

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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-33675

Riot Blockchain, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

84-1553387

(I.R.S. Employer Identification No.)

202 6th Street, Suite 401 Castle Rock, CO 80104

(Address of principal executive offices) (Zip Code)

(303) 794-2000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging growth company

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

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

The number of shares of no par value common stock outstanding as of August 5, 2020 was 47,401,473.

Title of each class:

Common Stock, no par value

Trading Symbol

RIOT

Name of each exchange on which registered:

Nasdaq Capital Market

PART I – FINANCIAL INFORMATION

Item 1.	Condensed Interim Consolidated Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets as of June 30, 2020 (Interim and Unaudited) and December 31, 2019	5
	Condensed Interim Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2020 and 2019 (Unaudited)	6
	Condensed Interim Consolidated Statements of Stockholders' Equity (Deficit) for the Three and Six Months Ended June 30, 2020 and 2019 (Unaudited)	7
	Condensed Interim Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019 (unaudited)	9
	Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4.	Controls and Procedures	26

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Mine Safety Disclosures	28
Item 5.	Other Information	28
Item 6.	Exhibits	28
	Signatures	30

RIOT BLOCKCHAIN, INC.

As used in this in this Quarterly Report on Form 10-Q (this “Quarterly Report”), the terms “we,” “us,” “our,” the “Company,” the “Registrant,” “Riot Blockchain, Inc.,” and “Riot” mean Riot Blockchain, Inc. and its consolidated subsidiaries, unless otherwise indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report, including in Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are subject to the safe harbor created thereby. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. These statements relate to future events or the Company's future performance and include statements regarding expectations, beliefs, plans, intentions and strategies of the Company. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential” or other comparable terminology. These forward-looking statements are made based on management's expectations and beliefs concerning future events affecting the Company as of the date of the filing of this Quarterly Report and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict and many of which are beyond management's control. We make certain assumptions when making forward-looking statements, any of which could prove inaccurate, including assumptions about our future operating results and business plans. Therefore, we can give no assurance that the results implied by these forward-looking statements will be realized. Furthermore, the inclusion of forward-looking information should not be regarded as a representation by the Company or any other person that future events, plans or expectations contemplated by the Company will be achieved. Accordingly, you should not place undue reliance on these forward-looking statements, as actual results, performance and achievements could differ materially from those expressed in, or implied by, these forward-looking statements due to a variety of risks, uncertainties and other factors, including, but not limited to, the following:

- our history of operating losses and our ability to achieve or sustain profitability;
- our shift to a new business and our ability to succeed in this new business;
- our recent transition to a co-location arrangement for running our miners;
- intense competition;
- general economic conditions in the U.S. and globally;
- our ability to maintain the value and reputation of our brand;
- our ability to attract and retain senior management and other qualified personnel;
- cryptocurrency-related risks, including regulatory changes or actions and uncertainty regarding acceptance and/or widespread use of virtual currency;
- risks relating to our virtual currency mining operations, including among others, risks associated with the need for significant electrical power, cybersecurity risks and risk of increased world-wide competition for a fixed number of bitcoin reward levels;

- our dependence in large part upon the value of virtual currencies, especially bitcoin, which have historically been subject to significant volatility in their market prices;
- our ability to protect our intellectual property rights;
- volatility in the trading price of our common stock;
- our ability to maintain the Nasdaq listing of our common stock;
- our investments in other virtual currency and blockchain focused companies may not be realizable;
- our expectation regarding the impact of a novel strain of coronavirus (“COVID-19”);
- our strategic decision to concentrate on and make capital investments in cryptocurrency mining; and
- legal proceedings and/or regulatory action to which we are subject, or associated with, including actions by private plaintiffs and the U.S. Securities and Exchange Commission (“SEC”), for which we may face significant potential liability that may not be adequately covered by insurance or indemnity.

For a further list and description of the various risks, factors and uncertainties that could cause future results to differ materially from those express or implied in our forward-looking statements, see Part II, Item 1A. “Risk Factors” included in this Quarterly Report and Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, as amended (the “2019 Annual Report”), and any subsequent reports on Form 10-Q and Form 8-K, and other filings we make with the SEC.

Accordingly, you should read this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. Additional risks and uncertainties not known to us or that we currently believe not to be material may adversely impact our business, financial condition, results of operations and cash flows. Should any risks or uncertainties develop into actual events, these developments could have a material adverse effect on our business, financial condition, results of operations and cash flows. The forward-looking statements contained in this Quarterly Report speak only as of the date of filing of this Quarterly Report and, unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I — FINANCIAL INFORMATION

Item 1. Condensed Interim Consolidated Financial Statements (Unaudited)

Riot Blockchain, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except for share and per share amounts)

	June 30, 2020	December 31, 2019
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,140	\$ 7,440
Prepaid expenses and other current assets	846	1,349
Cryptocurrencies	7,224	3,839
Total current assets	17,210	12,628
Property and equipment, net	4,945	5,051
Right of use assets	-	367
Deposits on equipment	6,969	1,449
Long-term investments	310	9,723
Security deposits	-	703
Patents, net	434	459
Total assets	\$ 29,868	\$ 30,380
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 858	\$ 717
Accrued expenses	376	2,187
Operating lease liability, current portion	-	368
Deferred revenue, current portion	97	97
Total current liabilities	1,331	3,369
Deferred revenue, less current portion	728	776
Total liabilities	2,059	4,145
Commitments and contingencies - Note 10		
Stockholders' equity		
Preferred stock, no par value, 15,000,000 shares authorized:		
2% Series A Convertible stock, 2,000,000 shares authorized; no shares issued and outstanding as of June 30, 2020 and December 31, 2019	-	-
0% Series B Convertible stock, 1,750,001 shares authorized; 4,199 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively, liquidation preference over common stock, equal to carrying value	22	22
Common stock, no par value; 170,000,000 shares authorized; 36,559,279 and 25,082,872 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	259,899	243,458
Accumulated deficit	(232,105)	(217,238)
Total Riot Blockchain stockholders' equity	27,816	26,242
Non-controlling interest	(7)	(7)
Total stockholders' equity	27,809	26,235
Total liabilities and stockholders' equity	\$ 29,868	\$ 30,380

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

Riot Blockchain, Inc. and Subsidiaries
Condensed Interim Consolidated Statements of Operations
(in thousands, except for share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue:				
Revenue - cryptocurrency mining	\$ 1,918	\$ 2,443	\$ 4,280	\$ 3,849
License fees	24	24	48	48
Total Revenue	<u>1,942</u>	<u>2,467</u>	<u>4,328</u>	<u>3,897</u>
Costs and expenses:				
Cost of revenues (exclusive of depreciation and amortization shown below)	1,439	1,588	2,847	3,059
Selling, general and administrative	2,230	2,226	5,964	5,378
Depreciation and amortization	830	23	1,493	47
Impairment of long-term investment	9,413	-	9,413	-
Impairment of cryptocurrencies	-	-	989	-
Total costs and expenses	<u>13,912</u>	<u>3,837</u>	<u>20,706</u>	<u>8,484</u>
Operating loss	<u>(11,970)</u>	<u>(1,370)</u>	<u>(16,378)</u>	<u>(4,587)</u>
Other income (expense):				
Loss on issuance of convertible notes, common stock and warrants	-	-	-	(6,155)
Change in fair value of warrant liability	-	(116)	-	(2,870)
Change in fair value of convertible notes	-	(2,251)	-	(3,895)
Reversal of registration rights penalty	1,358	-	1,358	-
Gain on deconsolidation of Tess	-	1,139	-	1,139
Gain on sale of equipment	18	-	35	-
Interest income	16	-	14	-
Interest expense	-	(49)	-	(117)
Other income	(12)	731	(2)	814
Realized gain on exchange of cryptocurrencies	-	637	106	642
Total other income (expense)	<u>1,380</u>	<u>91</u>	<u>1,511</u>	<u>(10,442)</u>
Net loss	<u>(10,590)</u>	<u>(1,279)</u>	<u>(14,867)</u>	<u>(15,029)</u>
Net loss attributable to non-controlling interest	-	-	-	221
Net loss attributable to Riot Blockchain	<u>\$ (10,590)</u>	<u>\$ (1,279)</u>	<u>\$ (14,867)</u>	<u>\$ (14,808)</u>
Basic and diluted net loss per share:	<u>\$ (0.31)</u>	<u>\$ (0.08)</u>	<u>\$ (0.47)</u>	<u>\$ (0.97)</u>
Basic and diluted weighted average number of shares outstanding	<u>34,528,836</u>	<u>15,995,092</u>	<u>31,591,846</u>	<u>15,226,629</u>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

Riot Blockchain, Inc. and Subsidiaries
Condensed Interim Consolidated Statement of Stockholders' Equity (Deficit)
Three Months Ended June 30, 2020 and 2019
(in thousands, except for share and per share amounts)
(Unaudited)

	Preferred Stock		Common Stock		Accumulated deficit	Total Riot Blockchain stockholders' equity	Non-controlling interest	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of April 1, 2020	4,199	\$ 22	31,034,308	\$ 254,731	\$ (221,515)	\$ 33,238	\$ (7)	\$ 33,231
Delivery of common stock underlying restricted stock units	-	-	1,367,899	(221)	-	(221)	-	(221)
Issuance of common stock, net of offering costs/At-the-market offering	-	-	4,157,072	4,922	-	4,922	-	4,922
Stock-based compensation	-	-	-	467	-	467	-	467
Net loss	-	-	-	-	(10,590)	(10,590)	-	(10,590)
Balance as of June 30, 2020	4,199	\$ 22	36,559,279	\$ 259,899	\$ (232,105)	\$ 27,816	\$ (7)	\$ 27,809

	Preferred Stock		Common Stock		Accumulated deficit	Total Riot Blockchain stockholders' equity (deficit)	Non-controlling interest	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
Balance as of April 1, 2019	13,000	\$ 69	14,762,809	\$ 203,407	\$ (210,728)	\$ (7,252)	\$ (1,517)	\$ (8,769)
Delivery of common stock underlying restricted stock units	-	-	12,500	-	-	-	-	-
Common stock issued in connection with conversion of notes payable	-	-	1,813,500	10,226	-	10,226	-	10,226
Reclassification of warrant liability to equity	-	-	-	5,439	-	5,439	-	5,439
Preferred stock converted to common stock	(8,001)	(42)	8,001	42	-	-	-	-
Stock-based compensation	-	-	-	115	-	115	-	115
Issuance of common stock, net of offering costs/At-the-market offering	-	-	6,028,301	18,853	-	18,853	-	18,853
Deconsolidation of Tess	-	-	-	-	-	-	1,552	1,552
Net loss	-	-	-	-	(1,279)	(1,279)	-	(1,279)
Balance as of June 30, 2019	4,999	\$ 27	22,625,111	\$ 238,082	\$ (212,007)	\$ 26,102	\$ 35	\$ 26,137

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

Riot Blockchain, Inc. and Subsidiaries
Condensed Interim Consolidated Statement of Stockholders' Equity - Continued
Six Months Ended June 30, 2020 and 2019
(in thousands, except for share and per share amounts)
(Unaudited)

	Preferred Stock		Common Stock		Accumulated deficit	Total Riot Blockchain stockholders' equity	Non-controlling interest	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of January 1, 2020	4,199	\$ 22	25,082,872	\$ 243,458	\$ (217,238)	\$ 26,242	\$ (7)	\$ 26,235
Issuance of common stock to settle executive compensation	-	-	122,377	175	-	175	-	175
Delivery of common stock underlying restricted stock units, net of tax	-	-	1,372,899	(221)	-	(221)	-	(221)
Issuance of common stock, net of offering costs/At-the-market offering	-	-	10,181,131	14,106	-	14,106	-	14,106
Cancellation of Prive Escrow shares	-	-	(200,000)	-	-	-	-	-
Stock-based compensation	-	-	-	2,381	-	2,381	-	2,381
Net loss	-	-	-	-	(14,867)	(14,867)	-	(14,867)
Balance as of June 30, 2020	<u>4,199</u>	<u>\$ 22</u>	<u>36,559,279</u>	<u>\$ 259,899</u>	<u>\$ (232,105)</u>	<u>\$ 27,816</u>	<u>\$ (7)</u>	<u>\$ 27,809</u>

	Preferred Stock		Common Stock		Accumulated deficit	Total Riot Blockchain stockholders' equity (deficit)	Non-controlling interest	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of January 1, 2019	13,000	\$ 69	14,519,058	\$ 202,917	\$ (197,199)	\$ 5,787	\$ (1,296)	\$ (4,491)
Delivery of common stock underlying restricted stock units	-	-	106,251	-	-	-	-	-
Common stock issued with convertible notes	-	-	150,000	255	-	255	-	255
Common stock issued in connection with conversion of notes payable	-	-	1,813,500	10,226	-	10,226	-	10,226
Reclassification of warrant liability to equity	-	-	-	5,439	-	5,439	-	5,439
Preferred stock converted to common stock	(8,001)	(42)	8,001	42	-	-	-	-
Stock-based compensation	-	-	-	350	-	350	-	350
Issuance of common stock, net of offering costs/At-the-market offering	-	-	6,028,301	18,853	-	18,853	-	18,853
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(221)	(221)
Deconsolidation of Tess	-	-	-	-	-	-	1,552	1,552
Net loss	-	-	-	-	(14,808)	(14,808)	-	(14,808)
Balance as of June 30, 2019	<u>4,999</u>	<u>\$ 27</u>	<u>22,625,111</u>	<u>\$ 238,082</u>	<u>\$ (212,007)</u>	<u>\$ 26,102</u>	<u>\$ 35</u>	<u>\$ 26,137</u>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

Riot Blockchain, Inc. and Subsidiaries
Condensed Interim Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (14,867)	\$ (15,029)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,381	350
Depreciation and amortization	1,493	47
Amortization of license fee revenue	(48)	(48)
Amortization of right of use assets	648	1,148
Impairment of long-term investment	9,413	-
Impairment of cryptocurrencies	989	-
Loss on issuance of convertible notes, common stock and warrants	-	6,155
Change in fair value of convertible notes	-	3,895
Change in fair value of warrant liability	-	2,870
Gain on deconsolidation of Tess	-	(1,139)
Reversal of registration rights penalty	(1,358)	-
Gain on extinguishment of accounts payable, other liabilities and accrued expenses	-	(808)
Realized gain on exchange of cryptocurrencies	(106)	(642)
Gain on sale of equipment	(35)	-
Changes in assets and liabilities:		
Prepaid expenses and other current assets	1,206	916
Cryptocurrencies - mining, net of mining pool operating fees	(4,216)	(3,772)
Accrued interest	-	(19)
Accounts payable	141	(1,831)
Accrued expenses	(278)	880
Lease liability	(649)	(1,155)
Net cash used in operating activities	<u>(5,286)</u>	<u>(8,182)</u>
Cash flows from investing activities		
Proceeds from sale of cryptocurrencies	-	3,196
Proceeds from sale of equipment	98	-
Deposits on equipment	(5,520)	-
Purchases of property and equipment	(1,449)	(5)
Patent costs incurred	(28)	(26)
Net cash (used in) provided by investing activities	<u>(6,899)</u>	<u>3,165</u>
Cash flows from financing activities		
Proceeds from issuance of convertible notes	-	3,000
Repayment of notes payable and other obligations	-	(950)
Proceeds from the issuance of common stock / At-the-market offering	14,610	19,672
Offering costs for the issuance of common stock / At-the-market offering	(504)	(819)
Repurchase of common shares to pay employee withholding taxes	(221)	-
Net cash provided by financing activities	<u>13,885</u>	<u>20,903</u>
Net increase in cash and cash equivalents	1,700	15,886
Cash and cash equivalents at beginning of period	7,440	225
Cash and cash equivalents at end of period	<u>\$ 9,140</u>	<u>\$ 16,111</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 2</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure of noncash investing and financing activities:		
Issuance of common stock to settle previously accrued executive compensation	<u>\$ 175</u>	<u>\$ -</u>
Cryptocurrencies received from sale of equipment	<u>\$ 52</u>	<u>\$ -</u>
Conversion of notes payable to common stock	<u>\$ -</u>	<u>\$ 10,226</u>
Reclassification of warrant liability to equity	<u>\$ -</u>	<u>\$ 5,439</u>
Conversion of preferred stock to common stock	<u>\$ -</u>	<u>\$ 42</u>

See Accompanying Notes to Unaudited Condensed Interim Consolidated Financial Statements

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Note 1. Organization

Nature of operations:

Riot Blockchain, Inc. operates a cryptocurrency mining operation, which utilizes specialized computers (also known as “Miners”) that generate cryptocurrency (primarily bitcoin) from the Blockchain. The Company was originally organized on July 24, 2000, as a Colorado corporation. Effective October 19, 2017, the Company's name was changed to Riot Blockchain, Inc., from Biotix, Inc., and effective October 19, 2017, the Company changed its state of incorporation to Nevada from Colorado.

Mining equipment:

During the three months ended June 30, 2020 the Company reached agreements for the purchase of 3,040 next generation Bitmain Antminer S19 Miners (“S19 Miners”) and 2,000 next generation Bitmain Antminer S19 Pro Miners (“S19 Pro Miners”) directly from their manufacturer, BitmainTech PTE. LTD. (“Bitmain”), and paid an aggregate purchase price of approximately \$7.0 million. In December 2019, the Company purchased 4,000 next generation Bitmain Antminer S17 Pro Miners (“S17 Pro Miners”) directly from Bitmain, for approximately \$6.3 million.

During the three and six months ended June 30, 2020, the Company retired all of the approximately 8,000 Bitmain Antminer S9 Miners it had historically acquired through its acquisition of Kairos Global Technology, Inc., (“Kairos”) in November 2017, and from Prive Technologies, Inc. (“Prive”) and Blockchain Mining Supply & Services Ltd. (“BMSS”) in February 2018. The Company discontinued its use of these older model Miners in favor of the 4,000 S17 Miners, the 1,040 S19 Miners, and 2,000 S19 Pro Miners it acquired from Bitmain, which offer greater electricity usage efficiency and hash rate power than the retired models.

Mining facility:

After evaluating the Company’s lease arrangement and power costs at the Oklahoma mining facility (the “OKC Facility”), the Company made the strategic decision to explore alternative mining locations to reduce its overhead and operating costs. On April 8, 2020, the Company and Coinmint, LLC (“Coinmint”) entered into a co-location mining services agreement (the “Coinmint Agreement”) which enabled the Company to relocate all of its Miners from the OKC Facility to Coinmint’s Massena, New York facility (the “Coinmint Facility”) and to terminate its lease of the OKC Facility as of June 30, 2020.

Pursuant to the terms of the Coinmint Agreement, Coinmint agreed to provide up to approximately 9.5 megawatts (“MW”) of power and to perform all maintenance necessary to operate Riot’s Miners at the Coinmint Facility. In exchange, Coinmint will receive a performance fee based on the net cryptocurrencies generated by Riot’s Miners deployed at the Coinmint Facility and be reimbursed for direct production expenses. Riot expects that the relocation to the Coinmint Facility will reduce its overhead and operating costs, increase the overall uptime of its Miners, and provide it with the opportunity to continue to expand its total hash rate capacity with potential access to additional MWs of power. The initial six (6) month term of the Coinmint Agreement expires on October 8, 2020, unless it is terminated earlier by Riot or Coinmint upon ninety (90) days’ notice to the other party. After the expiration of the initial term, the Coinmint Agreement automatically renews for subsequent three (3) month terms until terminated. The Company is currently discussing an amendment to the Coinmint Agreement to revise, among other provisions, the total available electricity power and the total number of Miners it may deploy at the Coinmint Facility under the Coinmint Agreement.

Note 2. Liquidity and Financial Condition

At June 30, 2020, the Company had approximate balances of cash and cash equivalents of \$9.1 million, cryptocurrencies of \$7.2 million, working capital of \$15.9 million, total stockholders' equity of \$27.8 million and an accumulated deficit of \$232.1 million. To date, the Company has, in large part, relied on equity and debt financing to fund its operations.

As disclosed in Note 8, the Company entered into a Sales Agreement with H.C. Wainwright & Co., LLC (“H.C. Wainwright”) dated May 24, 2019 (the “Sales Agreement”), pursuant to which the Company may, from time to time, sell up to \$100.0 million in shares of the Company’s common stock through H.C. Wainwright, acting as the Company’s sales agent and/or principal, in a continuous at-the-market offering (“ATM Offering”). All sales of the shares in connection with the ATM Offering have been made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC. The Company pays H.C. Wainwright a commission of approximately 3.0% of the aggregate gross proceeds the Company received from all sales of the Company's common stock under the Sales Agreement. The Company received proceeds on sales of 10,181,131 shares of common stock under the Sales Agreement of approximately \$14.6 million (excluding commissions and expenses of \$0.5 million) at a weighted average price of \$1.44 during the six months ended June 30, 2020.

The Company believes its current cash on hand is sufficient to meet its operating and capital requirements for at least the next twelve months from the date these financial statements are issued.

The COVID-19 global pandemic has been unprecedented and unpredictable and is likely to continue to result in significant national and global economic disruption, which may adversely affect our business. Based on the Company’s current assessment, however, the Company does not expect any material impact on its long-term strategic plans, its operations, or its liquidity due to the worldwide spread of the COVID-19 virus. However, the Company is actively monitoring this situation and the possible effects on its financial condition, liquidity, operations, suppliers, and industry.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Note 3. Basis of presentation, summary of significant accounting policies and recent accounting pronouncements

Basis of presentation and principles of consolidation

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the SEC. In the opinion of management, the accompanying unaudited condensed interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of such interim results.

The results for the unaudited condensed interim consolidated statement of operations are not necessarily indicative of results to be expected for the year ending December 31, 2020 or for any future interim period. The unaudited condensed interim consolidated financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements. The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 25, 2020.

The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Significant Accounting Policies:

For a detailed discussion about the Company's significant accounting policies, see the Company's December 31, 2019 consolidated financial statements included in its 2019 Annual Report.

Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ significantly from those estimates. The most significant accounting estimates inherent in the preparation of the Company's unaudited condensed interim consolidated financial statements include estimates associated with revenue recognition, asset valuations, the useful lives and recoverability of long-lived assets, impairment analysis of intangibles, stock-based compensation, assumptions used in estimating the fair value of convertible notes and warrants, and the valuation allowance associated with the Company's deferred tax assets.

Loss per share:

Basic net loss per share ("EPS") of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company excludes its unvested restricted shares and escrow shares from the net loss per share calculation. The escrow shares are excluded because of related contingencies and including them would result in anti-dilution.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Since the Company has net losses attributable to Riot Blockchain, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future were not included in the computation of diluted loss per share at June 30, 2020 and 2019 because their inclusion would be anti-dilutive are as follows:

	June 30,	
	2020	2019
Warrants to purchase common stock	3,554,257	3,574,257
Options to purchase common stock	12,000	12,000
Escrow shares	-	200,000
Unvested restricted stock awards	1,313,455	42,980
Convertible Series B preferred shares	4,199	4,999
Total	4,883,911	3,834,236

Recently issued and adopted accounting pronouncements:

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

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

Note 4. Acquisitions - Prive share escrow status

In February 2020, the conditions were not achieved by the date specified to provide for the release of 200,000 shares of the Company's common stock, which shares were being held in escrow in connection with the Prive acquisition pursuant to the Escrow Deposit Agreement. After receiving notification on March 4, 2020 that the conditions set forth in the Escrow Deposit Agreement were not timely met, the Escrow Agent returned and canceled the 200,000 shares.

Note 5. Cryptocurrencies

The following table presents additional information about cryptocurrencies (in thousands):

Beginning balance, January 1, 2020	\$ 3,839
Revenue recognized from cryptocurrencies mined	4,280
Mining pool operating fees	(64)
Realized gain on exchange of cryptocurrencies	106
Impairment of cryptocurrencies	(989)
Cryptocurrencies received from sale of equipment	52
Ending balance, June 30, 2020	\$ 7,224

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Note 6. Property and Equipment

Property and equipment consisted of the following as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020	December 31, 2019
	(Unaudited)	
Miners	\$ 6,322	\$ 5,010
Leasehold improvements	-	38
Office and computer equipment	82	103
Total cost of property and equipment	6,404	5,151
Less accumulated depreciation	(1,459)	(100)
Property and equipment, net	<u>\$ 4,945</u>	<u>\$ 5,051</u>

During the three months ended June 30, 2020, the Company pre-paid for the purchase of 1,040 S19 Miners and 2,000 S19 Pro Miners from Bitmain for an aggregate purchase price of approximately \$7.0 million. The \$7.0 million prepayment is recorded as a deposit on the accompanying condensed consolidated balance sheet.

During July 2020, the Company received 1,432 of these 3,040 new next generation S19 and S19 Pro Miners from Bitmain at the Coinmint Facility, with the balance to be delivered in the latter part of the third quarter.

Depreciation and amortization expense totaled approximately \$0.8 million (including \$0.03 million of patent amortization) for the three months ended June 30, 2020. Depreciation and amortization expense was nominal for the three months ended June 30, 2019. Depreciation and amortization expense totaled approximately \$1.5 million (including \$0.1 million of patent amortization) for the six months ended June 30, 2020. Depreciation and amortization expense was nominal for the six months ended June 30, 2019. Depreciation is computed on the straight-line basis for the periods the assets are in service.

Note 7. Investments**Coinsquare**

As of December 31, 2019, the Company's cost investment in Coinsquare Ltd. ("Coinsquare") totaled approximately \$9.4 million representing approximately an 11.8% ownership on a fully diluted basis. The Company is a non-affiliated shareholder in Coinsquare, which represents a passive investment made by the Company.

During June 2020, the Company became aware of allegations brought by the Ontario Securities Commission (the "OSC") that Coinsquare and certain of its executives and directors engaged in systematic "wash trading" of cryptocurrencies on its Coinsquare market to manipulate the market's trading volume during 2018 and 2019.

Subsequently, on July 21, 2020, a hearing panel of the OSC entered an order (the "Order") approving the settlement agreement between OSC, Coinsquare, and certain of its executives and directors (the "Settlement Agreement"), in which they admitted to breaches of Ontario securities laws and/or conduct contrary to the public interest including, market manipulation through reporting inflated trading volumes on its Coinsquare Market, misleading its clients and investors about these trading volumes, and taking reprisal against an internal whistleblower who brought this conduct to the attention of the named executives and directors. The Order requires certain oversight and governance procedures and to prohibit the named executives and directors from engaging in certain activities with respect to Coinsquare; additionally, the named executives and directors were required to resign from Coinsquare and Coinsquare and the named executives and directors were required to pay penalties and costs totaling approximately CAD 2.2 million.

Accordingly, as of June 30, 2020, the Company determined there were indicators that would cause a 100% impairment of the Coinsquare investment and observed price changes. The Company therefore recorded an impairment expense of \$9.4 million for its investment in Coinsquare during the three and six months ended June 30, 2020, as reflected in the accompanying condensed consolidated statements of operations.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Verady

The investment in Verady, Inc. (“Verady”) is valued at cost, less any impairment, plus or minus changes resulting from observable price changes. During the six months ended June 30, 2020 the investment in Verady totaled approximately \$0.2 million, and the Company determined there were no indicators that would cause an impairment. There were no price changes in orderly transactions for identical or similar investments in Verady.

Tess

As of June 30, 2020 and December 31, 2019, the fair value of the TessPay Inc. shares owned by the Company is approximately \$0.1 million, calculated based upon the April 10, 2019 funding price.

Note 8. Stockholders’ Equity**At-the-Market Equity Offering:**

The Company entered into a Sales Agreement with H.C. Wainwright dated May 24, 2019, pursuant to which the Company may, from time to time, sell up to \$100 million in shares of the Company’s common stock through H. C. Wainwright, as the Company’s sales agent and/or principal, in the ATM Offering. All sales of the shares have been made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC. The Company pays H.C. Wainwright a commission of approximately 3.0% of the aggregate gross proceeds the Company received from all sales of the Company’s common stock under the Sales Agreement. The Company received proceeds on sales of 10,181,131 shares of common stock under the Sales Agreement of approximately \$14.6 million at a weighted average price of \$1.44 (excluding commissions and expenses of \$0.5 million) during the six months ended June 30, 2020.

Common Stock:

During the six months ended June 30, 2020, the 200,000 shares of common stock held in escrow under the Escrow Deposit Agreement were voided and cancelled. See Note 4.

During the six months ended June 30, 2020, 122,377 shares of common stock were issued to a Company executive under an employment agreement in settlement of \$75,000 of previously accrued compensation under the Company’s 2019 Riot Blockchain, Inc. Equity Incentive Plan (the “Equity Plan”), and 5,000 shares of common stock were issued in settlement of fully vested restricted stock rights previously granted and previously expensed under the Company’s 2017 Equity Incentive Plan.

During the six months ended June 30, 2020, 1,504,304 shares of common stock were issued to members of the Company’s board of directors and an employee of the Company in settlement of an equal number of fully vested restricted stock units awarded to such individuals by the Company pursuant to grants made under the Company’s Equity Plan. The Company withheld 136,405 of these shares at a fair value of approximately \$0.2 million, to cover the withholding taxes related to the settlement of these restricted stock units.

Note 9. Stock Options, Warrants and Restricted Common Stock**Stock based compensation:**

The Company’s stock-based compensation expenses recognized during the three and six months ended June 30, 2020 and 2019, were attributable to selling, general and administrative expenses, which are included in the accompanying unaudited condensed interim consolidated statements of operations.

The Company recognized total stock-based compensation expense during the three and six months ended June 30, 2020 and 2019, granted under the Equity Plan, from the following categories (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Restricted stock awards under the Plan	\$ 467	\$ 115	\$ 2,381	\$ 292
Stock option awards under the Plan	-	-	-	58
Total stock-based compensation	<u>\$ 467</u>	<u>\$ 115</u>	<u>\$ 2,381</u>	<u>\$ 350</u>

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Restricted common stock awards:

A summary of the Company's unvested restricted common stock awards activity in the six months ended June 30, 2020 is presented here:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2020	1,524,499	\$ 1.37
Vested	(1,755,403)	\$ 1.36
Granted	1,544,359	\$ 1.27
Unvested at June 30, 2020	<u>1,313,455</u>	<u>\$ 1.28</u>

On February 7, 2020, the Company issued 122,377 shares of common stock as disclosed above, and 5,000 vested restricted stock units to an officer of the Company pursuant to the Equity Plan.

On February 7, 2020, in relation to its amended and restated employment agreement with its Chief Executive Officer and Chief Financial Officer, the Company awarded 209,790 restricted common stock units, which vest in four equal quarterly installments, with each quarterly installment vesting as of the end of each quarter pursuant to the Equity Plan.

On February 27, 2020, for 2020 services the Company awarded 1,212,192 restricted common stock units vesting over a one-year period to directors and certain employees of the Company issued pursuant to the Equity Plan.

The total fair value of restricted stock rights granted during the six months ended June 30, 2020 was approximately \$0 million. The fair value of each restricted stock right was based upon the closing stock price on the grant date.

The fair value of restricted stock rights is measured based on their fair value on the date of grant and amortized over the vesting period of twelve to twenty-four months. As of June 30, 2020, there was approximately \$1.2 million of unrecognized compensation cost related to unvested restricted common stock awards, which is expected to be recognized over a remaining weighted-average vesting period of approximately four months.

Stock incentive plan options:

As of June 30, 2020, 12,000 stock options were outstanding under the Equity Plan, with a weighted average exercise price of \$4.09, and a weighted average remaining contractual term of approximately 3.2 years. The stock options are 100% vested with zero intrinsic value.

Other common stock purchase warrants:

Following is a summary of outstanding warrants that were issued outside of the Equity Plan for the six months ended June 30, 2020:

	Shares Underlying Options/Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	3,574,257	\$ 19.48	2.9	\$ -
Forfeited	(20,000)	\$ 3.50	-	-
Outstanding at June 30, 2020	<u>3,554,257</u>	<u>\$ 19.57</u>	<u>2.4</u>	<u>\$ 534,280</u>
Exercisable at June 30, 2020	<u>3,554,257</u>	<u>\$ 19.57</u>	<u>2.4</u>	<u>\$ 534,280</u>

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on June 30, 2020 and the exercise price, multiplied by the number of in-the-money warrants) that would have been received by the warrant holders, had all warrant holders exercised their warrants on June 30, 2020.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Note 10. Commitments and Contingencies

Commitments:

Coinmint Co-location Mining Services Agreement

On April 8, 2020, the Company entered into the Coinmint Agreement, pursuant to which Coinmint agreed to provide up to approximately 9.5 MW of power and to perform all maintenance necessary to operate Riot’s Miners at the Coinmint Facility. In exchange, Coinmint will be reimbursed for direct production expenses and receive a performance fee based on the net cryptocurrencies generated by Riot’s Miners deployed at the Coinmint Facility. Riot expects that the relocation to the Coinmint Facility will reduce its overhead and operating costs, increase the overall uptime of its Miners, and provide it with the opportunity to continue to expand its total hash rate capacity with potential access to additional MWs of power. The initial six (6) month term of the Coinmint Agreement expires on October 8, 2020, unless it is terminated earlier by Riot or Coinmint upon ninety (90) days’ notice to the other party. After the expiration of the initial term, the Coinmint Agreement automatically renews for subsequent three (3) month terms until terminated. The Company is currently discussing an amendment to the Coinmint Agreement to revise, among other provisions, the total available electricity power and the total number of Miners it may deploy at the Coinmint Facility under the Coinmint 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.

Oklahoma Lease Agreement

On January 8, 2020, Kairos entered into a third amendment to the OKC Lease to extend the lease term through May 15, 2020, with all other terms remaining substantially the same as the second amendment to the OKC Lease.

On April 10, 2020, Kairos entered into a fourth amendment to the OKC Lease to extend the lease term through June 30, 2020, with all other terms remaining substantially unchanged. During the three months ended June 30, 2020, the Company relocated its miners to the Coinmint facility and vacated the OKC facility. As of June 30, 2020, the Company has a refundable lease deposit of approximately \$0.7 million related to its OKC Lease which is included as prepaid expenses and other current assets on the accompanying condensed consolidated balance sheet. The OKC Lease terminated by its terms effective as of June 30, 2020, and the Company received a full refund of its deposit, less applicable electricity charges on July 2, 2020.

Corporate Lease Agreement

On April 9, 2018, the Company entered into a commercial lease agreement (the “Florida Lease”) with W-Crocker Fin Place Owner VII, LLC, a Delaware limited liability company, pursuant to which the Company leased approximately 1,700 rentable square feet of office and common area space in Fort Lauderdale, Florida. Pursuant to the terms of the Florida Lease, the initial term was for thirty-nine (39) months expiring on August 9, 2021, with one, five-year option to renew, and the initial base rent was \$4,659 per month (or \$2.75 per sq. ft. per month) which escalated at the rate of 3.0% per annum. Additionally, common operating expenses were prorated and charged monthly as additional rent.

During May 2020, an agreement was reached to terminate the Florida Lease, and the Company expensed the termination payments for the Florida Lease.

Operating Leases

At June 30, 2020, the Company did not have any significant operating lease liabilities or right of use assets.

The following summarizes quantitative information about the Company’s operating leases (dollars in thousands):

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Lease cost		
Operating lease cost	\$ 583	\$ 1,240
Variable lease cost	387	1,040
Operating lease expense	970	2,280
Short-term lease rent expense	5	9
Total rent expense	<u>\$ 975</u>	<u>\$ 2,289</u>
Other information		
Operating cash flows from operating leases	\$ 622	\$ 1,207
Right of use assets exchanged for new operating lease liabilities	\$ 281	-
Weighted-average remaining lease term – operating leases	-	-
Weighted-average discount rate – operating leases	0%	0%

Rent expense including electric power costs, recorded on a straight-line basis, was approximately \$1.0 million and \$1.5 million for the three months ended June 30, 2020 and 2019, respectively. Rent expense including electric power costs, recorded on a straight-line basis, was approximately \$2.3 million and \$2.8 million for the six months ended June 30, 2020 and 2019, respectively.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Contingencies:

The Company, and its subsidiaries, are 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 ordinary course of business are covered by the Company's insurance program. The Company maintains 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 current 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 consolidated 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 consolidated 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.

Shareholder Class Action Suit

On February 17, 2018, Creighton Takata filed an action asserting putative class action claims on behalf of the Company's stockholders in the United District Court for the District of New Jersey, *Takata v. Riot Blockchain Inc., et al.*, Case No. 3: 18-cv-02293. The complaint asserts violations of federal securities laws under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 on behalf of a putative class of stockholders that purchased stock from November 13, 2017 through February 15, 2018. The complaint alleges that the Company and certain of its officers and directors made, caused to be made, or failed to correct false and/or misleading statements in press releases and public filings regarding its business plan in connection with its cryptocurrency business. The complaint requests damages in unspecified amounts, costs and fees of bringing the action, and other unspecified relief.

On April 18, 2018, Joseph J. Klapper, Jr., filed a complaint against Riot Blockchain, Inc., and certain of its officers and directors in the United District Court for the District of New Jersey (*Klapper v. Riot Blockchain Inc., et al.*, Case No. 3: 18-cv-8031). The complaint contained substantially similar allegations and the same claims as those filed by Mr. Takata, and requests damages in unspecified amounts, costs and fees of bringing the action, and other unspecified relief. On November 6, 2018, the court in the Takata action issued an order consolidating Takata with Klapper into a single putative class action. The court also appointed Dr. Golovac as Lead Plaintiff and Motely Rice as Lead Counsel of the consolidated class action.

Lead Plaintiff filed a consolidated complaint on January 15, 2019. Defendants filed motions to dismiss on March 18, 2019. In lieu of opposing defendants' motions to dismiss, Lead Plaintiff filed another amended complaint on May 9, 2019. Defendants filed multiple motions to dismiss the amended complaint starting on September 3, 2019.

On April 30, 2020, the court granted the motions to dismiss, which resulted in the dismissal of all claims without prejudice. On June 1, 2020, Lead Plaintiff filed a motion for leave to file another amended complaint. The motion for leave to amend has been fully briefed and is pending before the court. If the court grants Lead Plaintiff leave to amend, defendants intend to continue to vigorously contest Lead Plaintiff's amended allegations. Because this litigation is still at this early stage, we cannot reasonably estimate the likelihood of an unfavorable outcome or the magnitude of such an outcome, if any.

Shareholder Derivative Cases

On April 5, 2018, Michael Jackson filed a shareholder derivative complaint on behalf of the Company in the Supreme Court of the State of New York, County of Nassau, against certain of the Company's officers and directors, as well as against an investor (*Jackson v. Riot Blockchain, Inc., et al.*, Case No. 604520/18). The complaint contains similar allegations to those contained in the shareholder class action complaints and seeks recovery for alleged breaches of fiduciary duty, unjust enrichment, waste of corporate assets, abuse of control and gross mismanagement. The complaint seeks unspecified monetary damages and corporate governance changes. At the last preliminary conference, the court adjourned the conference until September 23, 2020 in lieu of staying the action. Defendants do not anticipate any other activity on this case until the next preliminary conference.

On May 22, 2018, two additional shareholder derivative complaints were filed on behalf of the Company in the Eighth Judicial District Court of the State of Nevada in and for the County of Clark (*Kish v. O'Rourke, et al.*, Case No. A-18-774890-B & *Gaft v. O'Rourke, et al.*, Case No. A-18-774896-8). The two complaints make identical allegations, which are similar to the allegations contained in the shareholder class action complaints. The shareholder derivative plaintiffs also seek recovery for alleged breaches of fiduciary duty, unjust enrichment, waste of corporate assets, and aiding abetting a breach of fiduciary duty. The complaints seek unspecified monetary damages and corporate governance changes.

On September 24, 2018, the court entered an order consolidating the *Gaft* and *Kish* actions, which is now styled as *In re Riot Blockchain, Inc. Shareholder Derivative Litigation*, Case No. A-18-774890-B. The plaintiffs filed a consolidated complaint on March 15, 2019. The consolidated action has been temporarily stayed until the resolution of the motion(s) to dismiss in the securities class action pending in the United District Court for the District of New Jersey.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

On October 9, 2018, another shareholder derivative complaint was filed on behalf of the Company in the United District Court for the Eastern District of New York (*Rotkowitz v. O'Rourke, et al.*, Case No. 2:18-cv-05632). As with the other shareholder derivative actions, the shareholder plaintiff alleges breach of fiduciary duty, waste of corporate assets, and unjust enrichment against certain of the Company's officers, directors, and an investor. The complaint's allegations are substantially similar to those made in the other securities class action and shareholder derivative complaints filed in 2018. The complaint seeks unspecified monetary damages and corporate governance changes. The parties filed a motion with the court to temporarily stay this action until the resolution of the motion(s) to dismiss in the securities class action pending in the United District Court for the District of New Jersey. In response, the court dismissed the action without prejudice with leave to refile a complaint following the resolution of the motion(s) to dismiss in the securities class action pending in the United District Court for the District of New Jersey.

On October 22, 2018, another shareholder derivative complaint was filed on behalf of the Company in the United District Court for the Southern District of New York (*Finitz v. O'Rourke, et al.*, Case No. 1:18-cv-09640). The shareholder plaintiffs allege breach of fiduciary duty, waste of corporate assets, and unjust enrichment against certain of the Company's officers, directors, and an investor. The complaint's allegations are substantially similar to those made in the other securities class action and shareholder derivative complaints filed in 2018. The complaint seeks unspecified monetary damages and corporate governance changes. Upon the parties' stipulation, the court issued an order temporarily staying this action until the resolution of the motion(s) to dismiss in the securities class action pending in the United District Court for the District of New Jersey.

On December 13, 2018, another shareholder derivative complaint was filed on behalf of the Company in the United District Court for the Northern District of New York (*Monts v. O'Rourke, et al.*, Case No. 1:18-cv-01443). The shareholder plaintiffs allege claims for violation of Section 14(a) of the Securities Exchange Act of 1934, breach of fiduciary duties, unjust enrichment, waste of corporate assets, and aiding and abetting against certain of the Company's officers, directors, and an investor. The complaint's allegations are substantially similar to those made in the other securities class action and shareholder derivative complaints filed in 2018. The complaint seeks unspecified monetary damages and corporate governance changes. Upon the parties' stipulation, the court issued an order temporarily staying this action until the resolution of the motion(s) to dismiss in the securities class action pending in the United District Court for the District of New Jersey.

Defendants intend to vigorously contest plaintiffs' allegations in the shareholder derivative actions and plaintiffs' right to bring the action in the name of Riot Blockchain. But because this litigation is still at this early stage, we cannot reasonably estimate the likelihood of an unfavorable outcome or the magnitude of such an outcome, if any.

Indemnification Demands

On April 3, 2020, a complaint was filed against Riot Blockchain, Inc. ("Riot") by Barry C. Honig and GRQ Consultants, Inc. ("GRQ") in the United States District Court for the Southern District of New York, *Honig v. Riot Blockchain, Inc.*, Case No. 20-cv-02808-NRB. Mr. Honig and GRQ allege that Riot has failed to indemnify them pursuant to terms of the Securities Purchase Agreement ("SPA") and Registration Rights Agreement ("RRA"), both dated March 16, 2017. Mr. Honig and GRQ allege declaratory judgment and breach of contract claims, seeking fees and expenses they incurred in connection with litigation and a SEC investigation involving Riot. On July 9, 2020, Riot filed a motion to dismiss both of the claims, with briefing currently scheduled to be completed by August 24, 2020.

In addition to the suit filed by Mr. Honig and GRQ, other purported parties and beneficiaries of the SPA and RRA have also recently demanded indemnification from Riot related to the same litigation and SEC investigation. Riot believes that it does not owe an indemnification obligation to Mr. Honig, GRQ, or the other purported parties and beneficiaries of the SPA and RRA that have made an indemnification demand. Riot intends to vigorously contest Mr. Honig and GRQ claims, as well as the other demands for indemnification. Nevertheless, since this litigation and demands for indemnification are still in an early stage, we cannot reasonably estimate the likelihood of an unfavorable outcome or the magnitude of such an outcome, if any.

Kashwise Demand

On February 18, 2020, the Company received a demand letter from Kashwise Global Funding, Inc. ("Kashwise") for the payment of fees pursuant to an alleged arrangement between the Company and Kashwise in connection with the January 2019 private exempt offering of the Company's securities to a group of accredited investors (the "Kashwise Demand"). The Company timely responded to the Kashwise Demand; however, on April 13, 2020, Kashwise Global Funding Solutions, Inc. filed suit against the Company in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida (the "Kashwise Suit") alleging substantially similar claims as in the Kashwise Demand. The Company has removed the Kashwise Suit to Federal District Court in and for the Southern District of Florida. The Company intends to vigorously dispute the allegations made in the Kashwise Suit; however, because this litigation is still at this early stage, the Company cannot reasonably estimate the likelihood of an unfavorable outcome or the magnitude of such an outcome, if any.

SEC Subpoena and Other Matters

SEC Subpoena

On April 9, 2018, the Company received a subpoena from the SEC, requesting documents and information. The Company fully cooperated with the SEC in that investigation. On January 29, 2020, the SEC notified the Company that it had concluded its investigation as to Riot, and based on the information the SEC had as of the date of the letter, it did not intend to recommend an enforcement action against Riot.

Beneficial Ownership

Pursuant to the rules of the SEC, the Company has consistently reported its beneficial ownership positions in its proxy and other filings where beneficial ownership disclosures are presented, for certain beneficial owners with respect to any person (including any “group” as that term is used in Section 13(d)(3) of the Securities and Exchange Act of 1934 (the “Exchange Act”) who is known to the Company to be the beneficial owner of more than 5% of the Company’s common stock. The Company has relied on each person who has reported to the SEC beneficial ownership of more than 5% of our common stock to provide complete and accurate information regarding their ownership, based on the reports filed by these persons.

Riot Blockchain, Inc. and Subsidiaries
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

On September 7, 2018, a complaint was filed by the SEC (Case 1:18-cv-08175) and as subsequently amended, (the “Complaint”) against, among others, a number of individuals and entities some of whom the Company has previously disclosed as its beneficial owners, as well as, Mr. John O’Rourke III, the Company’s former chairman of the board of directors and chief executive officer who resigned from the Company on September 8, 2018, as disclosed in the Current Periodic Report on Form 8-K filed September 10, 2018. Other persons named in the Complaint have previously reported that they were beneficial owners of the Company’s common stock, however, the Company has no basis to determine whether any such persons may have operated as a control group, collectively beneficially owning more than 5% of the Company’s common stock.

Registration Rights Penalty

During December 2017, the Company closed on the sale of approximately \$37 million of units comprised of 1,646,113 shares of its common stock and warrants to purchase up to 1,646,113 shares of its common stock (the “Units”) in a private exempt offering (the “December 2017 Private Placement”) to certain accredited investors (the “December 2017 Investors”), as previously disclosed by the Company on its Current Report on Form 8-K filed with the SEC on December 19, 2017. In connection with the December 2017 Private Placement, the Company entered into registration rights agreements (the “December 2017 Registration Rights Agreements”) with the December 2017 Investors, pursuant to which the Company agreed to take certain steps to register the shares underlying the Units. The Company accounted for the December 2017 Registration Rights Agreements in accordance with ASC 825-20, “Registration Payment Arrangements.” ASC 825-20 addresses an issuer’s accounting for registration payment arrangements and, in accordance with ASC 450-20 “Loss Contingencies,” the Company recorded approximately \$1,358,000 for this contingent liability in 2018.

On January 5, 2018, pursuant to December 2017 Registration Rights Agreements, the Company filed a registration statement on Form S-3 to register the shares underlying the Units.

Subsequently, in April 2018, the Company received a subpoena from the SEC as part of an investigation, requesting documents and information. In July 2018, the SEC issued an Order Directing Examination and Designating Officers Pursuant to Section 8(e) of the Securities Act with respect to certain of the Company’s registration statements, including the registration statement on Form S-3 it filed pursuant to the December 2017 Registration Rights Agreements. On October 12, 2018, the Company filed for withdrawal of this registration statement on Form S-3, as well as other of its registration statements. On October 22, 2018, the Company was notified by SEC staff that the SEC had terminated the Section 8(e) examination with respect to the above-referenced registration statements. On January 29, 2020, the SEC notified the Company that it had concluded its investigation as to Riot, and based on the information the SEC had as of the date of the letter, it did not intend to recommend an enforcement action against Riot.

Following the conclusion of the SEC’s activities as described above, the Company has evaluated its performance of its obligations under the December 2017 Registration Rights Agreements and has determined that it substantially complied with its requirements, and that its ultimate inability to cause the registration of the shares underlying the Units as required by the December 2017 Registration Rights Agreements was due to actions taken by the SEC. The Company has therefore determined to reverse the accrual pursuant to ASC 450-20 related to the December 2017 Registration Rights Agreements for its condensed consolidated financial statements as of June 30, 2020.

Note 11. Subsequent Events:

Financing

Subsequent to June 30, 2020, in connection with the Company’s Sales Agreement with H.C. Wainwright, the Company received gross proceeds of approximately \$29.7 million from the sale of approximately 10.8 million shares of common stock via the ATM Offering.

Common Stock

On July 16, 2020, the Company issued 10,378 shares of its common stock to an advisor in settlement of fully vested restricted stock units granted to the advisor under its Equity Plan.

Miners

As previously reported, on July 16, 2020, the Company received 1,000 of the new S19 Pro Miners it purchased from Bitmain at the Coinmint Facility and, on July 21, 2020, the Company received an additional 432 next generation Bitmain Antminer S19 Miners at the Coinmint Facility. As previously disclosed, the Company expects the balance of the 1,000 Bitmain Antminer S19 Pro Miners to be delivered to the Coinmint Facility in the early fourth quarter of 2020.

Sale of Cryptocurrencies

Subsequent to June 30, 2020, the Company sold 100 bitcoins generating total cash proceeds of approximately \$1 million.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes in "Item 1. Condensed Interim Consolidated Financial Statements." The following discussion includes forward-looking statements about our business, financial condition and results of operations, including discussions about management's expectations for our business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and should not be construed either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors are likely to cause our actual performance and management's actions to vary, and the results of these variances may be both material and adverse. See "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A. Risk Factors."

Overview

The Company is one of the few Nasdaq-listed public cryptocurrency mining companies in the United States. The Company's current focus is on its cryptocurrency mining operation, and during the six months ended June 30, 2020, it completed a full network upgrade of its Miners with the objective to increase the Company's operational efficiency and performance.

In December 2019, Riot procured 4,000 Bitmain Antminer S17 Pro Miners from Bitmain, which were fully deployed at its former Oklahoma City, Oklahoma mining facility (the "OKC Facility"), increasing Riot's overall hash rate capacity to approximately 240 petahash per second ("Ph/s") in the first quarter of 2020. Subsequently, Riot purchased 1,040 Bitmain Antminer S19 Miners and 2,000 S19 Pro Miners from Bitmain during the second quarter of 2020. Once all 1,040 Bitmain S19 Miners and 2,000 S19 Pro Miners are received and deployed along with its existing 4,000 S17 Pro Miners, Riot estimates that its aggregate hash rate capacity will be approximately 566 Ph/s, representing a 460% increase over the Company's 2019 hash rate capacity. Riot plans to continue increasing its aggregate hash rate capacity, with the goal of exceeding 1 exahash per second ("Eh/s") in early 2021.

After evaluating the power costs and the environmental operating issues at the OKC Facility, the Company made the strategic decision to exit the OKC Facility and relocate its Miners to the Coinmint Facility. During the second quarter of 2020, Riot relocated its mining operations to the Coinmint Facility for a number of benefits, the largest of which was to reduce overhead and take advantage of the more competitive electricity costs in the New York ISO market.

Management's strategic plans include the following:

- continuing expansion of cryptocurrency mining operations relative to the price of cryptocurrencies;
- continuing to evaluate opportunities for acquisitions in the blockchain and cryptocurrency sector;
- exploring other possible strategic options and financing opportunities available to the Company;
- evaluating options to monetize, partner or license the Company's assets; and
- continuing to implement cost control initiatives to conserve cash.

Hosting Agreement

On April 8, 2020, the Company entered into the Coinmint Agreement with Coinmint for co-location mining services at the Coinmint Facility. Coinmint operates one of the largest digital currency data centers in North America and the Company believes this co-locating mining services arrangement can positively impact its power costs, and to eliminate the heat and environmental operating issues the Company faced at its former OKC Facility. The Company believes the Coinmint Agreement offers a cost-effective solution to the Company's mining needs, and the Coinmint Facility has sufficient capacity and available electric power to allow the Company to potentially continue expand its total hash rate capacity beyond its current targets.

Strategic Opportunities

The Company engaged XMS Capital Partners (“XMS”) to assist with evaluating strategic growth opportunities. XMS is an independent global financial services firm with expertise in M&A and strategic advisory. The Company engaged XMS to help with navigating the dynamic bitcoin landscape and advise the Company on potential strategic transactions in bitcoin mining related operations. The Company does not have a defined timeline for any transaction and cannot provide any assurance whether or when a transaction may be announced or consummated.

COVID-19

The COVID-19 global pandemic has been unpredictable and unprecedented and is likely to continue to result in significant national and global economic disruption, which may adversely affect our business. Based on the Company’s current assessment, however, the Company does not expect any material impact on its long-term development, its operations, or its liquidity due to the worldwide spread of the COVID-19 virus. However, the Company is actively monitoring this situation and the possible effects on its financial condition, liquidity, operations, suppliers, and industry.

Summary of Mining Results

The following table presents additional information about our cryptocurrency mining activities in coins and amounts (\$ in thousands) at January 1, 2020 and June 30, 2020:

	Quantities (in coins)			Cryptocurrencies
	BTC	LTC	BCH	Amounts
Balance at January 1, 2020	514	3,449	1	\$ 3,839
Revenue recognized from cryptocurrencies mined	508	21	-	4,280
Mining pool operating fees	-	-	-	(64)
Realized gain on exchange of cryptocurrencies	26	(3,471)	-	106
Impairment of cryptocurrencies	-	-	-	(989)
Cryptocurrencies received from sale of equipment	5	-	-	52
Balance at June 30, 2020	1,053	-	1	\$ 7,224

Results of Operations

Comparative Results for the Three Months Ended June 30, 2020 and 2019

Revenue for the three months ended June 30, 2020 and 2019, consisted of our cryptocurrency mining revenue of \$1.9 million, and \$2.4 million, respectively. The change in mining revenue was due to higher bitcoin values in the 2020 period, averaging \$8,305 per coin as compared to \$7,185 per coin in the 2019 period. Bitcoins produced in 2020 totaled 228 as compared to 316 in the 2019 period. The 2020 period production was also impacted by the May 2020 halving combined with the relocation of the Miners to the Coinmint Facility. During the 2020 period, we commenced mining with the 4,000 new more powerful S17 Pro Miners we acquired from Bitmain in December 2019, as compared to the older Bitmain Antminer S9 Miners previously used in 2019. Other revenue consisting of license fees was not significant in either period.

Cost of revenue for the three months ended June 30, 2020 and 2019 of \$1.4 million and \$1.6 million, respectively, consisted primarily of direct production costs of the mining operations, including rent and utilities, but excluding depreciation and amortization which are separately stated. There were no significant changes in cost of revenue between the periods ended 2020 and 2019. During the 2020 period there were certain duplicated or excess costs, including the base rent for our OKC Facility as a result of the relocation of Miners from the OKC Facility to the Coinmint Facility.

Selling, general and administrative expenses in the three months ended June 30, 2020 and 2019, totaled \$2.2 million in each period, respectively. Selling, general and administrative expenses consists of stock-based compensation, legal and professional fees and other personnel and related costs. During the 2020 period as compared to the 2019 period, stock-based compensation increased by \$0.4 million following the late 2019 approval of the new equity plan and legal fees decreased by \$0.3 million due primarily to the termination of the SEC investigation.

Depreciation and amortization expenses during the three months ended June 30, 2020 totaled \$0.8 million, which is an increase of approximately \$0.8 million, as compared to the three months ended June 30, 2019. The increase is primarily due to higher depreciation expenses recognized for our recently acquired cryptocurrency machines.

Impairment of long-term investments of \$9.4 million recognized during the three months ended June 30, 2020 was recorded in connection with the impairment of our investment in Coinsquare”). As discussed in Note 7, Investments, to Part I, Item 1, of this Quarterly Report, the Company recorded this 100% impairment as a result of the OSC Order and Settlement Agreement in which Coinsquare and certain of its executives and directors admitted to violations of Ontario securities laws and / or conduct contrary to the public interest in connection with their operation of the Coinsquare Market.

During the three months ended June 30, 2020, we recognized income of approximately \$1.4 million in connection with the reversal of our registration rights penalty.

During the three months ended June 30, 2019, we recognized expenses totaling \$2.4 million to revalue our Senior Secured Convertible Notes (the “Notes”) and the related warrant liability to fair value at June 30, 2019. No such expense was recognized in the period ended June 30, 2020.

Interest income and interest expense was nominal for the three months ended June 30, 2020 and 2019.

There was no gain on exchange of cryptocurrencies for the three months ended June 30, 2020. For the three months ended June 30, 2019 the gain on sale of cryptocurrencies was approximately \$0.6 million.

Other income for the three months ended June 30, 2020 was nominal. Other income for the three months ended June 30, 2019 was \$0.7 million arising from the gain on extinguishment of debt.

Comparative Results for the Six Months Ended June 30, 2020 and 2019

Revenue for the six months ended June 30, 2020 and 2019, consisted of our cryptocurrency mining revenue of \$4.3 million, and \$3.8 million, respectively. The change in mining revenue was primarily due to higher bitcoin values in the 2020 period, averaging \$8,295 per coin as compared to \$5,453 per coin in the 2019 period. Bitcoins produced in 2020 totaled 508 as compared to 646 in the 2019 period. The 2020 period production was also impacted by the May 2020 halving combined with the relocation to Coinmint. During the 2020 period we commenced mining with the new Bitmain Antminer S17 Miners as compared to the S9 older Miners used in 2019. Other revenue consisting of license fees was not significant in either period.

Cost of revenue for the six months ended June 30, 2020 and 2019 of \$2.8 million and \$3.1 million, respectively, consisted primarily of direct production costs of the mining operations, including rent and utilities, but excluding depreciation and amortization which are separately stated. There were no significant changes in cost of revenue between the periods ended 2020 and 2019. During the 2020 period there were certain duplicated or excess costs, including the base rent for our OKC Facility as a result of the relocation from OKC to Coinmint.

Selling, general and administrative expenses in the six months ended June 30, 2020 totaled \$6.0 million, which is approximately \$0.6 million, or an 11% increase, as compared to \$5.4 million in the 2019 period. Stock-based compensation increased by approximately \$2.0 million for the six months ended June 30, 2020, as compared to the 2019 period. Legal fees decreased approximately \$0.7 million due to additional legal matters associated with the litigation and SEC investigation matters in the 2019 period. Audit fees decreased approximately \$0.3 million for the period ended June 30, 2020. Compensation related expense decreased by approximately \$0.6 million due primarily to reduced personnel in the period ended June 30, 2020 and the compensation expense reported for Tess in the 2019 period, which in 2020 is no longer reported in our consolidated financial statements.

Depreciation and amortization expenses during the six months ended June 30, 2020 totaled \$1.5 million, which is an increase of approximately \$1.4 million, as compared to the six months ended June 30, 2019. The increase is primarily due to higher depreciation expenses recognized for our recently acquired cryptocurrency machines.

Impairment of long-term investments of \$9.4 million recognized during the six months ended June 30, 2020 were recorded in connection with the impairment of our investment in Coinsquare. As discussed in Note 7, Investments, to Part I of this Quarterly Report, the Company recorded this 100% impairment as a result of the OSC Order and Settlement Agreement in which Coinsquare and certain of its executives and directors admitted to violations of Ontario securities laws and conduct contrary to the public interest in connection with their operation of the Coinsquare Market.

Impairment charges for cryptocurrencies was \$1.0 million for the six months ended June 30, 2020, which was recorded to recognize an impairment of our cryptocurrencies during the period.

During the six months ended June 30, 2020, we recognized income of approximately \$1.4 million in connection with the reversal of our registration rights penalty.

During the six months ended June 30, 2019, we recognized losses related to the issuance of the Notes totaling \$6.2 million. We also recognized expenses totaling \$6.8 million to revalue the Notes and the related warrant liability to fair value at June 30, 2019. No such expense was recognized in the period ended June 30, 2020.

For the six months ended June 30, 2020 and 2019, interest income and interest expense was nominal.

For the six months ended June 30, 2020 we recorded a gain on exchange of cryptocurrencies of approximately \$0.1 million. For the six months ended June 30, 2019 the gain on sale of cryptocurrencies was \$0.6 million.

Other income for the six months ended June 30, 2020 was nominal. Other income for the six months ended June 30, 2019 was \$0.8 million arising from the gain on extinguishment of debt.

Liquidity and Capital Resources

At June 30, 2020, we had working capital of approximately \$15.9 million, which included cash and cash equivalents of \$9.1 million. We reported a net loss of \$14.9 million, during the six months ended June 30, 2020. The net loss included \$13.4 million in non-cash items consisting of the impairment of our investment in Coinsquare of \$9.4 million, stock-based compensation totaling \$2.4 million, impairment to our cryptocurrencies of \$1.0 million, depreciation and amortization totaling \$1.5 million, and amortization of our right of use assets of \$0.6 million, offset by \$1.4 million for the reversal of our accrual for the registration rights penalty and \$0.1 million related to the gain from the exchange of cryptocurrencies, net of other immaterial items. Subsequently, the Company received gross proceeds of approximately \$29.7 million from the sale of approximately 10.8 million shares of common stock via the ATM Offering and approximately \$1 million from the sale of 100 bitcoins. Accordingly, as of the date of this Quarterly Report, the Company has cash and cash equivalents of approximately \$48 million.

We expect to continue to incur losses from operations for the near-term and these losses could be significant as we incur costs and expenses associated with recent and potential future acquisitions, as well as public company, legal and administrative related expenses being incurred. We are closely monitoring our cash balances, cash needs and expense levels.

Halving

Further affecting the industry, and particularly for the bitcoin blockchain, the cryptocurrency reward for solving a block is subject to periodic incremental halving. Halving is a process designed to control the overall supply and reduce the risk of inflation in cryptocurrencies using a Proof-of-Work consensus algorithm. At a predetermined block, the mining reward is cut in half, hence the term “halving”. For bitcoin, the reward was initially set at 50 bitcoin currency rewards per block and this was cut in half to 25 on November 28, 2012 at block 210,000 and again to 12.5 on July 9, 2016 at block 420,000. Halving of bitcoin occurred May 11, 2020 at block 630,000 when the then current 12.5 reward reduced to 6.25. Many factors influence the price of bitcoin and potential increases or decreases in prices in advance of or following a future halving is unknown.

Revenue from Mining Operations

Funding our operations on a go-forward basis will rely significantly on our ability to continue to mine cryptocurrency and the spot or market price of the cryptocurrency we mine. We expect to generate ongoing revenues from the production of cryptocurrencies, primarily bitcoin, in our mining facilities. Our ability to liquidate bitcoin at future values will be evaluated from time to time to generate cash for operations. Generating bitcoin, for example, which exceed our production and overhead costs will determine our ability to report profit margins related to such mining operations, although accounting for our reported profitability is significantly complex. Furthermore, regardless of our ability to generate revenue from our cryptocurrency assets, we may need to raise additional capital in the form of equity or debt to fund our operations and pursue our business strategy.

The ability to raise funds as equity, debt or conversion of cryptocurrency to maintain our operations is subject to many risks and uncertainties and, even if we were successful, future equity issuances would result in dilution to our existing stockholders and any future debt or debt securities may contain covenants that limit our operations or ability to enter into certain transactions. Our ability to realize revenue through bitcoin production and successfully convert bitcoin into cash or fund overhead with bitcoin is subject to a number of risks, including regulatory, financial and business risks, many of which are beyond our control. Additionally, the value of bitcoin currency rewards has been extremely volatile recently and such volatility has recently been lower and future prices cannot be predicted.

If we are unable to generate sufficient revenue from our bitcoin production when needed or secure additional sources of funding, it may be necessary to significantly reduce our current rate of spending or explore other strategic alternatives.

Coverage for Claims

The Company has been named a defendant in a class action suit, which has recently been dismissed, but is subject to appeal by the plaintiffs and other investor related lawsuits as more fully described in Part II – Item 1. Legal Proceedings, of this Quarterly Report. While the Company maintains policies of insurance, such policies may not cover all of the costs or expenses associated with responding to such matters or any liability or settlement associated with any lawsuits and are subject to significant deductible or retention amounts.

At-the-Market Offering

The Company entered into a Sales Agreement with H.C. Wainwright & Co., LLC (“H.C. Wainwright”) dated May 24, 2019 (the “Sales Agreement”), pursuant to which the Company may, from time to time, sell up to \$100.0 million in shares of the Company’s common stock through H.C. Wainwright, acting as the Company’s sales agent and/or principal, in a continuous at-the-market offering (“ATM Offering”). All sales of the shares in connection with the ATM Offering have been made pursuant to an effective shelf registration statement on Form S-3 filed with the U.S. Securities and Exchange Commission (“SEC”). The Company pays H.C. Wainwright a commission of approximately 3.0% of the aggregate gross proceeds the Company received from all sales of the Company’s common stock under the Sales Agreement. The Company received proceeds on sales of 10,181,131 shares of common stock under the Sales Agreement of approximately \$14.6 million (excluding commissions and expenses of \$0.5 million) at a weighted average price of \$1.44 during the six months ended June 30, 2020.

Operating Activities

Net cash used in operating activities was \$10.9 million during the six months ended June 30, 2020. Cash was consumed from continuing operations by the loss of \$14.9 million, less non-cash items of \$13.4 million, consisting of the impairment of our investment in Coinsquare totaling \$9.4 million, stock-based compensation totaling \$2.4 million, impairment to our cryptocurrencies of \$1.0 million, depreciation and amortization totaling \$1.5 million, and amortization of our right of use assets of \$0.6 million, offset by, \$1.4 million for the reversal of our accrual for the registration rights penalty and \$0.1 million related to the gain from the exchange of cryptocurrencies, net of other immaterial items. Cryptocurrencies increased by \$4.2 million and prepaid expenses and other current assets decreased \$1.2 million, offset by, a decrease in our lease liability of \$0.6 million and a decrease in accounts payable and accrued expenses of \$0.1 million.

Net cash used in operating activities was \$8.2 million during the six months ended June 30, 2019. Cash was consumed from continuing operations by the loss of \$15.0 million, less non-cash items of \$11.8 million, consisting of a loss on the issuance of our convertible notes of \$6.2 million, the change in fair value of our convertible notes and the related warrant liability of \$6.8 million, amortization of our right of use assets of \$1.1 million, stock-based compensation totaling \$0.4 million, and depreciation and amortization totaling \$47,000, offset by a \$1.1 million gain recognized on the deconsolidation of Tess, a gain on extinguishment of notes, interest and accounts payable totaling \$0.8 million, the amortization of license fee revenue totaling \$48,000 and a gain from the sale of our digital currencies of \$0.6 million. Digital currencies increased by \$3.8 million, offset by, a decrease in the lease liability of \$1.2 million, a decrease in accounts payable and accrued expenses of \$1.0 million, and a decrease in prepaid expenses and other current assets of \$0.9 million, primarily due to the amortization of our directors and officers life insurance premiums.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2020 was \$6.9 million, consisting of deposits on equipment of \$5.5 million, purchases of property and equipment of \$1.4 million, offset by proceeds received from the sale of property and equipment of \$0.1 million.

Net cash provided by investing activities during the six months ended June 30, 2019 was \$3.2 million, primarily consisting of proceeds from the sale of digital currencies of \$3.2 million.

Financing Activities

Net cash provided by financing activities was \$13.9 million during the six months ended June 30, 2020, which consisted of net proceeds from the issuance of our common stock in connection with our ATM Offering of \$14.1 million, offset by the repurchase of common stock to pay director and employee withholding taxes of \$0.2 million.

Net cash provided by financing activities was \$20.9 million during the six months ended June 30, 2019, which consisted of net proceeds from the issuance of our common stock in connection with our ATM Offering of \$18.9 million, the proceeds received from the issuance of our Notes and Warrants of \$3.0 million, offset by the repayment of the principal balance related to our agreement with BMSS of \$1.0 million, net of the \$0.3 million gain recorded on extinguishment of the notes principal balance.

Critical Accounting Policies and Significant Judgments and Estimates

Our critical accounting policies and significant estimates are detailed in our 2019 Annual Report. Our critical accounting policies and significant estimates have not changed from those previously disclosed in our 2019 Annual Report, except for those accounting subjects mentioned in the section of the notes to the condensed interim consolidated financial statements titled Recently Issued and Adopted Accounting Pronouncements.

Recently issued and adopted accounting pronouncements

The Company has evaluated all recently issued accounting pronouncements and believes such pronouncements do not have a material effect on the Company's financial statements. See Note 3 of the condensed interim consolidated financial statements at June 30, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for a Smaller Reporting Company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer) as appropriate, to allow timely decisions regarding required disclosures. Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2020, pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, the Company's disclosure controls and procedures were not effective due to material weaknesses in internal control over financial reporting as described below.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, our principal executive and principal financial and accounting officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2020. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Based on our assessment, as of June 30, 2020, we concluded that our internal control over financial reporting are not effective due to the following material weaknesses identified:

- 1) The Company did not design and/or implement user access controls to ensure appropriate segregation of duties that would adequately restrict user and privileged access to the financially relevant systems and data to the appropriate Company personnel.
- 2) The Company did not design and implement program change management controls for certain financially relevant systems to ensure that IT program and data changes affecting the Company's (i) financial IT applications, (ii) digital currency mining equipment, (iii) digital currency hardware wallets, and (iv) underlying accounting records, are identified, tested, authorized and implemented appropriately to validate that data produced by its relevant IT system(s) were complete and accurate. Such data is relied on by the Company in recording amounts pertaining to revenue and cryptocurrency assets.
- 3) The Company did not properly design or implement controls to ensure that data received from third parties is complete and accurate. Such data is relied on by the Company in determining amounts pertaining to revenue and cryptocurrency assets is complete and accurate.
- 4) The Company did not properly design or implement controls to ensure proper segregation of duties exist as it pertains to the ability to make electronic cash disbursements.

Remediation

Our management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include: (i) creating and filling an information technology compliance oversight function; (ii) developing a training program addressing Information Technology General Controls (“ITGC”) and policies, including educating control owners concerning the principles and requirements of each control, with a focus on those related to user access and change-management over information technology systems impacting financial reporting; (iii) developing and maintaining documentation underlying ITGCs to enhance control knowledge across the entire IT organization; (iv) developing enhanced risk assessment procedures and controls related to changes in information technology systems; (v) implementing an information technology management review and testing plan to monitor ITGCs with a specific focus on systems supporting our financial reporting processes; and (vi) enhanced quarterly reporting on the remediation measures to the Audit Committee of the Company’s Board of Directors.

Modifications to the authorized signers and access to complete electronic funds transfers from the Company’s bank accounts were made in July 2020 and August 2020. These modifications enhance segregation of duties relating to the execution and recording of cash transactions. Due to these enhancements, we believe the related material weakness will be considered remediated as of September 30, 2020.

We believe that these actions will remediate the material weaknesses. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and our management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the three months ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Disclosure under this Item is incorporated by reference to the disclosure provided in this report under Part I, Item 1., Financial Statements in Note 10, commitments and contingencies.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors discussed under the heading “Risk Factors” included in Part I, Item 1A of our 2019 Annual Report, and those disclosed under Part II, Item 1A of our Quarterly Report for the period ended March 31, 2020, filed on May 5, 2020 (the “Q1 2020 Quarterly Report”), as well as those we may disclose in subsequent filings with the SEC. For the period ended June 30, 2020, there have been no material changes to those risk factors disclosed in our 2019 Annual Report and Q1 2020 Quarterly Report.

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

None.

Item 3. Defaults Upon Senior Securities

N/A – none.

Item 4. Mine Safety Disclosures

N/A – none.

Item 5. Other Information

N/A – none.

Item 6. Exhibits

EXHIBIT DESCRIPTION

10.	<i>Material Contracts.</i>
10.01	Third Amendment to Lease, dated as of January 8, 2020, by and between Kairos Global Technologies, Inc. and 7725 Reno#1, L.L.C. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed January 13, 2020)
10.02	Amended and Restated McGonegal Employment Agreement by and between Riot Blockchain, Inc. and Jeffrey G.McGonegal, dated as of February 7, 2020. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed February 11, 2020)
10.03	Coinmint Co-Locating Mining Services Agreement by and between Riot Blockchain, Inc. and Coinmint, LLC, dated effective as of April 8, 2020. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed April 14, 2020)
10.04	Fourth Amendment to Lease, dated effective as of April 10, 2020, by and between Kairos Global Technologies, Inc. and 7725 Reno #1, L.L.C. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed April 20, 2020)
10.05	Sale and Purchase Agreement by and between Bitmaintech PTE, LTD. and Riot Blockchain, Inc. dated as of April 28, 2020. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed May 5, 2020)

EXHIBIT	DESCRIPTION
10.06	Sale and Purchase Agreement by and between Bitmaintech PTE, LTD and Riot Blockchain, Inc., dated as of May 6, 2020(Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed May 12, 2020)
10.07	Sale and Purchase Agreement by and between Bitmaintech PTE, LTD and Riot Blockchain, Inc., dated as of June 1, 2020(Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed June 5, 2020)
31.	<i>Certifications.</i>
31.1	Rule 13a-14(a)/15d-14(a) - Certification of Chief Executive Officer and Chief Financial Officer.*
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer furnished herewith Pursuant to 18 U.S.C.Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows and (iv) the Notes to Condensed Interim Consolidated Financial Statements. *
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Castle Rock, Colorado on August 10, 2020.

Riot Blockchain, Inc.
(Registrant)

Dated: August 10, 2020

/s/ Jeffrey G. McGonegal
Jeffrey G. McGonegal
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

CERTIFICATION

I, Jeffrey G. McGonegal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Riot Blockchain, Inc. for the quarter ended June 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2020

/s/ Jeffrey G. McGonegal
Jeffrey G. McGonegal
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

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

In connection with this Quarterly Report on Form 10-Q, (the "Report") of Riot Blockchain, Inc. (the "Company") for the quarter ended June 30, 2020, the undersigned, Jeffrey G. McGonegal, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 10, 2020

/s/ Jeffrey G. McGonegal

Jeffrey G. McGonegal, Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)