ: ANY). On April 4, 2022, the Company terminated this contract. As of the termination date, there was earned and unvested compensation expense of approximately $3,154,000, which was reversed and credited to stock-based compensation expense. For the nine months ended September 30, 2023 and 2022, compensation expense recognized amounted to nil and $1,089,000, respectively.

On December 10, 2020, the Company entered into two separate independent director agreements with two individuals. The individuals will serve as directors of the Company for an initial one-year period. As compensation, each director was granted 75,000 shares of the Company's common stock to vest over 18 months in four equal installments of 18,750 shares, per director, starting on January 1, 2021. The grant date fair value was $180,000, or $2.40 per share, which was based on the Company's private placement on March 16, 2021. Compensation expenses for the nine months ended September 30 2023, and 2022, amounted to nil and $30,000 (of which $15,000 was accrued), respectively.

NOTE 9 — STOCKHOLDERS' EQUITY (cont.)

The table below summarizes the transactions related to the Company's stock-based compensation expense for the nine months ended September 30:

	2023	2022
Directors		
December 10, 2020: 75,000 share grant for common stock	$ —	$ 15,000
December 10, 2020: 75,000 share grant for common stock	—	15,000
Consultants		
June 3, 2021: 1,859,434 share grant for common stock	—	1,089,000
October 1, 2021: 199,309 share grant for common stock	—	1,804,000
October 20, 2021: 10,000 share grant for common stock	66,000	92,000
October 22, 2021: 5,000 share grant for common stock	154,000	213,000
October 26, 2021: 10,000 share grant for common stock	129,000	184,000
April 4, 2022; 166,667 share grant for common stock	395,000	2,035,000
June 19, 2023: 390,800 share grant for common stock	325,000	—
Stock based compensation expense reversal for June 3, 2021 grant	—	(3,154,000)
Stock based compensation expense reversal for April 4, 2022 grant	(1,910,000)	—
August 23, 2023: 48,000 share grant for common stock	24,000	—
Other		
Officer contributed capital	188,000	188,000
	$ (629,000)	$ 2,481,000

Warrants

Transactions involving our warrant are as follows for the three and nine months ended September 30:

2023	Number of Shares	Weighted Average Strike Price/Share	Weighted Average Remaining Contractual Term (Years)	Weighted Average Grant Date Fair Value	Weighted Average Intrinsic Value
Outstanding – December 31, 2022	1,067,968	$ 17.0	1.39	$ 1.36	$ 0.99
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Expired	111,111	0.01	—	15.65	0.99
Outstanding – September 30, 2023	956,857	18.97	0.75	1.32	0.00
Vested and exercisable – September 30, 2023	956,857	18.97	0.75	1.32	0.00
Unvested and non-exercisable – September 30, 2023	—	$ —	—	$ —	$ —

NOTE 9 — STOCKHOLDERS' EQUITY (cont.)

2022	Number of Shares	Weighted Average Strike Price/Share	Weighted Average Remaining Contractual Term (Years)	Weighted Average Grant Date Fair Value	Weighted Average Intrinsic Value
Outstanding – December 31, 2021	1,117,968	$ 16.24	2.32	$ 1.24	$ 2.39
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Expired	—	—	—	—	—
Outstanding – September 30, 2022	1,117,968	16.24	1.83	1.24	2.07
Vested and exercisable – September 30, 2022	1,117,968	16.24	1.83	1.24	2.07
Unvested and non-exercisable – September 30, 2022	—	$ —	—	$ —	$ —

NOTE 10 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of certain financial instruments, including cash and cash equivalents and accounts payable and accrued expenses, approximate their respective fair values due to the short-term nature of such instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to remeasurement on a recurring basis to determine the appropriate level at which to classify them for each reporting period. This determination requires significant judgments to be made. The Company had the following financial assets and liabilities:

SCHEDULE OF ASSETS MEASURED AT FAIR VALUE

	Balance as of September 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mining equipment, net	$ 18,519,000	$ 18,519,000	$ —	$ —
Digital assets	$ 1,418,000	$ 1,418,000	$ —	$ —
Digital assets held for other parties	$ 91,000	$ 91,000	$ —	$ —
Marketable securities	$ 161,000	$ 161,000	$ —	$ —
Liabilities:				
Liability related to digital assets held for other parties	$ 133,000	$ 133,000	—	$ —
BTC Note	$ 10,072,000	$ 10,072,000	$ —	$ —

NOTE 10 — FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

	Balance as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Digital assets	$ 6,746,000	$ 6,746,000	$ —	$ —
Digital assets held for other parties	$ 41,000	$ 41,000	$ —	$ —
Marketable securities	$ 235,000	$ 235,000	$ —	$ —
Liabilities:				
Liability related to digital assets held for other parties	$ 41,000	$ 41,000	$ —	$ —
BTC Note	$ 9,126,000	$ 9,126,000	$ —	$ —

NOTE 11 — SUBSEQUENT EVENT

The Company has evaluated all events that occurred after the balance sheet date through the date when the financial statements were issued to determine if they must be reported. The management of the Company determined the following events are reportable for the period ended September 30, 2023.

On October 6, 2023, Sphere 3D delivered a termination notice to Gryphon with respect to the Sphere MSA, largely on the basis of the allegations made by Sphere 3D in the Sphere 3D Litigation (the "Sphere 3D MSA Termination"). On October 11, 2023, Gryphon filed an answer to Sphere 3D's second amended complaint, in which, among other things, Gryphon alleged that Sphere 3D's attempted termination of the Sphere MSA was wrongful and ineffective, because it violated the terms of the Sphere MSA, and thus that Sphere 3D continues to owe Gryphon all amounts to which Gryphon would otherwise be entitled under the Sphere MSA through that contract's term ending in August 2026.

Gryphon intends to continue to vigorously defend against the Sphere 3D Litigation, including but not limited to the Sphere 3D MSA Termination, which it believes are without merit, and to aggressively pursue its counterclaims against Sphere 3D. However, Gryphon cannot predict the outcome of these proceedings or provide an estimate of potential damages or recovery, if any. Failure by Gryphon to obtain a favorable resolution of the Sphere 3D Litigation could require it to pay damage awards or otherwise enter into settlement arrangements for which its insurance coverage may be insufficient. Any such damage awards or settlement arrangements in current or future litigation could have a material adverse effect on Gryphon's business, operating results or financial condition. Even if Sphere 3D's claims are not successful, or if Gryphon is successful in pursuing its counterclaims or negotiating a favorable settlement, defending against this or future litigation is expensive and could divert management's attention and resources, all of which could have an adverse and material impact on Gryphon's business, operating results and financial condition and negatively affect Gryphon's value. Further, any valid termination of the Sphere MSA in accordance with its terms could also have a negative impact on Gryphon's business and operating results. In addition, such lawsuits may make it more difficult for Gryphon to finance its operations in the future.

In connection with the ongoing Core Chapter 11 bankruptcy proceedings, on November 21, 2023, the Company was notified that Core Scientific and its debtor affiliates filed an adversary proceeding complaint ("Core Complaint") against Sphere 3D and the Company ("Core Litigation"). As it pertains to the Company, the Core Complaint alleges, among other things, that the Company breached certain miner hosting agreements between Core and the Company by failing to deliver miners to Core under the miner hosting agreements. The Core Complaint seeks damages in the amount of $100 million and a declaratory judgment that Core has no continuing obligations under those miner hosting agreements. The Company disputes the allegations of the complaint and will assert all available defenses as well as counterclaims against Core. Management does not believe that the Core Litigation will have any material impact on its financial statements.

On November 21, 2023, the Company was notified by Core Scientific, Inc. that Core intends to cease hosting operations of 133 ASIC miners that the Company had operating at Core as of September 30, 2023. The Company will remove its hosted equipment pursuant to the terms of the operative Master Services Agreement between the Company and Core. This hosted capacity represents approximately 1% of the Company's overall fleet and management does not anticipate this action to result in a material impact to its operations. The Company will relocate these miners to its other existing operations.

Exhibit 99.3

GRYPHON MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of Gryphon's financial condition and results of its operations, together with its consolidated financial statements and related notes appearing at the end of this proxy statement/prospectus. This discussion contains forward-looking statements reflecting Gryphon's current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" and elsewhere in this proxy statement/prospectus.

Business Overview

Founded in October 2020, Gryphon is a bitcoin mining company based in Las Vegas, Nevada. Gryphon launched its mining operations in September 2021 upon the receipt of the first of 12 batches of 600 Bitmain S19j Pro Antminers. Gryphon has deployed a total of approximately 8,400 S19j Pro Antminers from Bitmain Technologies Limited ("Bitmain") pursuant to the Bitmain Agreement (as defined below) and subsequent market purchases. Gryphon's mission is to create a net carbon neutral bitcoin miner. Gryphon's revenue model is to mine and hold bitcoin, and then sell only the bitcoin that is necessary to pay its operating expenses and to reinvest in operational expansion. For the nine-month period ended September 30, 2023, the average holding period was 61 days. Prior to December 31, 2022, Gryphon's average holding period was under 7 days. The bitcoin that is sold to pay operating expenses and to reinvest in operational expansion is sold within a 24 hour time frame of receipt.

Gryphon's operations encompass the following:

- *Self-Mining:* Gryphon operates approximately 8,400 bitcoin ASIC mining computers, referred to as "miners," that Gryphon has installed at third-party hosted mining data centers located in New York, Georgia and North Carolina. Revenue generated by the mining of bitcoin is measured on a dollar per megawatt-hour ("MWh") basis and is variable based on the price of bitcoin, the measure of difficulty, transaction volume and global hash rates.
- *ESG-Led Mining:* Gryphon is an ESG-committed bitcoin miner with the mission to create the world's largest bitcoin miner with a neutral carbon footprint. Gryphon currently uses net carbon neutral energy in its power mix.

Given the significant amount of power that ASIC miners require to operate, Gryphon believes most mining companies focus completely on low-cost electricity without considering the impact of the power's production on the climate. Gryphon's strategy is to focus on working with power hosting partners that are committed to climate science and also can produce reliable, low-cost power. Gryphon uses 25 megawatts of space at its primary hosting facility in New York, which relies on renewable hydro energy. As it deploys additional miners, Gryphon will work with hosting partners that have committed to providing power that is net carbon neutral.

For the years ended December 31, 2022 and 2021, Gryphon mined approximately 815 and 69 bitcoins, respectively, and for the three months ended March 31, 2023, June 30, 2023 and September 30, 2023, Gryphon mined 212,187 and 176 bitcoin, respectively. Gryphon also received digital assets (bitcoin, Ethereum, DAI and USDT) that amounted to approximately $1,374,000 through digital currency it received from private placements of its capital stock. While Gryphon does not have any plans to acquire digital assets other than bitcoin, it may do so in the future.

Breakeven Analysis

Below is a breakeven analysis of Gryphon's mining operations:

	2022	Q1/23	Q2/23	Q3/23
Mining Revenues	$ 21,362,000	$ 4,840,000	$ 4,963,000	$ 4,940,000
Bitcoin mined	815	212	187	176
Value of one mined bitcoin	**$ 26,211**	**$ 22,830**	**$ 26,540**	**$ 28,068**
Cost of Revenues (excluding depreciation)	$ 12,196,000	$ 2,737,000	$ 2,823,000	$ 3,982,000
Cost to mine one bitcoin	**$ 14,964**	**$ 12,910**	**$ 15,096**	**$ 22,625**
Total Bitcoin Equivalent Coins Generated (Total BTC Equiv)*	829	221	200	185
Breakeven of Total BTC Equiv	**$ 14,712**	**$ 12,385**	**$ 14,115**	**$ 21,524**

* Amount represents Bitcoin mined plus MSA BTC Equiv listed below in table

	Bitcoin Mined	MSA BTC Equiv	Total BTC Equiv
Jan-22	43	0.3	43
Feb-22	42	1.0	43
Mar-22	57	1.6	59
Apr-22	55	1.9	57
May-22	61	1.8	63
Jun-22	70	1.4	72
Jul-22	85	1.2	86
Aug-22	95	1.2	96
Sep-22	80	0.4	80
Oct-22	80	0.7	81
Nov-22	75	0.7	76
Dec-22	71	1.6	72
Jan-23	80	2.8	83
Feb-23	64	2.8	67
Mar-23	68	3.2	71
Apr-23	60	3.8	64
May-23	69	5.5	74
Jun-23	58	3.8	62
Jul-23	61	3.8	65
Aug-23	61	2.8	64
Sep-23	54	2.2	56

The breakeven analysis is computed by taking the cost of revenues for the given period and dividing that sum by the number of Bitcoin Equivalent Coins Generated during the same period. For instance, in (Q2/23 the $2,823,000 cost of revenues is divided by the 200 Bitcoin Equivalent Coins Generated, resulting in an average of $14,115 per coin). The BTC Equivalent calculation labeled as “Total BTC Equiv” in the table, is determined by combining Gryphon’s bitcoin-mined during the period with the bitcoin equivalent amount of revenue earned from the Sphere MSA. To calculate the latter, the revenue earned from the Sphere MSA during the period is divided by the average bitcoin price as quoted by the Principal Market for that same period (labeled as “MSA BTC Equiv” in the table). The breakeven analysis is an operational metric that does not take capital expenditures or financing mechanics into consideration. The calculation only considers direct operational costs, such as electricity and hosting. The mining equipment was originally financed primarily through equity capital raises and cash flows resulting from the sale of bitcoin generating by mining operations. As of September 30, 2023, there are no financing agreements outstanding as it relates to the financing of the mining equipment.

The breakeven analysis is a non-GAAP measure, similar to the way the gold industry reports gold-equivalent ounces to provide uniform measure of various revenue streams from different commodities (such as gold, copper, nickel, etc). Much like the gold industry, the purpose of this calculation is to offer the reader a bitcoin-equivalent datapoint for Gryphon’s two revenue streams within the context of its primary revenue stream. This enables readers to easily compare Gryphon’s operations with other bitcoin mining companies. By dividing the total cost of revenues by the number of bitcoin-equivalent coins generated, we arrive at the breakeven point for total BTC equiv. Therefore, if Gryphon sells a bitcoin at the same price, it would have achieved a breakeven.

The breakeven cost of mining bitcoin is influenced primarily by two factors. First, the cost of electricity sourced from Gryphon’s hosting providers, which encompasses a combination of pass-through market electricity prices and profit-sharing arrangements. Second, it’s affected by the global hashrate of the Bitcoin network. Over the past year leading up to Q3/23, the former has substantially decreased, dropping from an average of $0.083 in Q3/22 to $0.071 in Q3/23. This decline is attributed to the global decrease in energy prices, resulting in a more cost-effective electricity supply. Conversely, the global hashrate of the Bitcoin network has shown a consistent upward trend, with sequential increases of 17.7%, 18.9% and 8.0% over the last three quarters. This increase in the global hashrate has led to fewer bitcoins being mined for the same amount of energy consumption. The combined effect of these changes in the two key cost drivers has resulted in a breakeven level reduction from 2022 to Q1/23, but an overall net increase from 2022 to Q3/23, despite the decrease in energy prices.

Recent Developments

Termination of Sphere 3D Merger Agreement

On June 3, 2021, Gryphon and Sphere 3D Corp. ("Sphere 3D") entered into an Agreement and Plan of Merger (the "Sphere 3D Merger Agreement"), pursuant to which a merger subsidiary of Sphere 3D was to merge with and into Gryphon, with Gryphon continuing as the surviving corporation and wholly-owned subsidiary of Sphere 3D (the "Sphere 3D Merger").

On July 6, 2021, in connection with the pending Sphere 3D Merger, Sphere 3D entered into a Secured Promissory Note with Gryphon (the "Sphere 3D Note"), pursuant to which Sphere 3D loaned Gryphon the principal amount of $2.7 million. The Sphere 3D Note was secured by certain assets of Gryphon and bore interest at the rate of 9.5% per annum. On August 30, 2021, Sphere 3D and Gryphon entered into Amendment No. 1 to the Sphere 3D Note pursuant to which Sphere 3D loaned Gryphon an additional $3.65 million. On September 29, 2021, Sphere 3D and Gryphon entered into Amendment No. 2 to the Sphere 3D Note, pursuant to which Sphere 3D loaned Gryphon an additional $3.65 million and amended the repayment schedule. On January 3, 2022, Sphere 3D and Gryphon entered into Amendment No. 3 to the Sphere 3D Note, pursuant to which Sphere 3D loaned an additional $2.5 million to Gryphon, which increased the principal amount of the Sphere 3D Note to $12.5 million and extended the initial date for the repayment.

On August 19, 2021, in connection with the pending Sphere 3D Merger, Gryphon entered into a Master Services Agreement (the "Sphere 3D MSA") with Sphere 3D. Under the Sphere 3D MSA, Gryphon is Sphere 3D's exclusive provider of management services for all blockchain and cryptocurrency-related operations, including but not limited to services relating to all mining equipment owned, purchased, leased, operated, or otherwise controlled by Sphere 3D and/or its subsidiaries and/or its affiliates at any location. Gryphon, in return receives 22.5% of the net operating profit of all of Sphere 3D's blockchain and cryptocurrency-related operations. To provide greater certainty as to the term of the Sphere 3D MSA, Sphere 3D and Gryphon agreed to extend the initial term of the Sphere 3D MSA from three to four years or to five years in the event Sphere 3D did not receive delivery of a specified minimum number of bitcoin mining machines during 2022. Sphere did not meet delivery targets in 2022, which extended the initial term of the Sphere 3D MSA to five years through August 2026. Subject to written notice from Sphere 3D and an opportunity by Gryphon to cure for a period of up to 180 days, Sphere 3D shall be entitled to terminate the Sphere 3D MSA in the event of: (i) Gryphon's failure to perform the services under the Sphere 3D MSA in a professional and workmanlike manner in accordance with crypto-mining industry standards for similar services, or (ii) Gryphon's gross negligence, fraud or willful misconduct in connection with performing the services. Gryphon shall be entitled to specific performance or termination for cause in the event of a breach by Sphere 3D, subject to written notice and an opportunity to cure for a period of up to 180 days.

On April 4, 2022, Gryphon and Sphere 3D mutually agreed to terminate the Sphere 3D Merger Agreement due to changing market conditions, the passage of time, and the relative financial positions of the companies, among other factors. In connection with the termination of the Sphere 3D Merger Agreement, all amounts payable by Gryphon under the Sphere 3D Note were forgiven, and Sphere 3D released all of the collateral pledged by Gryphon to secure the Sphere 3D Note. In addition, Gryphon received 850,000 shares of Sphere 3D's restricted common stock that were held in a third-party escrow account. The parties will continue to operate under the Sphere 3D MSA in accordance with its terms.

Gryphon and Sphere 3D are engaged in litigation regarding the Sphere 3D MSA, and on October 6, 2023, Sphere 3D delivered a termination notice to Gryphon with respect to the Sphere 3D MSA. For additional information regarding these matters, see "*Gryphon's Business — Legal Proceedings*" on page 235 of this proxy statement/prospectus.

Anchorage Loan Agreement

On May 25, 2022, Anchorage entered into the Anchorage Loan Agreement with Gryphon Opco, pursuant to which Anchorage loaned Gryphon Opco the principal amount of 933.333333 bitcoin. Gryphon Opco's obligations under the Anchorage Loan Agreement are secured by certain equipment and software rights of Gryphon Opco and are guaranteed by Gryphon. The loan was payable in installments of 42.424242 bitcoin with interest of 5.0% per annum, payable monthly in bitcoin. Gryphon Opco is further required thereunder to maintain a collateral coverage ratio of 110%. The maturity date of the loan was initially May 27, 2024.

Gryphon's rationale for entering into the Anchorage Loan Agreement was two-fold. The first was to reduce Gryphon's interest rate costs by retiring convertible debentures that carried a coupon rate 500 bps higher than the rate under the Anchorage loan. The second was to align the denomination of Gryphon's debt financing to the denomination of Gryphon's revenues (i.e. align the currency of Gryphon's debts to the currency of Gryphon's revenues). We may consider taking on Bitcoin denominated debt in the future, subject to the terms available and relative to other financing opportunities available.

On March 27, 2023, Gryphon and Anchorage entered into an amendment to the Anchorage Loan Agreement (the "Anchorage Loan Amendment"). Pursuant to the Anchorage Loan Amendment, the maturity date was extended to March 2026, and the interest rate was increased to 6% per annum. The monthly principal and interest payments have been adjusted to be 100% of net monthly mining revenue, defined as, for each calendar month, the sum of (a) all of Gryphon's revenue generated from all bitcoin generated by Gryphon with the collateral *less* (b) the sum of Gryphon Selling, General and Administrative Expenses ("SG&A") in connection with bitcoin mining operations, but not to exceed the greater of (x) $100,000 and (y) the amount that is previously preapproved by Anchorage in writing for such calendar month; provided, however that, to the extent that SG&A is capped by clause (b) above, any unapplied SG&A may be rolled forward to subsequent months until fully deducted. Notwithstanding the foregoing, unless otherwise approved by Anchorage, the aggregate amount of SG&A during any rolling twelve-month period shall not exceed $750,000. Provided that if at the end of a fiscal quarter, commencing with the fiscal quarter ending June 30, 2023, if (x) the aggregate principal amount payment received by the Anchorage for such fiscal quarter exceeds 38.6363638 bitcoin and (y) the average principal amount payment received by Anchorage for each fiscal quarter (commencing fiscal quarter ending June 30, 2023 and through and including the fiscal quarter for which such determination is to be made) exceeds 38.6363638 bitcoin per fiscal quarter, then, the Gryphon shall pay to Anchorage 75% of net monthly mining revenue for the immediately succeeding fiscal quarter (and thereafter, in the following fiscal quarter would shift to 100%). As consideration for the Anchorage Loan Agreement Amendment, Gryphon agreed to make a one-time payment of 173.17 bitcoins, reducing the principal balance of bitcoins from 636.81 to 463.64, and a closing fee of $45,000.

The Anchorage Loan Agreement Amendment also added a conversion provision whereby Anchorage has a limited right to convert all or any portion of the outstanding principal on the loan into a number of shares of Gryphon or any public company that is Gryphon's parent, if Gryphon is not the public company (the "Conversion Right"). The Conversion Right is available at any time during the one month period (the "Conversion Period") after which the market capitalization of Gryphon, or its public company parent if Gryphon is not the public company, for the first time exceeds $125,000,000 for five consecutive days. The conversion price is equal to $150,000,000 divided by the number of shares of Gryphon, or its public company parent if Gryphon is not the public company, common stock outstanding immediately prior to Anchorage's exercisation of the Conversion Right during the Conversion Period.

Conversion and Redemption of Convertible Debentures

In June 2021, Gryphon sold units in a private placement consisting of convertible debentures in the principal amount of $9.4867 ("Convertible Debenture") and one warrant to purchase Gryphon's common stock for a total aggregate of 956,857 units. Each Convertible Debenture was convertible into a share of Gryphon's common stock at a conversion price equal to the lower of (i) $9.4867, or (ii) a 30% discount to the public valuation. The Convertible Debentures accrued simple interest on the outstanding principal balance at a rate of 10% per annum.

On May 26, 2022, Gryphon issued 47,971 shares of common stock upon conversion of Convertible Debentures with an aggregate principal amount of $414,000 and accrued interest of $41,000. Also on May 26, 2022, Gryphon redeemed the remaining $8,665,000 in aggregate principal amount of Convertible Debentures, together with $839,000 in accrued interest thereon. Following such conversions and redemptions, no Convertible Debentures remained outstanding.

Impact of Coronavirus Pandemic

COVID-19, and the global measures taken to combat it, may cause disruption to the activities of Gryphon's suppliers and, potentially, Gryphon's bitcoin mining activities and have an adverse effect on Gryphon's business. Gryphon's bitcoin miners will be accessible through Gryphon's data provider and do not require physical interaction. Thus, Gryphon expects that its ability to conduct operations will not be materially affected by COVID-19. While the broader economic implications remain uncertain, the COVID-19 pandemic has, to date, not had any measurable material impact on Gryphon's operating results.

Depending on the magnitude of such effects on Gryphon's supply chain, shipments of parts for Gryphon's already ordered bitcoin miners, as well as any new miners Gryphon may purchase, may be delayed. As Gryphon's bitcoin miners require repair or become obsolete and require replacement, Gryphon's ability to obtain adequate replacements or repair parts from their manufacturer may be hampered. Supply chain disruptions could negatively impact Gryphon's operations.

The extent to which the pandemic may impact Gryphon's results will depend on future developments, which are highly uncertain and cannot be predicted as of the date of this proxy statement/prospectus, including new information that may emerge concerning the severity of the pandemic and steps taken to contain the pandemic or treat its impact, among others. Nevertheless, the pandemic and the current financial, economic and capital markets environment, and future developments in the global supply chain and other areas present material uncertainty and risk with respect to Gryphon's performance, financial condition, results of operations and cash flows. See also "Risk Factors" above.

Emerging Growth Company and Smaller Reporting Company Status

Gryphon is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. Gryphon may take advantage of these exemptions until is no longer an emerging growth company under Section 107 of the JOBS Act, which provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. Gryphon has elected to avail itself of the extended transition period and, therefore, while Gryphon is an emerging growth company it will not be subject to new or revised accounting standards the same time that they become applicable to other public companies that are not emerging growth companies, unless it chooses to early adopt a new or revised accounting standard.

Additionally, Gryphon is a "smaller reporting company" as defined in Item 10(f)(1) of Regulation S-K. Smaller reporting companies may take advantage of certain reduced disclosure obligations, including, among other things, providing only two years of audited financial statements. Gryphon will remain a smaller reporting company until the last day of the fiscal year in which (i) the market value of Gryphon's common stock held by non-affiliates exceeds $250 million as of the prior June 30, or (ii) Gryphon's annual revenues exceeded $100 million during such completed fiscal year and the market value of our common stock held by non-affiliates exceeds $700 million as of the prior June 30.

Going Concern

Gryphon's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate the continuation of Gryphon as a going concern and the realization of assets and satisfaction of liabilities in the ordinary course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Since Gryphon began revenue generation in September 2021, management has financed Gryphon's operations through equity and debt financing and the sale of the digital assets earned through mining operations.

Gryphon may incur additional losses from operations and negative cash outflows from operations in the foreseeable future. In the event Gryphon continues to incur losses, it may need to raise debt or equity financing to finance its operations until operations are cashflow positive. However, there can be no assurance that such financing will be available in sufficient amounts and on acceptable terms, when and if needed, or at all. The precise amount and timing of the funding needs cannot be determined accurately at this time and will depend on several factors, including the market price for the underlying commodity mined by Gryphon and its ability to procure the required mining equipment and operate profitably. Gryphon's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business.

Components of Gryphon's Results of Operations

Revenue

Gryphon's revenue consists primarily of bitcoin earned from its cryptocurrency mining activities and revenue received under the Sphere 3D MSA. In addition to its self-mining activities, Gryphon also has digital asset mining pools relationships, with the mining pool operators to provide computing power to the mining pool. In exchange for providing computing power, Gryphon is entitled to a fractional share of the fixed cryptocurrency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator, which are netted as a reduction of the transaction price). Gryphon's fractional share is based on the proportion of computing power Gryphon contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the current algorithm.

Under the Sphere 3D MSA, Gryphon is Sphere 3D's exclusive provider of management services for all blockchain and cryptocurrency-related operations, including but not limited to services relating to all mining equipment owned, purchased, leased, operated, or otherwise controlled by Sphere 3D and/or its subsidiaries and/or its affiliates at any location. Gryphon in return receives 22.5% of the net operating profit of all of Sphere 3D's blockchain and cryptocurrency-related operations. Operating profit is defined as fair value of the cryptocurrency mined less the hosting costs to mine said cryptocurrency.

Costs of Revenue

Gryphon's costs of revenue consist primarily of direct costs of earning bitcoin related to mining operations, including electric power costs, other utilities, but excluding depreciation and amortization, which are separately stated in Gryphon's statements of operations.

General and Administrative Expenses

Gryphon's general and administrative expenses consist primarily of payments for legal and professional fees, payroll and other miscellaneous expenses.

Stock-Based Compensation

Gryphon accounts for stock-based compensation under ASC 718 "*Compensation — Stock Compensation*" using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting for transactions in which an entity exchanges it equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

Gryphon uses the fair value method for equity instruments granted to non-employees and use the Black-Scholes model for measuring the fair value of options. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

Common Stock Awards

Gryphon grants common stock awards to non-employees in exchange for services provided. Gryphon measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees is recorded in accordance with ASC 718 on the statement of operations in the same manner and charged to the same account as if such settlements had been made in cash.

Warrants

In connection with certain financing, consulting and collaboration arrangements, Gryphon has issued warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. Gryphon measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants are recorded at fair value as expense over the requisite service period or at the date of issuance, if there is not a service period.

Depreciation Expense

Gryphon's depreciation expense consists primarily of periodic expense for the deprecation of its mining machines.

Impairment of Digital Assets

In accordance with GAAP, Gryphon is required to evaluate impairment of its digital assets. The fair value of a digital asset is evaluated on the date it is received. If the fair value decreases after receipt, the digital asset is written down to a new fair value. Gryphon cannot recognize a gain if and when the fair value is above the value used to impair the asset.

Realized Gain on Disposition of Digital Assets

At the time a digital asset is sold or transferred, Gryphon will recognize a gain equal to the fair value of the digital asset less the book value of the digital asset.

Other Income (Expense)

Gryphon's other income (expense) consists primarily of gains and losses on the extinguishment of debt, interest expense, amortization of debt discount, unrealized losses on our marketable securities and the change in fair value of our notes payable.

Results of Operations

Fiscal Year Ended December 31, 2022 Compared to Fiscal Year Ended December 31, 2021

The following table shows Gryphon's results of operations for the fiscal years ended December 31, 2022 and December 31, 2021:

	2022	2021	Change	Percentage Change
Revenue	$ 21,723,000	$ 3,711,000	$ 18,012,000	485%
Cost and expenses:				
Cost of revenues	12,196,000	871,000	11,325,000	1,300%
General and administrative expenses	2,175,000	2,256,000	(81,000)	(4)%
Stock based compensation expense	3,285,000	20,132,000	(16,847,000)	(84)%
Impairment of digital assets	8,704,000	712,000	7,992,000	1,122%
Realized gain on disposition of digital assets	(609,000)	(344,000)	(265,000)	77%
Depreciation expense	12,536,000	695,000	11,841,000	1,704%
Total operating expenses	38,287,000	24,322,000	13,965,000	57%
Loss from operations	(16,564,000)	(20,611,000)	4,047,000	(20)%
Total other income (expense)	20,276,000	(1,499,000)	21,775,000	(1,453)%
Income (Loss) before provision for income taxes	$ 3,712,000	$ (22,110,000)	$ 25,822,000	(117)%

Revenue

Revenue increased approximately $18,012,000, or 485%, to approximately $21,723,000 for the year ended December 31, 2022, compared to approximately $3,711,000 for the year ended December 31, 2021. The increase was primarily attributable to (i) the increase from approximately three months of operations in 2021 to twelve months of operations in 2022, and (ii) the increased deployment of miners in operations from approximately 3,000 in 2021 to approximately 7,400 in 2022, offset by a decline in the market value of bitcoin from approximately $41,000, as of October 1, 2021, to approximately 17,000, as of December 31, 2022.

Cost of Revenues

Cost of revenues increased $11,325,000, or 1,300%, to $12,196,000 for the year ended December 31, 2022, compared to $871,000 for the year ended December 31, 2021. The increase was primarily attributable to (i) increased deployment of miners, (ii) increases in bitcoin network hashrate, and (iii) energy costs.

General and Administrative Expenses

General and Administrative Expenses are as follows:

	For the Years Ended December 31,			
	2022	2021	Change	Percentage Change
Professional fees	$ 1,123,000	$ 1,211,000	$ (88,000)	(7.83)%
Salaries and wages	652,000	416,000	236,000	56.7
Insurance	104,000	64,000	40,000	62.5
Other expenses	296,000	565,000	(269,000)	(47.6)
	$ 2,175,000	$ 2,256,000	$ (81,000)	(3.6)%

Our professional fees decreased to $1,123,000 for the year ended December 31, 2022 from $1,211,000 for the year ended December 31, 2021. The decrease was due (1) an increase of approximately $30,000 for accounting fees for legal and accounting firms and other professional of approximately $58,000.

Our salaries and wages increased to $652,000 for the year ended December 31, 2022 from $416,000 for the year ended December 31, 2021. The increase of $236,000 is primarily due to the hiring of our chief financial officer and other administrative staff.

Other expenses wages decreased to $296,000 for the year ended December 31, 2022 from $565,000 for the year ended December 31, 2021. The decrease of $269,000 is attributable to (1) a decrease of $98,000 for expense reimbursement for our officers and directors, (2) a decrease of $374,000 for administrative fees to the colocation sites, offset by (3) an increase of $93,000 in repairs and maintenance, (4) increase of $12,000 for our Bitgo wallet fees, (5) an increase of $83,000 in our franchise taxes and (6) an increase of $15,000 in general expenses.

Stock-Based Compensation

Stock-based compensation decreased by $16,847,000, or 84%, to $3,285,000 for the year ended December 31, 2022, compared to $20,132,000 for the year ended December 31, 2021. The decrease was primarily attributable to a reduction in the number of shares granted.

Depreciation Expense

Depreciation expense increased by $11,841,000, or 1,704%, to $12,536,000 for the year ended December 31, 2022, compared to $695,000 for the year ended December 31, 2021. The increase was primarily attributable to the increase in fixed assets from the deployment of miners.

Other Income (Expense)

Other income (expense) increased by $21,775,000, or 1,453%, to $20,276,000 for the year ended December 31, 2022, compared to $(1,499,000) for the year ended December 31, 2021. The increase was primarily attributable to (1) a gain of $12,966,000 for the forgiveness of the Sphere 3D Note as part of the termination of the Sphere 3D.

Merger Agreement, (2) a gain of $11,690,000 for the change in the fair value of notes payable, offset (3) a loss of $1,499,000 for unrealized loss on marketable securities, (4) a loss of 2,746,000 from the loss extinguishment of debt and (5) increase in interest expense of $341,000.

For the Nine Months Ended September 30, 2023 Compared to Nine Months ended September 30, 2022

	2023	2022	Change	Percentage Change
Revenues				
Mining revenues	$ 14,992,000	$ 17,240,000	$ (2,248,000)	(13.0)%
Management services	844,000	345,000	499,000	144.6
Total Revenues	15,836,000	17,585,000	(1,749,000)	(9.9)
Cost and expenses				
Cost of revenues	9,542,000	9,214,000	328,000	3.6
General and administrative expenses	3,250,000	1,722,000	1,528,000	88.7
Stock-based compensation expense	(629,000)	2,481,000	(3,110,000)	(125.4)
Impairment of digital assets	250,000	6,520,000	(6,270,000)	(96.2)
Realized gain on sale of digital assets	(484,000)	(137,000)	(347,000)	253.3
Impairment of miners	5,430,000	—	5,430,000	100
Depreciation	11,906,000	8,593,000	3,313,000	38.6
Total operating expenses	29,265,000	28,393,000	872,000	3.1
Loss from operations	(13,429,000)	(10,808,000)	(2,621,000)	24.3
Other (expense) income	(4,190,000)	18,370,000	(22,560,000)	(122.8)
Net (loss) income before provision for income taxes	$ (17,619,000)	$ 7,562,000	$ (25,181,000)	(333.0)%

Mining Revenues

Mining revenues decreased by $2,248,000, or 13.0%, to 14,992,000 for the nine months ended September 30, 2023, compared to $17,240,000 for the nine months ended September 30, 2022. As of September 30, 2023 the Company had approximately 8,300 miners compared to approximately 7,100 as of September 30, 2022. Although the Company increased the number of miners in operations by 1,200 miners, or 16.9%, the average value of Bitcoin for the nine months ended September 30, 2023 was $25,600 as compared to $29,200 for the nine months ended September 30, 2022 for a decline of approximately $3,600, or 12.3%.

Management Services

Management services revenue increased by $499,000, or 144.6%, to $844,000 for the nine months ended September 30, 2023, compared to $345,000 for the nine months ended September 30, 2022. As of September 30, 2023, the number of miners under management was 9,098 compared to 995 as of September 30, 2022, for an increase of 8,103, or 814.37%.

On October 6, 2023, Sphere 3D delivered a termination notice to Gryphon with respect to the Sphere MSA, largely on the basis of the allegations made by Sphere 3D in the Sphere 3D Litigation (the "Sphere 3D MSA Termination"). On October 11, 2023, Gryphon filed an answer to Sphere 3D's second amended complaint, in which, among other things, Gryphon alleged that Sphere 3D's attempted termination of the Sphere MSA was wrongful and ineffective, because it violated the terms of the Sphere MSA, and thus that Sphere 3D continues to owe Gryphon all amounts to which Gryphon would otherwise be entitled under the Sphere MSA through that contract's term ending in August 2026.

Gryphon intends to continue to vigorously defend against the Sphere 3D Litigation, including but not limited to the Sphere 3D MSA Termination, which it believes are without merit, and to aggressively pursue its counterclaims against Sphere 3D. However, Gryphon cannot predict the outcome of these proceedings or provide an estimate of potential damages or recovery, if any. Failure by Gryphon to obtain a favorable resolution of the Sphere 3D Litigation could require it to pay damage awards or otherwise enter into settlement arrangements for which its insurance coverage may be insufficient. Any such damage awards or settlement arrangements in current or future litigation could have a material adverse effect on Gryphon's business, operating results or financial condition. Even if Sphere 3D's claims are not successful, or if Gryphon is successful in pursuing its counterclaims or negotiating a favorable settlement, defending against this or future litigation is expensive and could divert management's attention and resources, all of which could have an adverse and material impact on Gryphon's business, operating results and financial condition and negatively affect Gryphon's value. Further, any valid termination of the Sphere MSA in accordance with its terms could also have a negative impact on Gryphon's business and operating results. In addition, such lawsuits may make it more difficult for Gryphon to finance its operations in the future.

Cost of Revenues

Cost of revenues increased by $328,000, or 3.6%, to $9,542,000 for the nine months ended September 30, 2023, compared to approximately $9,214,000 for the nine months ended September 30, 2022. The increase was primarily attributable to (i) an increase in the deployment of miners, (ii) an increase in Bitcoin network hashrate, and (iii) higher energy costs.

General and Administrative Expenses are as follows:

	For the Nine Months Ended September 30,		Dollar	Percentage
	2023	2022	Change	Change
Professional fees	$ 1,626,000	$ 913,000	$ 713,000	78.1%
Salaries and wages	507,000	409,000	98,000	23.9
Insurance expenses	125,000	62,000	63,000	101.6
Other expenses	411,000	323,000	88,000	27.2
Loss on MSA	581,000	15,000	566,000	3,773.3
	$ 3,250,000	$ 1,722,000	$ 1,528,000	88.7%

Professional fees increased to $1,626,000 for the nine months ended September 30, 2023 from $913,000 for the nine months ended September 30, 2022. The increase of $713,000 was attributable to (i) an increase in accounting fees of $48,000 and (ii) an increase in legal fees of $665,000.

Salaries and wages increased to $507,000 for the nine months ended September 30, 2023 from $409,000 for the nine months ended September 30, 2022. The increase of $98,000 is primarily due to addition of two directors.

Insurance expenses increased to $125,000 for the nine months ended September 30, 2023 from $62,000 for the nine months ended September 30, 2022. The increase of $63,000 was attributable to an increase in our annual insurance premiums.

Other expenses increased to $411,000 for the nine months ended September 30, 2023 from $323,000 for the nine months ended September 30, 2022. The increase of $88,000 is attributable to (1) an increase in our franchise taxes of $92,000 (2) an increase in our general expense of approximately $76,000 and (3) a decrease in our repairs and maintenance expense of approximately $80,000.

Loss on MSA — A threat actor representing to be the CFO inserted themselves into an email exchange between the CFO and the Company's CEO, which also included Sphere 3D's CEO, regarding the transfer of Sphere 3D's BTC from the Company's wallet to Sphere 3D's wallet. The threat actor requested that the BTC be transferred to an alternate wallet. As a result, 26 BTC, with a value of approximately $560,000 at the time, was transferred to a wallet controlled by the threat actor. As advised by legal counsel, the Company engaged with US Federal law enforcement to recover the BTC. Despite these attempts of law enforcement to recover the BTC, recovery was not possible. The Company subsequently wired the commensurate amount in USD to Sphere 3D to make them whole for the stolen BTC. The Company also engaged a nationally recognized third-party firm to perform a forensic analysis. The analysis revealed that the threat actor did not enter the email exchange via Gryphon's IT systems. Sphere 3D made a claim with its insurance carrier. If Sphere 3D's is reimbursed by its insurance carrier, the Company would request reimbursement from Sphere 3D. The Company has also subsequently modified its control systems as protection against any future attempted incursions. In March 2023, the Company made the payment to Sphere for $560,000, which was classified as a general and administrative expense on the unaudited condensed consolidated statement of operations.

Stock-Based Compensation

For the nine months ended September 30, 2022, the Company had a forfeiture of a common stock award attributable to cancelling an employment agreement with stock-based compensation. Therefore, we had a reversal of approximately $3,154,000 of previously expensed stock-based compensation. Stock-based compensation was ($629,000) for the nine months ended September 30, 2023, as compared to $2,481,000 for the nine months ended September 30, 2022.

Impairment of Digital Assets

Our impairment of digital assets decreased to $250,000 for the nine months ended September 30, 2023 from $6,520,000 for the nine months ended September 30, 2022. The decrease of $6,270,000 is primarily due to a significant decrease in the value of bitcoins during the year ended December 31, 2022.

Impairment of Miner

Our impairment of miners increased to $5,430,000 for the nine months ended September 30, 2023 from nil for the nine months ended September 30, 2022. The increase of $5,430,000 is primarily due to a significant decrease in the value of equipment pursuant to ASC 360 as of September 30, 2023.

Depreciation Expense

Depreciation expense increased by $3,313,000, or 38.6%, to $11,906,000 for the nine months ended September 30, 2023, compared to $8,593,000 for the nine months September 30, 2022. The increase was primarily attributable to the increase in fixed assets from the deployment of miners.

Other (Expense) Income

	For the Nine Months Ended September 30,			
	2023	2022	Change	Percentage Change
Unrealized loss on marketable securities	$ (74,000)	$ (1,358,000)	$ 1,284,000	(94.6)%
Realized gain from use of digital assets	3,809,000	—	3,809,000	100.0
Loss on disposal of asset	(55,000)	—	(55,000)	100.0
Gain on extinguishment of debt	—	12,966,000	(12,966,000)	(100.0)
Loss on extinguishment of debt	—	(2,746,000)	2,746,000	(100.0)
Gain on termination of merger agreement	—	1,734,000	(1,734,000)	(100.0)
Change in fair value of notes payable	(7,607,000)	9,447,000	(17,054,000)	(180.5)
Other income	267,000	30,000	237,000	790.0
Interest expense	(530,000)	(915,000)	385,000	(42.1)
Amortization of debt discount	—	(788,000)	788,000	(100.0)
Total other (expense) income	$ (4,190,000)	$ 18,370,000	$ (22,560,000)	(122.8)%

The gain on extinguishment of debt of $12,996,000, for the nine months ended September 30, 2022, is attributable to the termination of the Merger Agreement. As part of the Merger Agreement, the buyer lent the Company approximately $12,966,0000, which would be forgiven if the Merger was terminated. The Merger was terminated in June 2022. Also, as part of the termination, the buyer was required to issue the Company shares of the buyers' common stock. The fair value of the common stock was approximately $1,734,000. For the nine months ended September 30, 2023, and 2022, the Company recognized an unrealized gain and loss of approximately $74,000 and $1,358,000, respectively.

The Company has a note payable, denominated in BTC, which is accounted for under the fair value method of accounting. For the nine months ended September 30, 2023 the Company recognized an expense of approximately $7,607,000 as compared to a gain of $9,447,000 for the nine months ended September 30, 2022.

The loss on extinguishment of debt of $2,746,000, for the nine months ended September 30, 2022, was attributable to the Company's repayment of the principal and interest for convertible debentures. The $2,746,000 was the remaining unamortized debt discount as of the redemption date. Also, the Company recognized approximately an amortization expense $788,000 for the debt discounts for the nine months ended September 30, 2022.

For the nine months ended September 30, 2023, the Company realized a gain of $3,809,000 for the use of digital assets for principal and interest payments for the BTC loan. The BTC loan payments began in August 2022, so the Company did not recognize a realized gain for the nine months ended September 30, 2022.

Interest expense decreased to $530,000 for the nine months ended September 30, 2023 from $915,000 for the nine months ended September 30, 2022. The decrease of $385,000 is primarily due to the modification agreement the Company entered into with the lender on March 29, 2023.

For the Three Months Ended September 30, 2023 Compared to Three Months ended September 30, 2022

	2023	2022	Change	Percentage Change
Revenues				
Mining revenues	$ 5,189,000	$ 5,568,000	$ (379,000)	(6.8)%
Management services	288,000	60,000	228,000	380.0
Total Revenues	5,477,000	5,628,000	(151,000)	(2.7)
Cost and expenses				
Cost of revenues	3,982,000	4,477,000	(495,000)	(11.1)
General and administrative expenses	804,000	487,000	317,000	65.1
Stock-based compensation expense	392,000	1,222,000	(830,000)	(67.9)
Impairment of digital assets	17,000	648,000	(631,000)	(97.4)
Realized gain on sale of digital assets	(17,000)	(125,000)	108,000	(86.4)
Impairment of miners	5,430,000	—	5,430,000	100.0
Depreciation	4,067,000	3,740,000	327,000	8.7
Total operating expenses	14,675,000	10,449,000	4,226,000	40.4
Loss from operations	(9,198,000)	(4,821,000)	(4,377,000)	90.8
Other income	1,112,000	6,000	1,106,000	18,433.3
Loss before provision for income taxes	$ (8,086,000)	$ (4,815,000)	$ (3,271,000)	67.9%

Mining Revenues

Mining revenues decreased approximately $379,000, or 6.8%, to approximately $5,189,000 for the three months ended September 30, 2023, compared to approximately $5,568,000 for the three months ended September 30, 2022. As of September 30, 2023 the Company had approximately 8,300 miners compared to approximately 7,100 as of September 30, 2022. Although the Company increased the number of miners in operations by approximately 1,200 miners, or 16.9%, the number of mined bitcoins for the three months ended September 30, 2023 was approximately 176 as compared to 261 for the three months ended September 30, 2022 for decline of approximately 85, or 32.6%.

Management Services

Management services revenue increased approximately by $228,000, or 380.0%, to approximately $288,000 for the three months ended September 30, 2023, compared to approximately $60,000 for the three months ended September 30, 2022. As of September 30, 2023, the number of miners under management was 5,235 compared to 308 as of September 30, 2022, for an increase of 4,927, or 1600%.

On October 6, 2023, Sphere 3D delivered a termination notice to Gryphon with respect to the Sphere MSA, largely on the basis of the allegations made by Sphere 3D in the Sphere 3D Litigation (the "Sphere 3D MSA Termination"). On October 11, 2023, Gryphon filed an answer to Sphere 3D's second amended complaint, in which, among other things, Gryphon alleged that Sphere 3D's attempted termination of the Sphere MSA was wrongful and ineffective, because it violated the terms of the Sphere MSA, and thus that Sphere 3D continues to owe Gryphon all amounts to which Gryphon would otherwise be entitled under the Sphere MSA through that contract's term ending in August 2026.

Gryphon intends to continue to vigorously defend against the Sphere 3D Litigation, including but not limited to the Sphere 3D MSA Termination, which it believes are without merit, and to aggressively pursue its counterclaims against Sphere 3D. However, Gryphon cannot predict the outcome of these proceedings or provide an estimate of potential damages or recovery, if any. Failure by Gryphon to obtain a favorable resolution of the Sphere 3D Litigation could require it to pay damage awards or otherwise enter into settlement arrangements for which its insurance coverage may be insufficient. Any such damage awards or settlement arrangements in current or future litigation could have a material adverse effect on Gryphon's business, operating results or financial condition. Even if Sphere 3D's claims are not successful, or if Gryphon is successful in pursuing its counterclaims or negotiating a favorable settlement, defending against this or future litigation is expensive and could divert management's attention and resources, all of which could have an adverse and material impact on Gryphon's business, operating results and financial condition and negatively affect Gryphon's value. Further, any valid termination of the Sphere MSA in accordance with its terms could also have a negative impact on Gryphon's business and operating results. In addition, such lawsuits may make it more difficult for Gryphon to finance its operations in the future.

Cost of Revenues

Cost of revenues decreased approximately $495,000, or 11.1%, to $3,982,000 for the three months ended September 30, 2023, compared to approximately $4,477,000 for the three months ended September 30, 2022. The increase was primarily attributable to (i) increased deployment of miners, (ii) increases in Bitcoin network hashrate, and (iii) higher energy costs.

General and Administrative Expenses are as follows:

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	Dollar Change	Percentage Change
Professional fees	$ 479,000	$ 303,000	$ 176,000	58.1%
Salaries and wages	205,000	90,000	115,000	127.8
Insurance expenses	41,000	31,000	10,000	32.3
Other expenses	79,000	63,000	16,000	25.4
	$ 804,000	$ 487,000	$ 317,000	65.1%

Professional fees increased to $479,000 for the three months ended September 30, 2023 from $303,000 for the three months ended September 30, 2022. The increase of $176,000 is attributable to (i) an increase in accounting fees of $37,000 and (ii) an increase in legal fees of $139,000.

Salaries and wages increased to $205,000 for the three months ended September 30, 2023 from $90,000 for the three months ended September 30, 2022. The increase of $115,000 is primarily due to addition of two directors.

Insurance expenses increased to $41,000 for the three months ended September 30, 2023 from $31,000 for the three months ended September 30, 2022. The increase of $10,000 was attributable to an increase in our annual insurance premiums.

Other expenses increased to $79,000 for the three months ended September 30, 2023 from $63,000 for the three months ended September 30, 2022. The increase of $16,000 is attributable to an increase in our repairs and maintenance expense of approximately $16,000.

Stock-Based Compensation

For the three months ended September 30, 2022, we had a forfeiture of common stock awards attributable cancelling of an employment agreement with stock-based compensation. Therefore, we had a reversal of approximately $3,154,000 of previously expensed stock-based compensation. Stock-based compensation was $1,222,000 for the three months ended September 30, 2022, as compared to $392,000 for the three months ended September 30, 2023.

Impairment of Digital Assets

Our impairment of digital assets decreased to $17,000 for the three months ended September 30, 2023 from $648,000 for the three months ended September 30, 2022. The decrease of $631,000 is primarily due to a significant decrease in the value of bitcoins during the year ended December 31, 2022.

Impairment of Miners

Our impairment of miners increased to $5,430,000 for the three months ended September 30, 2023 from nil for the three months ended September 30, 2022. The increase of $5,430,000 is primarily due to a significant decrease in the value of equipment as of September 30, 2023.

Depreciation Expense

Depreciation expense increased by $327,000, or 8.7%, to $4,067,000 for the three months ended September 30, 2023, compared to $3,740,000 for the three months September 30, 2022. The increase was primarily attributable to the increase in fixed assets from the deployment of miners.

Other Income (Expense)

	Three Months Ended September 30,			
	2023	2022	Change	Percentage Change
Unrealized loss on marketable securities	$ (75,000)	$ (80,000)	$ 5,000	(6.3)%
Realized gain from use of digital assets	9,000	—	9,000	100.0
Loss on disposal	(2,000)	—	(2,000)	(100.0)
Change in fair value of notes payable	1,342,000	320,000	1,022,000	(319.4)
Interest expense	(162,000)	(234,000)	72,000	(30.8)
Total other income	$ 1,112,000	$ 6,000	$ 1,106,000	18,433.3%

The Company has a note payable, denominated in BTC, which is accounted for under the fair value method of accounting. For the three months ended September 30, 2023, the Company recognized an expense of approximately $1,342,000 as compared to $320,000 for the three months ended September 30, 2022, attributable to the fair value adjustments.

For the three months ended September 30, 2023, the Company realized a gain of $9,000 derived from the use of digital assets for principal and interest payments for the BTC loan.

Interest expense decreased to $162,000 for the three months ended September 30, 2023 from $234,000 for the three months ended September 30, 2022. The decrease of $72,000 is primarily due to the modification agreement the Company entered into with the lender on March 29, 2023.

Liquidity and Capital Resources

As of September 30, 2023 and December 31, 2022, Gryphon had cash and cash equivalents of $1,405,000 and $267,000, respectively, and an accumulated deficit of approximately $36,195,000 and $18,576,000, respectively. To date, Gryphon has financed its operations primarily through proceeds from the sales of its equity securities through private placements, borrowings pursuant to the Sphere 3D Note and the Anchorage Loan Agreement, as amended, and cash flow from its digital currency mining operations (including revenue received under the Sphere 3D MSA).

Gryphon believes that its current levels of cash will not be sufficient to meet its anticipated cash needs for its operations for at least the next 12 months. Gryphon will require additional capital resources to fund its operations and pay its obligations as they come due over the next twelve months and for the implementation of its strategy to expand its business, or other investments or acquisitions Gryphon may decide to pursue. Gryphon may sell additional equity or debt securities or enter into a credit facility to satisfy its capital requirements. The sale of additional equity securities could result in dilution to its shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require Gryphon to agree to operating and financial covenants that would restrict its operations. Financing may not be available in amounts or on terms acceptable to Gryphon, if at all. Any failure by Gryphon to raise additional funds on terms favorable to it, or at all, could limit its ability to expand its business operations and could harm its overall business prospects.

Summary of Cash Flow

The following tables provides detailed information about Gryphon's net cash flow for all financial statement periods presented in this proxy statement/prospectus:

	For the Nine Months Ended September 30, 2023	
	2023	2022
Net cash provided by (used in) operating activities	$ 3,062,000	$ (14,481,000)
Net cash used in investing activities	$ (1,902,000)	$ (8,996,000)
Net cash used in financing activities	$ (24,000)	$ (6,186,000)

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was approximately $3,062,000 for the nine months ended September 30, 2023, and consisted primarily of cash proceeds from the sale of digital currency of approximately $13,958,000, offset by cash expenditures for operating activities of approximately $10,896,000.

Net cash used in operating activities was approximately $14,481,000 for the nine months ended September 30, 2022, and consisted primarily of cash proceeds from the sale of digital currency of approximately $26,295,000, offset by cash expenditures for operating activities of approximately $11,814,000.

Net Cash Used in Investing Activities

Net cash used in investing activities was approximately $1,902,000 for the nine months ended September 30, 2023 and consisted primarily of approximately $1,542,000 for the purchase of miners.

Net cash used in investing activities was approximately $8,996,000 for the nine months ended September 30, 2022 and consisted primarily of approximately $8,150,000 paid for the deposit for the future purchase of miners and purchase of mining equipment of $846,000.

Net Cash Used in Financing Activities

Net cash used in finance activities was approximately $24,000 for the nine months ended September 30, 2023 and consisted primarily of approximately $132,000 from the issuance of a note payable for insurance premiums, $52,000 payment for the insurance payable, and $104,000 loan modification payment for BTC note.

Net cash used in financing activities was approximately $6,186,000 for the nine months ended September 30, 2022 and consisted primarily of approximately $2,500,000 from the proceeds from the issuance of notes payable, $21,000 payment of insurance payable, and $8,665,000 payment for convertible debentures.

	For the year ended December 31	
	2022	**2021**
Net cash provided by operating activities	$ 14,551,000	$ 677,000
Net cash used in investing activities	$ (8,996,000)	$ (36,554,000)
Net cash (used in) provided by financing activities	$ (6,202,000)	$ 36,781,000

Net Cash Provided by Operating Activities

Net cash provided by operating activities was approximately $14,551,000 for the year 2022 and consisted primarily of cash proceeds from the sale of digital currency of approximately $30,559,000, offset by cash expenditures for operating activities of approximately $16,008,000.

Net cash provided by operating activities was approximately $677,000 for the year 2021 and consisted primarily of cash proceeds from the sale of digital currency of approximately $2,735,000, offset by cash expenditures for operating activities of approximately $2,058,000.

Net Cash Used in Investing Activities

Net cash used in investing activities was approximately $8,996,000 for the year 2022 and consisted primarily of approximately $8,150,000 paid for the deposit for the future purchase of miners and $846,000 for the purchase of miners.

Net cash used in investing activities was approximately $36,554,000 for the year 2021 and consisted primarily of approximately $35,911,000 paid for the deposit for the future purchase of miners, $483,000 custom fees paid for mining equipment, $60,000 refundable deposit and $100,000 for carbon credits.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was approximately $6,202,000 for the year 2022 and consisted primarily of approximately $8,665,000 payment of convertible debentures, offset by approximately $2,500,000 proceeds from the issuance of notes payable.

Net cash provided by financing activities was approximately $36,781,000 for the year 2021 and consisted primarily of approximately $10,000,000 proceed from the issuance of notes payable, approximately $9,079,000 proceeds from the issuance of convertible debentures, approximately $15,804,000 proceeds from the issuance of common stock and approximately $1,473,000 proceeds from the issuance of series seed preferred stock.

Capital Expenditures and Other Obligations

Coinmint Agreement

On July 1, 2021, Gryphon entered into a Coinmint Colocation Mining Services Agreement (the "Coinmint Agreement"), with Coinmint, LLC ("Coinmint"), an established operator of renewable-energy data centers, pursuant to which Coinmint provides hosting services to Gryphon at Coinmint's hydro powered facility in Massena, New York (the "Coinmint Facility") for a 15-month period, which upon its conclusion renews automatically for successive three-month terms unless either party delivers to the other party 90 days' written notice of intent not to renew. Pursuant to the terms of the Coinmint Agreement, 7,200 S19j Pro Antminer machines were delivered to and installed at the Coinmint Facility. Under the terms of the Coinmint Agreement, Coinmint directly passes through the cost of electricity and maintenance costs to Gryphon, collects an initial reservation fee and collects a percentage of Gryphon's bitcoin mining profits.

Core MSA and Sublease with Sphere 3D

On September 12, 2021, Gryphon and Core Scientific, Inc. ("Core") entered into a Master Services Agreement (the "Core MSA"). Pursuant to the Core MSA, Core shall provide services related to the hosting of Gryphon's cryptocurrency mining equipment and operations in data centers owned by Core under separate orders entered into by Gryphon and Core. The term of the Core MSA is indefinite, but may be terminated if no active orders have been in effect for at least 12 months.

Master Services Agreement Order No. 1 ("Order 1") under the Core MSA commenced on August 31, 2021 and provides for the hosting by Core of equipment consisting of one hundred S19j Pro Antminer units. Order 1 shall remain in place for three years, unless terminated earlier under the terms of the Core MSA or Order 1, and automatically renews for one-year renewal terms unless terminated by Gryphon with 90 days' notice prior to the end of any such renewal term. Master Services Agreement Order No. 2 ("Order 2") under the Core MSA commenced on September 24, 2021 and provides for approximately 230 MW of net carbon neutral bitcoin mining hosting capacity to be managed by Core as hosting partner. Core hosts equipment consisting of approximately 71,000 S19 or equivalent units that were delivered to Core's data center in scheduled installments between October 2021 and November 2022. Core's hosting services for each shipment of units began in the month of the arrival of such units and will continue for four years thereafter, unless terminated earlier under the terms of the Core MSA or Order 2, and automatically renew for one-year renewal terms unless terminated by Gryphon with 90 days' notice prior to the end of any such renewal term. In addition, Order 2 amended the Core MSA to permit the sub-lease, sub-license, assignment, delegation or transfer of the Core MSA, Order 1, or Order 2, or Gryphon's rights and obligations thereunder, to Sphere 3D without the consent of Core.

On October 8, 2021, in connection with the pending Sphere 3D Merger, Gryphon and Sphere 3D entered into a sub-license and delegation agreement (the "Sublease"), pursuant to which Gryphon sublicensed to Sphere 3D Gryphon's rights to use Core's facility pursuant to Order 2 and the Core MSA and delegated to Sphere 3D all of Gryphon's obligations to make payments to Core under Order 2. The Sublease will terminate automatically upon the termination of the Core MSA and/or Order 2. Under the Sublease, Sphere 3D paid Gryphon $16,308,000, which Gryphon subsequently paid to Core as part of the prepayments outlined in Order 2. As part of the agreements to amend the Sphere 3D Merger Agreement, the Sphere 3D Note and the Sphere 3D MSA, Sphere 3D and Gryphon agreed to amend the Sublease to provide Gryphon the right to recapture the usage of up to 50% of the hosting capacity to be managed by Core if the Sphere 3D Merger Agreement was terminated. Gryphon did not exercise the recapture right, which expired 90 days after the termination of the Sphere 3D Merger Agreement.

As of June 30, 2023 and December 31, 2022, Gryphon had paid an aggregate of $35,104,000 to Core under the Core MSA, all of which has been reimbursed by Sphere 3D.

Anchorage Loan Agreement

Please see the description of the Anchorage Loan Agreement (as amended) under "*Recent Developments*" above.

Although the Anchorage Bitcoin Note is payable with the Company's digital assets earned from the mining activities, there is a potential for the use of cash under the collateral agreement. If the collateral coverage ratio decreases below 110%, Gryphon will have to provide the lender with additional collateral in the form of bitcoin, U.S. dollars or additional equipment.

Off-Balance Sheet Arrangements

Gryphon has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Gryphon's Plan of Operations

While Gryphon generated nearly $22 million in revenue in 2022, in order to fully implement its plan of operations, it will need to raise a significant amount of capital through future offerings of debt and equity securities. The discussion below is based on the assumption that Gryphon will be able to raise significant capital to fund its growth plan. There can be no assurance, however, that Gryphon will be successful in raising the required capital on terms acceptable to it, if at all.

Outlook

Gryphon expects to scale its operations, materially as follows:

- Acquire additional bitcoin miners: Gryphon is currently exploring numerous opportunities to acquire additional ASIC miners, both new and second hand, given the influx of supply attributable to regulatory changes in key international markets and it expect to make additional purchases, subject to the success of any capital raising. With regards to second-hand miners, Gryphon will limit the scope of its interest to bitcoin miners from the most recent generation (e.g., Bitmain S19, S19 Pro, and S19j Pro Antminers) due to the increased efficiency they offer, relative to previous generations.
- Hire a permanent Chief Financial Officer, which occurred on June 19, 2023.
- Complete the Merger with Akerna and begin trading on Nasdaq upon regulatory approval.

Gryphon's operations currently focus exclusively on the mining of bitcoin. While Gryphon may expand its operations beyond the mining of bitcoin in the future, it currently has no plans or intentions of mining other digital assets. Gryphon intends to continue expanding its bitcoin mining operations as it acquires additional miners to the extent that opportunities for such acquisitions arise. The costs of such expansions will depend on market conditions at the time.

Critical Accounting Policies and Estimates

Gryphon's significant accounting policies are more fully described in the notes to its financial statements. Gryphon believes that the accounting policies below are critical for one to fully understand and evaluate its financial condition and results of operations.

Digital Assets, Net

Digital assets or cryptocurrencies, (including bitcoin, Ethereum, DAI and USDT) are included in current assets in the accompanying interim balance sheets. Cryptocurrencies purchased are recorded at cost and cryptocurrencies obtained by Gryphon through its sale of common stock are accounted for based on the value of the specific digital asset on the date received.

Gryphon accounts for digital assets as indefinite-lived intangible assets in accordance with ASC 350, Intangibles — Goodwill and Other. Gryphon has ownership of and control over the cryptocurrencies and uses third-party custodial services to secure it. The digital assets are initially recorded at cost and are subsequently remeasured on the balance sheets at cost, net of any impairment losses incurred since acquisition.

An impairment analysis is performed at each reporting period to identify whether events or changes in circumstances, in particular decreases in the quoted prices on active exchanges, indicate that it is more likely than not that the digital assets held by Gryphon are impaired. The fair value of digital assets is determined on a nonrecurring basis in accordance with ASC 820, Fair Value Measurement, based on quoted prices on the active exchange(s) that Gryphon has determined is its principal market for cryptocurrencies (Level 1 inputs). If the carrying value of the digital asset exceeds the fair value based on the average daily price calculated from the daily open and daily close price quoted in the active exchanges during the period, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the price determined.

Impairment losses are recognized within "operating expense" in the statements of operations in the period in which the impairment is identified. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale or disposition.

Cryptocurrencies awarded to Gryphon through its mining activities are included within operating activities in the consolidated statements of cash flows. The cash received from the sale of cryptocurrencies earned through Gryphon's mining activities is included within operating activities in the consolidated statements of cash flows and any realized gains or losses from such sales are included in operating expenses in the consolidated statements of operations.

Mining Equipment

Mining Equipment is stated at cost, including purchase price and all shipping and custom fees, and depreciated using the straight-line method over the estimated useful lives of the assets, generally three years for cryptocurrency mining equipment.

Gryphon reviews the carrying amounts of mining equipment when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, Gryphon estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value, such as digital currencies, are excluded from impairment analysis.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

Leases

Effective July 2021, Gryphon accounts for its leases under ASC 842, *Leases* ("ASC 842"). Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or Gryphon's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term.

In calculating the right of use asset and lease liability, Gryphon elects to combine lease and non-lease components as permitted under ASC 842. Gryphon excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

Derivatives

Gryphon evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and would then be re-valued at each reporting date, with changes in the fair value reported in the interim condensed statements of operations. If there are stock-based derivative financial instruments, Gryphon will use a probability weighted average series Binomial lattice option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Revenue Recognition

Gryphon recognizes revenue under ASC 606, Revenue from Contracts with Customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when Gryphon satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met: The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct), and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

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

The Company has entered into contracts with digital asset mining pool operators to provide the service of performing hash computations for the mining pool operator. The contracts are terminable at any time for any reason by either party without cause and without penalty and the Company's enforceable right to compensation only begins when the Company provides the service of performing hash computations for the mining pool operator. The contract is for a continuous 24-hour period each day. The Company's access and usage rights to the pool and service automatically renew for a successive 24-hour period (00:00:00 UTC and 23:59:59 UTC) unless terminated in accordance with the terms set forth by the terms of service. In exchange for performing hash computations for the mining pool, Gryphon is entitled to a fractional share of the fixed cryptocurrency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are netted as a reduction of the transaction price). Gryphon's fractional share is based on the proportion of hash computations Gryphon performed for the mining pool operator to the total hash computations contributed by all mining pool participants in solving the current algorithm during the 24-hour period. Hashrate is the measure of the computational power per second used when mining. It is measured in units of hash per second, meaning how many calculations per second that can be performed. The consideration the Company will receive, comprised of block rewards, transaction fees less mining pool operator fees are aggregated in a sub-balance account held by the mining pool operator. That balance, due to the Company, is calculated by the mining pool operator based on the hashrate provided and hash computations completed by the Company for the mining pool from midnight-to-midnight (00:00:00 UTC and 23:59:59 UTC) UTC time, and a sub-account balance is credited one hour later at 1AM UTC time. The balance is then withdrawn to the Company's whitelisted wallet address, once a day, between the hours of 9am to 5pm UTC time. The rate of payment occurs once per day, as long as the minimum payout threshold of 0.01 bitcoin has accumulated in the sub-account balance, in accordance with the mining pool operator's terms of service. Pursuant to ASC 606-10-55-42, the Company assessed if the customer's option to renew represented a material right that represents a separate performance obligation and noted the renewal is not a material right. The definition of a material right is a promise in a contract to provide goods or services to a customer at a price that is significantly lower than the stand-alone selling price of the good or service. The mining pool operator does not provide any discounts and as such there is no economic benefit to the customer and as such a separate performance obligation does not exist under 606-10-55-42. In addition, there are no options for renewal that are separately identifiable from other promises in the contract such as an ability to extend the contract at a reduced price.

The performance obligation of the Bitcoin miner under the mining contracts with Foundry Pool USA involves the service of performing hash computations to facilitate the verification of digital asset transactions. The Company's miners contribute computing power (ie. hashrate) that perform hash calculations to the mining pool operator, engaging in the process of validating and securing transactions through the generation of cryptographic hashes. The mining pool then utilizes a specific mining algorithm (e.g. SHA-256) to submit shares (proofs of work) to the mining pool's server as they contribute to solving the cryptographic puzzles required to mine a block. The Company reviews and analyzes its individual pool performance using a dashboard provided by Foundry Pool USA that includes real-time statistics on hashrate, shares submitted and earnings. The service of performing hash computations in digital asset transaction verification services is an output of the Company's ordinary activities. The provision of providing these services is the only performance obligation in the Company's contracts with mining pool operators. The Company performs hash computations for one mining pool operator, Foundry USA. Foundry USA operates its pool on the Full Pay Per Share (FPPS) payout method. FPPS is a variant of the Pay Per Share (PPS) method, where miners receive a fixed payout for each valid share submitted, regardless of whether the pool finds a block.

Regardless of the pool's success, the Company will receive consistent rewards based on the number of valid shares it contributes. The transaction consideration the Company receives is non-cash consideration, in the form of bitcoin. The Company measures the bitcoin at fair value on the date earned using the average price (calculated by averaging the daily open price and the daily close price) quoted by its Principal Market at the date the Company completed the service of performing hash computations for the mining pool operator. There are no deferred revenues or other liability obligations recorded by the Company since there are no payments in advance of the performance. At the end of each 24-hour period (00:00:00 UTC and 23:59:59 UTC), there are no remaining performance obligations. By utilizing the average daily price of bitcoin on the date earned, the Company eliminates any differences that may arise due to the volatility in trading price between bitcoin and fiat currency during the period where the Company establishes and completes the contract. The consideration is all variable. There is no significant financing component in these transactions.

If authoritative guidance is enacted by the Financial Accounting Standards Board ("FASB"), the Company may be required to change its policies, which could affect the Company's financial position and results from operations.

Cost of Revenues

Gryphon's cost of revenues consists primarily of direct costs of earning bitcoin related to mining operations, including electric power costs, other utilities, labor, insurance whether incurred directly from self-mining operations or reimbursed, including any revenue sharing arrangements under co-location agreements, but excluding depreciation and amortization, which are separately stated in Gryphon's consolidated statements of operations.

Income Taxes

Gryphon accounts for income taxes under the asset and liability method, in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is required to the extent any deferred tax assets may not be realizable.

ASC Topic 740, Income Taxes, ("ASC 740"), also clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Based on Gryphon's evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in Gryphon's interim financial statements. Gryphon believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in material changes to its financial position.

Recent Accounting Pronouncements

From time to time, the Financial Accounting Standards Board ("FASB") or other standards setting bodies issue new accounting pronouncements. Updates to the FASB ASC are communicated through issuance of an Accounting Standards Update ("ASU"). Gryphon considers the applicability and impact of all ASUs on Gryphon's financial position, results of operations, cash flows, or presentation thereof. Described below are ASUs that are not yet effective, but may be applicable to Gryphon's financial position, results of operations, cash flows, or presentation thereof. As of the issuance of these consolidated financial statements, there were no ASUs that management assessed and determined to be applicable to Gryphon's financial position, results of operations, cash flows, or presentation thereof.

Exhibit 99.4

AKERNA CORP. AND GRYPHON DIGITAL MINING, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information gives effect to the Merger and other related transactions contemplated by the Merger Agreement, as may be amended from time to time, or otherwise assumed to have occurred in advance of the Merger as defined and described in Note 1 to this unaudited pro forma condensed combined financial information. The Merger will be accounted for as a reverse acquisition, with Gryphon being deemed the acquiring company for accounting purposes in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 805, *Business Combinations*, ("ASC 805").

Gryphon was determined to be the accounting acquirer based upon the terms of the Merger and other factors including: (i) Gryphon will retain a majority voting and equity interest in the combined company, (ii) the Gryphon executive management team will be the management team of the combined company, and (iii) Gryphon's directors will hold the largest board of director representation in the combined company.

The unaudited pro forma condensed combined balance sheet as of September 30, 2023 assumes that the Merger took place on September 30, 2023 and combines the historical balance sheets of Akerna and Gryphon as of September 30, 2023. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2023 and the year ended December 31, 2022 assumes that the Merger took place as of January 1, 2022 (the beginning of the earliest period presented) and combines the historical results of Akerna and Gryphon for the respective periods presented. The historical financial information of Akerna and Gryphon has been adjusted to give pro forma effect to transaction accounting adjustments. Adjustments are based on information available to management during the preparation of the unaudited pro forma condensed combined financial information and assumptions that management believes are reasonable and supportable.

The unaudited pro forma condensed combined financial information has been prepared for illustrative purposes only and are not necessarily indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Akerna and Gryphon been a combined organization during the specified period. The unaudited pro forma condensed combined financial information, including the notes thereto, should be read in conjunction with the Akerna and Gryphon historical audited financial statements for the year ended December 31, 2022 and the historical unaudited financial statements for the nine months ended September 20, 2023 included elsewhere in this prospectus/proxy statement/ information statement.

Accounting principles generally accepted in the United States ("GAAP") require evaluation of certain assumptions, estimates, or determination of financial statement classifications. The accounting policies of Akerna may materially vary from those of Gryphon due primarily to the fact that Akerna operates in the software as a service ("SaaS") industry and Gryphon operates as a digital asset mining operation. During preparation of the unaudited pro forma condensed combined financial information, management has performed a preliminary analysis of Akerna's accounting policies and financial statement classifications and is not aware of any material differences in the application of GAAP between the two companies. Following the acquisition, management will conduct a final review of Akerna's accounting policies in order to determine if differences in accounting policies require adjustment or reclassification of Akerna's results of operations or reclassification of assets or liabilities to conform to Gryphon's accounting policies and classifications. As a result of this review, management may identify differences that, when conformed, could materially differ from these unaudited pro forma condensed combined financial statements.

Unaudited Pro Forma Condensed Consolidated Balance Sheet
September 30, 2023
($ in thousands)

	Akerna As Reported	Pre-Transaction Adjustments: Settlement and Conversion of Debt and Stock		Akerna As Adjusted	Gryphon As Reported	Transaction Adjustments: Merger Adjustments		Transaction Adjustments: Corporate (q)	Transaction Adjustments: Sale Transaction (l)	Pro Forma Combined
Assets										
Current assets										
Cash	$ 209	$ —	(c)(d)	$ 209	$ 1,405	$ —		$ —	$ 1,850	$ 3,464
Restricted cash	—	—	(c)	—	42	—		—	—	42
Accounts receivable, net	253	—		253	289	—		—	(253)	289
Marketable securities	—	—		—	161	—		—	—	161
Digital asset	—	—		—	1,418	—		—	—	1,418
Digital assets held for other parties	—	—		—	91	—		—	—	91
Prepaid expenses & other current assets	781	—		781	178	—		(170)	(610)	179
Total current assets	1,243	—		1,243	3,584	—		(170)	987	5,644
Fixed assets, net	28	—		28	—	—		—	(28)	—
Mining equipment, net	—	—		—	18,519	—		—	—	18,519
Capitalized software, net	214	—		214	—	—		—	(214)	—
Intangible assets, net	1,880	—		1,880	100	—		—	(1,880)	100
Goodwill	816	—		816	—	178	(k)	—	(2,180)	(1,186)
Deposits – net of current portion	—	—		—	420	—		—	—	420
Total assets	$ 4,181	$ —		$ 4,181	$ 22,623	$ 178		$ (170)	$ (3,315)	$ 23,497
Liabilities and stockholders' equity (deficit)										
Current liabilities										
Accounts payable, accrued expenses and other current liabilities	$ 4,327	$ —		$ 4,327	$ 2,275	$ 3,909	(f)(g)(j)	$ (3,132)	$ (1,195)	$ 6,184
Deferred revenue	470	—		470	—	—		—	(470)	—
Digital assets held for other parties	—	—		—	133	—		—	—	133
Current portion of long-term debt	7,733	(7,733)	(d)(e)	—	10,072	—		—	(1,650)	8,422
Total current liabilities	12,530	(7,733)		4,797	12,480	3,909		(3,132)	(3,315)	14,739
Long-term debt, noncurrent	850	(850)	(a)(e)	—	—	—		—	—	—
Total liabilities	13,380	(8,583)		4,797	12,480	3,909		(3,132)	(3,315)	14,739
Stockholders' equity (deficit)										
Series C preferred stock	—	7,733	(e)	7,733	—	(7,733)	(i)	—	—	—
Series seed preferred stock	—	—		—	—	—		—	—	—
Series seed II preferred stock	—	—		—	—	—		—	—	—
Special voting preferred stock	1,908	(1,908)	(b)	—	—	—		—	—	—
Common stock	1	—	(b)	1	2	(1)	(h)(i)	—	—	2
Additional paid-in capital	164,314	1,908	(b)	166,222	46,361	(163,839)	(h)(i)(k)	—	—	48,744
Subscription receivable	—	—		—	(25)	—		—	—	(25)
Accumulated other comprehensive income	295	—		295	—	(295)	(i)	—	—	—
Accumulated deficit	(175,717)	850	(a)	(174,867)	(36,195)	168,137	(f)(g)(h)(i)(j)	2,962		(39,963)
Total stockholders' equity (deficit)	(9,199)	8,583		(616)	10,143	(3,731)		2,962	—	8,758
Total liabilities and stockholders' equity (deficit)	$ 4,181	$ —		$ 4,181	$ 22,623	$ 178		$ (170)	$ (3,315)	$ 23,497

See accompanying notes

Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Nine Months Ended September 30, 2023
($ in thousands)

		Pre-Transaction Adjustments			Transaction Adjustments					
	Akerna As Reported	Disposition of Net Assets Held for Sale (m)	Akerna As Adjusted	Gryphon As Reported	Merger Adjustments		Dissolved Co's And Corp (q)	Sale Transaction (p)		Pro Forma Combined
Revenue	$ 6,973	$ —	$ 6,973	$ 15,836	$ —		$ (338)	$ (6,635)		$ 15,836
Cost of revenue	2,989	—	2,989	9,542	—		(88)	(2,901)		9,542
Gross profit	3,984	—	3,984	6,294	—		(250)	(3,734)		6,294
Operating expenses										
Product development	2,154	—	2,154	—	—		(72)	(2,082)		—
Sales and marketing	1,998	—	1,998	—	—		(123)	(1,875)		—
General and administrative	4,459	—	4,459	2,621	—		(3,564)	(895)		2,621
Depreciation and amortization	746	—	746	11,906	—		(17)	(730)		11,905
Realized gain on disposition of digital asset	—	—	—	(484)	—		—	—		(484)
Impairment of long-lived assets	892	—	892	5,680	—		—	(892)		5,680
Total operating expenses	10,249	—	10,249	19,723	—		(3,776)	(6,474)		19,722
Loss from operations	(6,265)	—	(6,265)	(13,429)	—		3,526	2,740		(13,428)
Other income (expense)										
Interest expense, net	(917)	—	(917)	(530)	917	(o)	—	—		(530)
Change in fair value of debt	(864)	—	(864)	(7,607)	863	(o)	—	—		(7,608)
Loss on asset disposal	—	—	—	(55)	—		—	—		(55)
Unrealized gain on marketable securities	—	—	—	—	—		—	—		—
Realized gain from use of digital assets	—	—	—	3,809	—		—	—		3,809
Other income (expense)	9	—	9	193	—		(9)	—		193
Total other income (expense)	(1,772)	—	(1,772)	(4,190)	1,780		(9)	—		(4,191)
Net loss from continuing operations before income taxes	(8,037)	—	(8,037)	(17,619)	1,780		3,517	2,740		(17,619)
Income tax benefit on continuing operations	—	—	—	—	—		—	—		—
Net loss from continuing operations	(8,037)	—	(8,037)	(17,619)	1,780		3,517	2,740		(17,619)
(Loss)/Gain from discontinued operations, net of tax	(115)	115	—	—	—		—	—		—
Net loss	$ (8,152)	$ 115	$ (8,037)	$ (17,619)	$ 1,780		$ 3,517	$ 2,740		$ (17,619)
Diluted weighted average common stock outstanding	6,486,669		6,486,669	14,437,279					(r)	18,075,608
Diluted net loss per share	$ (1.26)		$ (1.24)	$ (1.22)						$ (0.97)

See accompanying notes

Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Year Ended December 31, 2022
($ in thousands)

		Pre - Transaction Adjustments			Transaction Adjustments					
	Akerna As Reported	Disposition of Net Assets Held for Sale (m)	Akerna As Adjusted	Gryphon As Reported	Merger Adjustments		Dissolved Companies (q)	Sale Transaction (p)		Pro Forma Combined
Revenue	$ 13,645		$ 13,645	$ 21,723	$ —		$ (1,830)	$ (11,815)		$ 21,723
Cost of revenue	5,412	—	5,412	12,196	—		(248)	(5,163)		12,197
Gross profit	8,233	—	8,233	9,527	—		(1,582)	(6,652)		9,526
Operating expenses										
Product development	4,691	—	4,691	—	—		(477)	(4,215)		(1)
Sales and marketing	6,053	—	6,053	—	—		(655)	(5,398)		—
General and administrative	8,345	—	8,345	5,460	3,909	(n)	(304)	(8,041)		9,369
Depreciation and amortization	5,622	—	5,622	12,536	—		(1,291)	(4,331)		12,536
Realized gain on disposition of digital asset	—	—	—	(609)	—		—	—		(609)
Impairment of long-lived assets	38,967	—	38,967	8,704	—		(23,550)	(15,417)		8,704
Total operating expenses	63,678	—	63,678	26,091	3,909		(26,277)	(37,402)		29,999
Loss from operations	(55,445)	—	(55,445)	(16,564)	(3,909)		24,695	30,750		(20,473)
Other income (expense)										
Interest expense, net	(854)	—	(854)	(1,899)	853	(o)	—	—		(1,900)
Change in fair value of debt	(2,884)	—	(2,884)	11,690	2,884	(o)	—	—		11,690
Change in fair value of warrant liability	63	—	63	—	—		(63)	—		—
Unrealized loss on marketable securities	—	—	—	(1,499)	—		—	—		(1,499)
Gain on extinguishment of debt, net	—	—	—	10,220	—		—	—		10,220
Gain on termination of merger agreement	—	—	—	1,734	—		—	—		1,734
Other income (expense)	(221)	—	(221)	30	—		—	221		30
Total other income (expense)	(3,896)	—	(3,896)	20,276	3,737		(63)	221		20,275
Net loss from continuing operations before income taxes	(59,341)	—	(59,341)	3,712	(172)		24,632	30,971		(198)
Income tax benefit on continuing operations	716	—	716	(176)	—		(733)	17		(176)
Net loss from continuing operations	(58,625)	—	(58,625)	3,536	(172)		23,899	30,988		(374)
Loss from discontinued operations, net of tax	(20,432)	20,432	—	—	—		—	—		—
Net loss	$ (79,057)	$ 20,432	$ (58,625)	$ 3,536	$ (172)		$ 23,899	$ 30,988		$ (374)
Deemed dividends related to convertible redeemable preferred stock	(956)	—	(956)	—	—		956	—		—
Net loss attributable to common stockholders	$ (80,013)	$ 20,432	$ (59,581)	$ 3,536	$ (172)		$ 24,855	$ 30,988		$ (374)
Diluted weighted average common stock outstanding	2,927,853		2,927,853	20,854,572					(r)	126,617,454
Diluted net loss per share	$ (27.33)		$ (20.35)	$ 0.17						$ (0.00)

See accompanying notes

AKERNA CORP. AND GRYPHON DIGITAL MINING, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Description of the Merger and Related Transactions

The Merger

On January 27, 2023, we entered into an agreement and plan of merger as may be amended from time to time (the "Merger Agreement") with Gryphon Digital Mining, Inc. ("Gryphon") and Akerna Merger Co. ("Merger Sub"). Upon the terms and subject to the satisfaction of the conditions provided in the Merger Agreement, including the approval of the transaction by Akerna's and Gryphon's stockholders, Merger Sub will be merged with and into Gryphon (the "Merger"), with Gryphon surviving the Merger as a wholly-owned subsidiary of Akerna. Upon completion of the Merger, Akerna will change its name to Gryphon Digital Mining, Inc. The closing of the Merger is subject to customary closing conditions including the required approval of the stockholders of Akerna and Gryphon, the approval of the Nasdaq Capital Market (the "Nasdaq Market") of the continued listing of Gryphon after the closing of the Merger and the subsequent closing of the sale of our core software business unit (see below), which requires stockholder approval, concurrent with the Merger.

Following the closing of the Merger, the former Gryphon and Akerna stockholders immediately before the Merger are expected to own approximately 92.5 percent and 7.5 percent, respectively, of the outstanding capital stock on a fully diluted basis. At the closing of the Merger, each outstanding share of Gryphon's common stock will be converted into the right to receive a number of shares of common stock of Akerna ("Exchange Ratio"). This Exchange Ratio is based on the capitalization of Akerna including the number of shares of Akerna common stock, par value $0.0001 per share ("Akerna Common Stock") as of closing, subject to any adjustments as described in the Merger Agreement.

Each outstanding and unexercised option with respect to Gryphon's common stock under Gryphon's stock option plans will be converted into options to purchase a number of shares of the combined company based on the Exchange Ratio. Each outstanding restricted stock and restricted stock unit ("RSU") with respect to Gryphon's common stock will be converted into restricted stock and RSUs, respectively, to a number of restricted stock and RSUs, respectively, of the combined company based on the Exchange Ratio. Each outstanding warrant with respect to Gryphon's common stock will be converted into warrants to purchase a number of shares of the combined company based on the Exchange Ratio.

Akerna's stockholders will continue to own and hold their existing shares of Akerna Common Stock. Each of Akerna's outstanding RSUs will fully vest upon closing of the Merger and the 249,510 shares of Ample exchangeable shares represented by the one share of Special voting preferred stock outstanding will be exchanged for 12,476 shares of Akerna Common Stock prior to the closing of the Merger. Outstanding warrants to purchase Akerna common stock will remain outstanding.

The Sale Transaction

On April 28, 2023, we and our wholly-owned subsidiary Akerna Canada Ample Exchange Inc. ("Akerna Exchange") entered into a securities purchase agreement (the "Purchase Agreement") with MJ Acquisition Corp. ("MJ Acquisition") to sell MJ Freeway LLC ("MJ Freeway") and Ample Organics Inc. ("Ample") to MJ Acquisition for a purchase price of $5.0 million in cash (the "Sale Transaction"). The consideration will be provided in the form of a $1.0 loan payable to MJ Acquisition with cash disbursed to Akerna upon the signing of the Purchase Agreement that will be forgiven in full upon closing at which time an additional $4.0 million will be disbursed to Akerna. The purchase price is subject to certain adjustments primarily attributable to variances from target working capital, as defined in the Purchase Agreement, among others. The Purchase Agreement contains customary representations, warranties and covenants applicable to us and MJ Acquisition including covenants relating to the conduct of the business of MJ Freeway and Ample through closing of the Sale Transaction and obtaining the approval of our stockholders. Further, the closing of the Sale Transaction is conditioned on the prior closing of the Merger transaction. The closing of the Sale Transaction is also subject to customary closing conditions including certain matters with respect to employee retention and contractual matters associated with MJF's and Ample's existing customers, among others.

In relation to the Sale Transaction discussed in these notes, Akerna and MJ Acquisition Corp. entered into a first amendment to the Purchase Agreement on September 28, 2023, to a reduced the additional cash to be paid at closing from $4 million to $2 million. In addition, MJ Acquisition Corp. loaned an additional $500,000 to Akerna Corp. on October 11, 2023, increasing the loan payable from $1.0 million to $1.5 million and making the note convertible at the closing of the Sale Transaction into shares of common stock of Akerna. Additionally, on November 15, 2023, MJ Acquisition Corp. loaned an additional $150,000 to Akerna increasing the amount payable under the note from $1,500,000 to $1,650,000, and in relation thereto, Akerna and MJ Acquisition Corp. entered into a second amendment to the Purchase Agreement to reduce the additional cash to be paid at closing from $2 million to $1.85 million. Subsequently, on December 28, 2023, pursuant to the terms of the Purchase Agreement, Akerna and Akerna Exchange entered into a share purchase agreement with Wilcompute Systems Group Inc. ("Wilcompute") pursuant to which Akerna Exchange sold all of the Capital Stock of Ample to Wilcompute for approximately $638,000. In accordance with the Purchase Agreement, in lieu of delivering the Capital Stock of Ample at the closing of the Sale Transaction, Akerna will instead deliver to MJ Acquisition the $638,000 purchase price received from Wilcompute, which Akerna expects to be in the form of a reduction of the purchase price paid by MJ Acquisition from $1.85 million to approximately $1.22 million

The Exchange Agreements

Concurrent with the signing and in support of the Sale Transaction and the Merger, we and each of the holders of our 2021 Senior Secured Convertible Notes (the "Senior Convertible Notes") entered into exchange agreements (the "Exchange Agreements") whereby the holders would ultimately convert the principal amounts of each of their note holdings to a level that would represent 19.9 percent, on an individual basis, of the outstanding shares of Akerna Common Stock prior to the closing of the Sale Transaction and the Merger. Immediately prior to the stockholder vote required for the closing of those transaction, the remaining Senior Convertible Notes outstanding would be converted into a special class of exchangeable preferred stock (the "Series C Preferred Stock"), with voting power equal to 19.9% of the voting rights of the Company outstanding as of the time immediately following the issuance of the Series C Preferred Stock, to facilitate the required stockholder vote and then be converted into shares of Akerna Common Stock subject to the Merger. For a limited period, the conversion price of the Senior Convertible Notes was lowered to $1.20 per share from $4.75 per share. On June 14, 2023, the conversion price was reduced further to $0.50 per share.

Sales of Certain Other Business

On January 11, 2023, we completed the sale of The NAV People Inc. d.b.a 365 Cannabis ("365 Cannabis") to 365 Holdco LLC (the "Buyers") pursuant to a stock purchase agreement (the "365 SPA") for (i) cash in the amount of $0.5 million and the (ii) the termination and release of our obligation to the Buyers for contingent consideration in connection with our original acquisition of 365 Cannabis from the Buyers in 2021 (the "Earn-out Obligation"). In accordance with the 365 SPA, we and the Buyers agreed that the value of the Earn-out Obligation was $2.3 million for purposes of the sale of 365 Cannabis.

On January 31, 2023, we completed the sale of Last Call Analytics ("LCA"), a retail analytics platform and wholly-owned subsidiary of Ample, for cash in the amount of $0.1 million.

The results of operations of 365 Cannabis and LCA are classified as "discontinued operations" in the pro forma condensed combined statements of operations for the year ended December 31, 2022 and the nine months ended September 30, 2023.

Commitment to Terminate Remaining Businesses

We pursued sale opportunities for our remaining business units including Veridian, Trellis and Solo, and were ultimately unable to commit to any definitive transactions. Accordingly, we have communicated with the remaining customers of those businesses that we will discontinue software service and support upon the expiration of existing contracts, most of which occurred during the first half of 2023 (the "Abandonment"). We have suspended efforts to seek any new revenue generating opportunities and will only service the existing customers of Viridian, Solo and Trellis in connection with our contractual commitments (see Note 5). During the third quarter of 2023, we completed the wind down of these businesses in advance of the Merger and the Sale Transaction.

2. Description of the Merger and Related Transactions

The accompanying unaudited pro forma condensed combined financial information was prepared in accordance with GAAP and pursuant to the rules and regulations of Article 11 of SEC Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Akerna and Gryphon have concluded that the Merger represents a "business combination" pursuant to ASC 805. Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("Transaction Accounting Adjustments"), operations and financial position of the registrant as an autonomous entity ("Autonomous Entity Adjustments") and option to present the reasonably estimable synergies and dis-synergies and other transaction effects that have occurred or are reasonably expected to occur ("Management's Adjustments"). The historical financial information of Akerna and Gryphon has been adjusted to give pro forma effect to (i) certain Pre-transaction Adjustments including the sales of 365 Cannabis and LCA and the settlement and conversion of debt and stock and (ii) Transaction Accounting Adjustments and (iii) eliminates the results of Akerna activities that will not continue within the merged entity, which includes the Merger and the Sale Transaction. Management's Adjustments reflecting the Abandonment as described in Note 1 are presented below in Note 5.

Certain of the Pre-Transaction Adjustments, excluding those attributable to the sales of 365 Cannabis and LCA, are primarily related to (i) the settlement of a substantial portion of the principal due on the Senior Convertible Notes with a combination of cash sourced from restricted cash and proceeds from the sale of 365 Cannabis and LCA and conversions into Common Stock in accordance with the Exchange Agreements, (ii) the conversion of any remaining principal balances of the Senior Convertible Notes into Series C Preferred Stock in advance of the Merger, (iii) the conversion of 249,510 shares of Ample exchangeable shares represented by a single share of special voting preferred stock outstanding as of December 31, 2022 into 12,476 shares of Common Stock in advance of the Merger and (iv) the immediate vesting of all of Akerna's outstanding RSUs into 6,498 shares of Common Stock in connection with the Merger.

The unaudited pro forma condensed combined balance sheet as of September 30, 2023 gives effect to the Pre-Transaction Adjustments, the Merger and the Sale Transaction as if those transactions had been consummated in a sequential manner on September 30, 2023. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2022 and the nine months ended September 30, 2023 give effect to the sales of 365 Cannabis and LCA, the Merger and the Sale Transaction as if those transactions had been consummated in a sequential manner on January 1, 2022, the beginning of the earliest period presented.

Based on Gryphon's preliminary review of Gryphon's and Akerna's summary of significant accounting policies, the nature and amount of any adjustments to the historical financial statements of Akerna to conform its accounting policies to those of Gryphon are not expected to be material. Upon closing of the Merger, further review of Akerna's accounting policies may result in additional revisions to Akerna's accounting policies to conform to those of Gryphon.

For accounting purposes, Gryphon is considered to be acquiring Akerna and the Merger is expected to be accounted for as a "reverse acquisition" in accordance with ASC 805. Gryphon is considered the accounting acquirer even though Akerna will be the issuer of the common stock in the Merger. To determine the accounting for this transaction under GAAP, a company must assess whether an integrated set of assets and activities should be accounted for as an "acquisition of a business" or an "asset acquisition." The guidance requires an initial screen test to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If that screen test is met, the operations acquired are not a business. The initial screen test is not met as there is no single asset or group of similar assets for Akerna that will represent a significant majority in this acquisition. In addition, as of the Merger but immediately prior to the Sale Transaction, Akerna will have an organized workforce that significantly contributes to its ability to create output. As such, the acquisition is expected to be classified as a reverse acquisition.

The unaudited pro forma condensed combined financial information is based on assumptions and adjustments that are reasonable and supportable. Key assumptions include the estimated equity consideration to be acquired, which will be impacted by changes in the capitalization of Gryphon and Akerna, changes in the share price of Akerna, and transaction costs to be incurred. Accordingly, the pro forma adjustments are preliminary, subject to further revision as additional information becomes available and additional analyses are performed and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting, expected to be completed after the closing of the transaction, will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial information and the combined company's future results of operations and financial position.

3. Preliminary Purchase Price

The accompanying unaudited pro forma condensed financial information reflects an estimated purchase price of approximately $2.2 million, which consists of the following (in thousands except for per share amounts):

		As of September 30, 2023
Value of equity of the combined company owned by Akerna equity holders(1)	$	2,205
Other		—
Total preliminary purchase price	$	2,205

(1) Determined as follows:

Akerna Corp. common stock outstanding as of September 30, 2023		10,002
Unvested restricted stock units		6
Exchange of special voting preferred stock(2)		12
Estimated number of shares to be owned by Akerna equity holders		10,021
Estimated purchase price (based on closing price of Akerna on 9/29/2023)	$	0.220
Fair value of shares of the combined company	$	2,205
Fair value of the warrants of the combined company		—
Fair value of the shares and warrants of the combined company	$	2,205

(2) Number of common shares issued in connection with Ample exchangeable shares is determined as follows:

Exchangeable shares outstanding	249,504
Exchange ratio	1 for 20
Common equivalent at exchange rate of 1 for 20	12,476

Preliminary purchase price allocation:		
Cash	$	(109)
Accounts receivable, net		253
Prepaid expenses and other current assets		610
Fixed assets, net		28
Capitalized software		214
Intangible assets, net		1,880
Goodwill		994
Accounts payable, accrued expenses and other current liabilities		(1,195)
Deferred revenue		(470)
Net assets acquired	$	2,205

The allocation of the estimated purchase price is preliminary because the Merger has not yet been completed. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after closing of the Merger and will be based on the fair values of the assets acquired and liabilities assumed as of the Merger closing date.

The pro forma statement of operations for the year ended December 31, 2022 include transaction costs of $2.2 million and $0.50 million incurred by Akerna and Gryphon, respectively, in connection with the Merger and recorded as expense in their respective condensed consolidated statements of operations for the year ended December 31, 2022. Such transaction costs are not expected to recur.

4. Pro Forma Adjustments

The pro forma adjustments included in the unaudited pro forma condensed combined balance sheets as of September 30, 2023 are as follows:

Pre-Transaction Adjustments — Settlement and Conversion of Debt and Stock

(a) Represents the downward adjustment of the Senior Convertible Notes from their fair value to their carrying value for $1.0 million in advance of certain repayments and conversions.

(b) Represents the conversion of 249,504 Ample exchangeable shares (represented by one share of Special voting preferred stock) into 12,476 shares of Akerna Common Stock in advance of the closing of the Merger resulting in a reclassification within stockholders' deficit of $1.9 million.

(c) This entry was not needed at Q3

(d) This entry was not needed at Q3

(e) To reflect the conversion of the remaining $7.7 million of principal outstanding on the Senior Convertible Notes into shares of Series C preferred stock in order to facilitate the stockholder approval of the Merger and the Sale Transaction.

Transaction Accounting Adjustments (Balance Sheet)

(f) To accrue for the estimated merger-related transaction costs of $2.2 million consisting of advisory fees, legal and accounting fees and other expenses to be incurred by Akerna prior to closing of the Merger.

(g) To accrue for estimated transaction success bonuses and severance costs of $1.2 million in accordance with employment and related agreements that were executed in advance of the Merger for certain Akerna employees.

(h) Represents the estimated purchase consideration values of $2.2 million based on Akerna's equity to be acquired, utilizing Akerna's closing stock price of $0.22 per share as of September 30, 2023.

(i) To eliminate Akerna's historical stockholders' deficit balances including the accumulated deficit.

(j) To accrue for the estimated transaction costs of $0.750 million to be incurred by Gryphon.

(k) To recognize incremental goodwill of $0.2 million in connection with the Merger being classified as a business combination.

(l) To reflect the Sale Transaction and receipt of cash from MJ Acquisition in exchange for the net assets of MJ Freeway and Ample. The sale of Ample was concluded on December 28, 2023.

The pro forma adjustments included in the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2022 and the nine months ended September 30, 2023 are as follows:

(m) To eliminate the net gain (loss) from discontinued operations associated with 365 Cannabis and LCA prior to their sale in January 2023.

(n) To accrue for the estimated merger-related transaction costs consisting of advisory fees, legal and accounting fees of Akerna ($2.0 million) and Gryphon ($0.750 million) and estimated transaction success bonuses and severance costs of $1.2 million in accordance with employment and related agreements that were executed in advance of the Merger for certain Akerna employee.

(o) To eliminate interest expense of $0.8 million and $0.9 million and change in fair value of convertible notes of $2.9 million and $0.9 million for the year ended December 31, 2022 and the nine months ended September 30, 2023, respectively, related to the Senior Convertible Notes which will be converted to Akerna Common Stock concurrent with the closing of the Merger.

(p) To eliminate the revenues and direct expenses associated with MJ Freeway and Ample which will not be continuing as a result of the Sale Transaction. The sale of Ample was concluded on December 28, 2023.

(q) To eliminate the results of companies fully wound down and dissolved in the third quarter of 2023 (Trellis, Solo and Viridian). Also to eliminate results associated with Akerna corporate activities that will not cease at the time of the Merger.

(r) The weighted average shares outstanding for the year ended December 31, 2022 and the six months ended June 30, 2023, respectively, have been calculated as if the Merger occurred on January 1, 2022 calculated as the sum of (i) Akerna's weighted average shares outstanding as of December 31, 2022 and September 30, 2023, respectively, (ii) the pre-Merger conversion of Ample exchangeable shares, (iii) the immediate vesting of Akerna's outstanding RSUs, (iv) shares converted in connection with the Exchange Agreement, (v) shares issued upon the redemption of the Series C preferred stock and (vi) common shares issued to Gryphon's stockholder in connection with the Merger. As the combined company is in a net loss position for both periods presented, any adjustment for potentially dilutive securities would be anti-dilutive. Accordingly, the amounts for basic and diluted loss per share are the same. The determination of the weighted average shares outstanding for the periods presented is provided as follows:

	Year Ended December 31, 2022	**Nine Months Ended September 30, 2023**
Akerna common shares outstanding	4,602,780	10,002,018
Conversion of Ample exchangeable shares	14,284	12,476
Immediate vesting of Akerna RSUs	11,086	6,498
Shares converted under the Exchange Agreement	1,164,251	6,460,000
Sub-total prior to Series C preferred stock redemption	5,792,401	16,480,992
Total shares outstanding necessary to provide for 39.8% ownership by the Series C preferred stockholders	9,621,929	27,377,063
Less: Common shares held by existing stockholders prior to Series C redemption	5,792,401	16,480,992
Additional Common shares issued upon redemption of Series C preferred stock	3,829,528	10,896,071
Total shares outstanding necessary to provide for 7.5% ownership by existing pre-Merger Akerna stockholders	128,292,381	365,027,508
Less: Common shares held by existing stockholders prior to Merger closing	9,621,929	27,377,063
Additional Common shares to be issued to Gryphon stockholders	118,670,452	337,650,445
Weighted-average common shares outstanding	2,927,853	6,486,669
Conversion of Ample exchangeable shares	14,284	12,476
Immediate vesting of Akerna RSUs	11,086	6,498
Shares converted under the Exchange Agreement	1,164,251	6,460,000
Common shares issued upon redemption of Series C preferred stock	3,829,528	10,896,071
Common shares to be issued to Gryphon stockholders	118,670,452	337,650,445
Common shares outstanding after the closing of the Merger	126,617,454	361,512,159
Post reverse split		18,075,608

5. Management's Adjustments

As described in Note 1, the Abandonment represents our plans to discontinue software service and support upon the expiration of existing contracts during the first half of 2023 with respect to our Viridian, Solo and Trellis businesses. The Abandonment will result in the recognition of certain revenues and expenses with corresponding changes in working capital during this time span.

Because these businesses as well as those attributable to MJ Freeway and Ample and certain corporate costs will not continue after completion of the Merger and Sale Transaction, Management believes that the adjustments shown below are necessary for a fair statement of the pro forma information presented. Accordingly, the pro forma combined statements of operations for the year ended December 31, 2022 and the nine months ended September 30, 2023 should exclude any revenues and expenses associated with all of Akerna's legacy businesses, including those associated with the Abandonment, as they are not continuing. Additionally, it has been determined that the activities and resources associated with Akerna's corporate function will not continue or are already included in Gryphon's reported results and are therefore also eliminated.

The presentation below reflects Management's adjustments for the elimination of revenues and direct expenses attributable to the legacy businesses associated with the Abandonment from the pro forma combined statements of operations for the periods presented:

	For the Year Ended December 31, 2022		
	Net loss	Diluted net loss per share	Weighted average shares
Pro forma combined	$ (380)	$ (0.00)	126,617,454
Management adjustments:			
Elimination of gross profit attributable to the Abandonment	(1,581)		
Elimination of direct expenses attributable to the Abandonment	26,276		
Pro forma combined after management's adjustments	$ 24,315	$ 0.19	126,617,454

	For the Nine Months Ended September 30, 2023		
	Net loss	Diluted net loss per share	Weighted average shares
Pro forma combined	$ (17,619)	$ (0.97)	18,075,608
Management adjustments:			
Elimination of gross profit attributable to the Abandonment	(250)		
Elimination of direct expenses attributable to the Abandonment	126		
Pro forma combined after management's adjustments	$ (17,743)	$ (0.98)	18,075,608

Exhibit 99.5

101 Larkspur Landing
Suite 321
Larkspur, CA 94939

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Form 8-K of Akerna Corp., of our report dated April 16, 2023, except for Note 10 which is September 6, 2023 and Note 1, Digital Assets, Revenue and cost of revenue is December 8, 2023, with respect to our audits of Gryphon Digital Mining, Inc.'s, (the "Company"), consolidated financial statements as of December 31, 2022 and 2021 and for each of the years in the two-year period ending December 31, 2022. Our report includes an explanatory paragraph as to the Company's ability to continue as a going concern. We also consent to the incorporation by reference in Akerna Corp.'s Registrations Statements as follows:

1. Registration Statements on Form S-3 (File Nos. 333-239783 and 333-256878); and

2. Registration Statements on Form S-8 (File Nos. 333-242480 and 333-233480).

/s/ RBSM LLP
RBSM LLP
Larkspur, CA

February 8, 2024