

MGTCI Q3 2018 Investor Update Call Transcript

Operator: Good day everyone and welcome to today's quarterly investor update conference call. At this time all participants are in a listen only mode. Later you will have the opportunity to ask questions during the question and answer session.

Please note, this call may be recorded. I will be standing by should you need any assistance. It is now my pleasure to turn today's conference over to Robert Lowrey, Chief Financial Officer. Please go ahead.

Robert Lowrey: Good morning and welcome to MGT's Third Quarter 2018 Investor Update call. Joining me is Steve Schaeffer, MGT's Chief Operating Officer. Bob Holmes, our interim president and CEO was unable to join due to an unexpected conflict. However, due to the timing of our filing and the short week given Thanksgiving, we thought it prudent to have the call this morning.

The agenda for today's call is for Mr. Schaeffer to give an overview of the Company's status and business to date. I will then discuss financial highlights of the Company for the third quarter and year to date period. Then, we will hold a Q&A session.

Prior to starting the call, I'd like to read the following forward-looking disclaimer. During the call we may make forward-looking statements about our future financial performance and other future events or trends. These statements are only predictions that are based on what we believe today and actual results may differ materially.

These forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that could affect our financial results, and the performance of our business; which we discuss in detail in our filings with the SEC, including today's earnings release, the risk factors, and other information contained in our most recently filed Forms 10K, 10Q, and AK.

MGT Capital Investments assumes no obligation to update any forward-looking statements we may make on today's call. With that said, I'll turn the call over to Mr. Schaeffer.

Stephen Schaeffer: Thanks Rob. Good morning everyone. My comments on this quarter are going to be pretty short and to the point. As you all know, we're in the process of making our transition from our facility in Sweden to our new location, which we're pretty excited about, and which is in Colorado Springs, Colorado.

The status of that transition right now is on time for us to stop mining as

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we've stated in the prior press release by the end of December. Our crews are out in Sweden at this time. We're packing and palletizing over 250 pallets of miners. As everyone knows, we had over 6,000 miners out there on location. It's quite a task.

Considering the minimal amount of labor, which is in the northern part of Sweden at this time of year, it becomes a pretty long and arduous task. However, we will accomplish this on time. We will meet our stated goals of continuing our mining at full power in our new Colorado location by the end of December.

I'd like to speak a little bit about the timing of this move. Considering the situation, we had out there where there was a lawsuit from the energy company against the hosting center that we were dealing with, the power set to be turned off, this was kind of forced upon us as a corporate decision to make a move.

We thought about the timing of it. We felt that we had an extended time period whereby Bitcoin economics might suffer. The language coming from analysts and technicians were pretty negative. The overall sentiment regarding Bitcoin and crypto in general was negative at that time.

We felt that coupled with – were delays in the new machines coming to the market. We felt we had a window that would be two to three months to be able to make this transition without suffering any economic losses. In fact, that did play out to be the case here and in this transition.

Because frankly at the price that we have right now, the low 4,000s, we would be mining at a loss out in our facility in Sweden. With that being said, I want shareholders to know that we did not suffer negative revenue and any losses by taking this action and making this move.

I think it's a critical step in our growth going forward; and giving the Company an opportunity to reassert ourselves in 2019, when hopefully Bitcoin itself gets itself back on more solid footing as one of the largest, and most profitable miners. With that being said, I'd like to talk a little bit about the facility out in Colorado Springs.

This is a pretty famous or notable former Intel chip production plant. In total, there are about 600,000 square feet and upwards of 85 to 90MW of power currently feeding the location. In our case, we were lucky enough to find what we felt was a perfect fit for our short-term needs, which was about 10MW.

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The 10MW that we are going to have will be in a standalone building, which will be independently metered. It gives us the security of having a private location within the campus of the Garden of the Gods in Colorado Springs. It will allow us to have our own little 10MW location within the larger campus.

However more importantly, as I mentioned, there are currently about 40MW available from this hosting partner at this time and upwards of another 40MW available through 2019. As you can see, this location will provide us with an excellent opportunity for growth, if the company moves forward with our 2019 plans for growth.

The new machines come out and the more efficient hardware comes to market, and it becomes more cost effective. I think this will give us a great opportunity for expansion. That's really where our mindset is.

I think everybody in the Bitcoin world has kind of been either taken by shock by the Bitcoin pricing; or more importantly in our case, the decrease in profitability to Bitcoin mining. Bitcoin mining, everybody probably has an idea that the profitability from peak to current.

Today's profitability is down well over 95 percent at this point. I think we all, at this point have to take a step back. Everybody within the mining community has to sit down and re-evaluate ourselves, and decide. What are our growth plans for 2019?

Position ourselves for what we all feel will be a rebound in crypto. I personally feel that it's inevitable that we're going to see greater adoption and inflation in the Bitcoin underlier as there has been over \$5.5 billion to date invested into Bitcoin, cryptocurrency, and blockchain technologies. Most of that money has come in the last year and a half from large institutions. The greater adoption of these institutions will drive more global acceptance and global use cases.

With that being said, I fully believe we have to position ourselves. Do what we need to do as a company to have ourselves uniquely positioned with a strong balance sheet to move forward and take advantage of the opportunities; and to move quickly and swiftly as the opportunities present themselves. To buy discounted hardware, as well as to expand in an expeditious manner, if and when we see the economics are improving.

That's our mindset. Our mindset is looking forward to 2019. I'd like shareholders to hold that same view. I think it's prudent for us to look at this quarter and the current status as an opportunity to get our feet on solid ground. I look forward into the next year and get excited about the growth

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that I think we'll have as a company as well as Bitcoin overall.

One more comment I'd like to make in regard to this quarter. I'll let Mr. Lowrey go into more detail in his economic analysis of the quarter. But I wanted to make a comment from my point on this.

We took a \$3.5 million write down in this quarter. This was a non-cash charge. It was essentially an accounting issue that was regarding the economics of mining. The analysis was done internally.

We felt that it was prudent and justified to do an economic analysis on the economics of mining. What the value of the existing S9s that we had on balance sheet. At the end of Q2, those machines were listed at a \$2,500.00 net valuation.

Upon our analysis we felt that those machines will no longer have that type of future earning power and or should be valued at that price. We felt it prudent. Albeit, I think we're one of the only publicly traded miners that have taken such action.

But we took what was called an impairment charge based upon that. The one point I want to make very clear to everyone. These machines are not impaired in any way. There are no physical impairments. The machines were turned off on our own accord.

They're being packaged. When we move them to Colorado, they will turn on, and function, and perform at 100 percent. This was strictly an accounting issue. It was not a physical charge; albeit it did put a larger loss to our quarter.

With that, I will turn it back to Mr. Lowrey whereby he'll be able to discuss more detail on that as well as all our other financials within the quarter.

Robert Lowrey:

Alright, thanks Steve, talking about the quarterly results. Our revenue, all of which is derived from Bitcoin mining was 589,000 for the third quarter in 2018; and 1.9 million for the nine-month period compared 515,000 in the third quarter of 2017, and 1.2 million for that nine-month period. These amounts reflect a 14 percent quarter over quarter growth, and a 61 percent growth in the year to date periods.

Operating expenses were 8 million during the third quarter and 20 million for the nine-month period compared to 10 million in the third quarter of 2017, and 18 million for the nine-month period. Operating expenses included, as Steve said, a non-cash \$3.7 million impairment charge related to the

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cryptocurrency mining assets.

Excluding this impairment charge which Steve says that is an accounting exercise, operating expenses totaled of 4.4 million for the quarter and 16.3 million year to date. The operating expenses are comprised of cost of revenue, G&A, and in 2018, the non-cash impairment charge.

Operating expenses decreased 2.1 million or 20 percent compared to the prior year due to three things. One was a \$6.7 million or 70 percent decrease in G&A expense. This resulted from a decrease and non-cash stock compensation of 6.4 million, a decrease in legal and professional fees of 589,000 partially offset by an increase in payroll and related expenses of 21,000 and 287,000 in the third quarter of administrative costs to operate the Sweden facility.

Secondly, there was \$1.1 million increase in cost of revenues compared to the prior year resulting from an increase in our mining operations. Cost of revenues does include depreciation expense in the quarter of 1.4 million and 189,000 in the quarter 2017.

Then thirdly, there was a \$3.7 million non-cash impairment charge. Now, when we look at operating expenses for the nine-month period compared to last year, they increased by 2.2 million. That is comprised – I can summarize in four items.

One is the \$3.7 million non-cash impairment charge. The \$2.5 million Sweden restructuring charge, and \$2.6 million increase in cost of revenues resulting from an increase in our mining operations, and the cost of revenues for the nine-month period include 2.6 million of depreciation expense. In the prior nine-month period, this was only 385,000.

Then, most importantly, there was a \$6.2 million or 38 percent decrease in G&A this year over last year for nine months. This resulted from a \$6.2 million decrease in stock compensation, a decrease in 1.4 million for legal and professional fees, which was partially offset by 890,000 increase in payroll related expenses, and \$683,000.00 of administrative costs to operate Sweden for the nine months.

That said, the net loss for the quarter was 7.8 million compared to 16.5 million for the quarter in 2017. This reflects an \$8.7 million decrease or 53 percent compared to the prior year.

If you exclude the impairments, the non-cash impairment charge, the net loss for the quarter would have been 4.1 million or 12.4 million less than the prior

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period. The net loss for the nine months was 18.8 million compared to 26.6 million for the nine months in 2017.

That concludes my remarks for the operating results and back to the host. Hello Katherine, can we open it up for Q&A? I'm sorry.

Operator: At this time if you would like to register to ask a question, please press the star and one on your touch tone phone. Once again to register to ask a question, please press the star one keys now.

Keep in mind that you may remove yourself from the question queue at any time by pressing the pound key. We will pause momentarily to give everyone an opportunity to join the question queue.

Again, that is the star and one, if you would like to join the question queue. We will take our first question momentarily.

Our first question comes from Ed Woo with Ascendant Capital. Your line is now open.

Ed Woo: Yeah. Thank you for taking my question. My question is more generally on your outlook for cryptocurrency and Bitcoin. I know it's been particularly weak the last couple of days. But just I'm wondering what your general outlook is?

Stephen Schaeffer: Good morning, Ed, and thanks for asking the question. Look, I think any of us, especially those of us who have a Wall Street background. Volatility as we've seen in the last two or three days, I think we've learned through hard knocks and hard experience to ignore these types of extreme volatility swings.

I think I even tweeted out yesterday or the day before. My advice is unless you are day trading, or you're swing trading Bitcoin, it's probably a good idea just to ignore the noise here and the volatility. I'm very confident that 2019 – I don't know if it's going to be first quarter, or second quarter, or more towards the middle of the year.

But at some point, I believe we're going to have a pretty inflective move in the prices of Bitcoin; which will be coupled with, I think broader adoption of some long-sided products. Obviously, the Bakkt product is probably the first one with the physical delivery.

I think that helps to mitigate some of the unabated leverage that is short side that we're seeing on a lot of these offshore and decentralized exchanges. With that being said, I think from a mining perspective, and more specifically to

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us, pricing of hardware right now has come down considerably. I think it will come down even more.

I think there's a lot of room for some of the ten nanometer products and even the 12-nanometer product for the manufacturers to be able to produce those and bring the price in a little more. I think a price contraction can work to our advantage on those products.

Although, I look at the seven and the eight nanometer products as exciting, new, and more efficient, the economics of purchasing those units may not be the best move from a fiscal standpoint as you're going to pay obviously a premium for having the newest and most expensive chips in there. From our perspective, we're doing a real micro analysis on all of the hardware, not exclusive to Bitmain.

In the past we've pretty much mined mostly all Bitmain. We had a few Kanan products at the beginning. But for the most part, everything we have right now is a Bitmain product. However, we're not exclusive to Bitmain. We're looking at other manufacturers.

I'm leveraging a lot of my contacts and folks in my network to try to keep us on the forefront of when these new products are coming out. We'll do an analysis. As capital allows us, we will expand. Because as I said on my statement before, I think right now is critical to be positioned for 2019.

Bitcoin is not going anywhere. It's going to necessitate a more robust network than it even has now. We're going to do everything we can and that it's in our power as a company to try to be that entity that's out there providing power to the network and enjoying what I believe will be a pretty aggressive and inflective appreciation in 2019.

Ed Woo: Thank you. My last question, have you seen the competition to mine Bitcoin decrease or reduce at all as the price has come down?

Stephen Schaeffer: Yeah. Interestingly, albeit I think it was a latent response. Inherently we should have seen a decrease in network size as the price came back from – we'll call it over 10,000 down to the 6,000 range. We actually saw an increase in network size, obviously, and a correlated increase in difficulty rate at that time.

But clearly, at this point right now, there are very few miners that can mine at \$4,000.00 and not lose money. I think we're going to see a pretty precipitous decrease in difficulty rate, and network size, if the prices stay in this range.

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So, I shudder to say that it might work to the benefit of those of us that are in the mining space for price to be range bound at a lower level. It will kind of eliminate some of the higher cost miners. In the long run, it might decrease the overall network size when Bitcoin starts to go.

More specific to your point, on some of the algorithms that I follow, we've seen about a six to seven percent decrease in the last 48 hours in the in the proposed difficulty change; which I think comes in like eight or ten days. We're talking about a six, seven percent decrease that's tied with the drop in Bitcoin prices from 5,500, to 42, 43, or whatever. Whatever we're at right now.

We are definitely starting to see that expected correlation between pricing and network size. I think those of us that can figure out how to survive and scratch through during the lean times. We're going to be uniquely positioned to enjoy the good days when the prices go up.

Difficulty will lag. Difficulty is always a lagging indicator as it only adjusts every 2016 blocks. Whereas prices change every minute of every day.

Ed Woo: Thank you for answering our questions. Good luck, thank you.

Stephen Schaeffer: Thanks Ed.

Operator: Once again, if you would like to ask a question today, please press the star and one on your touch tone phone. Our next question comes from Glen Thompson. Your line is now open.

Glen Thompson: Good morning, everyone. Thanks for taking my questions. I just have two questions. The first one is very important to me because I've been with you guys for over a year and a half now. I have a large chunk of my retirement and savings in your stock right now.

Some would consider that insane, but I really believe in you guys. I want to know. What are you going to do to protect the shareholders that have been here this long and restoring shareholder value? Most OTC stocks, they go through this dilution period, and drive the stock price down. Then, they do a reverse split.

The previous shareholders get screwed over. Then, the new ones jump in after the decline and after the reverse split. That's my first question. The second question is about the lawsuits.

I know a lot of it is ambulance chasers as they would call them. But I want to

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know how you guys are going to combat and deal with that as well as the Ladd situation with the SEC.

Stephen Schaeffer: Okay, Glen, it's Steve. I'll try to take these probably in reverse order. The short and quick answer, it would be the live situation. Mr. Ladd is dealing with that on his own time. He is covered under our D&O.

I'll answer the question because we get quite a few inquiries. Yes. He is on paid leave. He is still on our board of directors. Mr. Ladd is part of our company as far as director and officer insurance.

Hopefully, that clears that up. We don't have any liability as a company. We have not been named in any complaints from the SEC on that issue. As far as the ambulance chasers, yeah, I'll use your term. I think it's pretty applicable.

These guys, they're like creditors. These guys have gone after every company that has dropped in price. They go out there. They file these informational statements that they put out.

Somehow or another, it's allowed to be put on a public company's business wire tags to our stock symbol. Every day for 40 days our shareholders of any public company that's under the attack of these individuals, they have to suffer by seeing on a current news.

People click on the news. It's another solicitation from a law firm for a lead plaintiff. In the case of our prior case, which was dismissed in summary judgment with prejudice, it was completely thrown out on a lack of merit.

It was clearly frivolous. We believe this is the same situation. Fortunately, or unfortunately, we are covered. This is covered under our director and officer insurance. Because this is a corporate issue. We do have deductibles.

It's not without any burdens to the Company. We had about \$500,000.00 in deductibles last year that we paid. We will have deductibles, if there's an actual case that we have to fight. With that being said though, the larger costs of litigation are covered under D&O insurance.

We fully believe that they are completely without merit. To me, I believe personally and in my personal note, I think it's a travesty that these things are allowed to happen. I think they prey upon small cap companies. The only people that are hurt by this are the long shareholders that invested their hard-earned money into the Company.

Because when they're thrown out with prejudice after six months or 12

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months, guess what? The shareholders don't get that shareholder equity or that decrease in market capitalization back. Yet, these guys, there is no means for trying to do that, and to recover that, or to go after them for bringing a ridiculous and frivolous case.

I'll leave that at that. Glen repeat the third question again. Because I want to answer it succinctly and not be off topic.

Glen Thompson: Yeah. My first initial question, are longtime shareholders like myself that have been for a year and a half? Most of those PC [PH] stocks go through this upstage and they dilute. The stock goes down. Then, they do a reverse split.

The previous shareholders that had been long are screwed over. I know that we've had a drop in BTT price. We got the issue with the SEC and with Ladd. These ambulance chasers, I know that's had a great effect on the share price.

But I want to know. What are you guys going to do to be different than all of the other previous OTC stocks that have screwed over the long shareholders? Because I have my retirement savings and everything in this really hoping for the big picture with you guys.

I just want to know. What are you going to do to build shareholder value back and protect the long shareholders like myself?

Stephen Schaeffer: Look, I appreciate the question. Yeah. I can only answer it candidly. I think the shareholders know. It's speaks straight. I don't hold punches. Look, I think in the case of where shareholders are at now, the best thing that we could do as a company is to one, stay solid and solvent.

Utilize our equity line of credit, that's a great asset. I know shareholders might not realize that. But there are many companies out there in the mining space that don't have an S-3 or an S-1 filed, or effective, I should say, whereby they can survive these times.

There are going to be a lot of companies that are going to go under because mining is not profitable right now. They're not going to be able to rely on their corporate equity to float their balance sheet through these next two, three, and four months, hopefully not longer than that, to survive these times. They're going to go under.

In our case we're fortunate enough that we do have the equity line of credit. We can cut our fat, keep our operations as lean and mean as possible, and get through these hard times, and be positioned for the run up in the future.

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Hopefully, the equity price, we'll share that run up with the growth.

I mean, to just answer you as candidly as I can. All we could do is just do our jobs the best we can do it. I mean, there are no magic beans. There is nothing that we can do. Or no magic bean I can pull out of my pocket and say, "Hey, I can get the share price up."

One, we couldn't or shouldn't do that as corporate management. Two, believe me, we're not here to see the stock at \$0.10. We're here because we're trying to build something here. Unfortunately for everybody involved, I think, we've seen a 95 plus percent decrease in economics.

Every Bitcoin related stock that trades publicly has been smashed in valuation. With that being said, I mean, all we could do is just try to survive it, get through it, and position ourselves for growth going forward.

Frankly, that's all we can really do. I mean, there's nothing beyond just doing the best job we can that I could think of and that can protect shareholder value better than just doing our jobs.

Operator: At this time, we'll go ahead and take our next question from Dan Smith. Your line is now open.

Dan Smith: Hello.

Stephen Schaeffer: Good morning, Dan.

Dan Smith: Hey, I'm sitting over here and Xiamen, China. How are you?

Stephen Schaeffer: Okay. Ni hao.

Dan Smith: Ni hao. Listen, I want to ask you a couple of questions. Right now, and thank you for taking the question. How many Bitcoins do you currently have on hand right now?

Stephen Schaeffer: We don't carry long positions. All the Bitcoins that we have mined, we have monetized to support our balance sheet.

Dan Smith: Okay.

Stephen Schaeffer: Rob, what's our number to be mined?

Robert Lowrey: Four hundred and ten.

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Stephen Schaeffer: For the year?

Robert Lowrey: At this time.

Stephen Schaeffer: Yeah. We have mined somewhere around 450 coins for the year –

Dan Smith: I didn't know this, but I... Yeah.

Stephen Schaeffer: – Including our partnership machines.

Dan Smith: Okay. My understanding was that the Company was going to keep ten percent of the mining as a reserve. Is that correct?

Stephen Schaeffer: Yeah. We had previously announced that. Unfortunately, with the economics, and the choices we would have been faced with. It was keeping ten percent of the coins on balance sheet, and then going out, and selling more equity, and more stock and diluting the stock further. We felt that it was in the best interest of shareholders –

Dan Smith: Okay.

Stephen Schaeffer: – To sell the coins. In hindsight, considering that those coins were sold at 10,000 down to 7,000, I think, we probably got a better deal. The shareholders fared better on that instance.

Dan Smith: Can I pitch an idea. Is that okay? Why not at [crosstalk]

Stephen Schaeffer: I'm sorry. But this wouldn't be the appropriate place. You could e-mail us directly –

Dan Smith: Okay. No. That's [crosstalk]

Stephen Schaeffer: – At IR at mgctci. I'll be happy to reply.

Dan Smith: Let me respond in form of a question. Why not, at these low levels accumulate all the Bitcoin you can above your expenses? If you're looking for a recovery time in 2019, it actually answers the previous question that Glen had.

That it would actually build shareholder value. It could also fund the operations at the same time. Would that not be a good idea?

Stephen Schaeffer: No sir. I would disagree respectfully. If we go out and we take whatever

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capital, we have and go buy Bitcoins. For one, if we would have been buying them at 6,500 two weeks ago, right now, we'd be down what, 40 percent?

Dan Smith: No. that is not keeping ten percent –

Stephen Schaeffer: You probably wouldn't be happy about that. Instead of....

Dan Smith: – Of what you mined. Keeping ten percent, maybe even raising 15 percent of what you actually mined, it's sitting in reserve. Because at these low prices, they're sure to appreciate by second quarter 2019. What do you think?

Stephen Schaeffer: Sir, for one, I think as you know. Currently we're not mining any coins. We won't be until towards the late December when we get to our new location. But when we do, we always do an evaluation to see what makes the most sense.

But keep in mind that we're always cognizant of protecting shareholder value. Unnecessary dilution is always paramount on our minds. We really don't want to have to sell any more stocks to fund growth than we have to.

We have to look at and weigh. We have to weigh the possibilities of what those ten percent of sequestered coins can get us as far as a premium compared to what we'd have to sell as far as shares to raise equity to fund growth? Because most importantly, we're Bitcoin miners.

We're sitting here. It's great. We have 6,800 machines now. It's great that we're in this position. But that's not going to cut it going forward. We're going to have to grow. We're going to have to invest in the newer or more efficient hardware to be able to be at the top of our game.

That's our primary focus. It is going to be capitalizing us, and buying the new hardware, and getting that deployed. Trying to be ahead of the curve on the run up instead of reactive and being more proactive in positioning ourselves ahead of the curve instead of just trying to react to it.

Dan Smith: Okay. One last question and then I'll let you go. I appreciate your time. Because of the new efficiency and everything of the new machines, which is good, how many machines do you actually look forward to having in the first quarter of 2019?

Stephen Schaeffer: I can't really give you that answer. But one, it would be a selective disclosure. Two, it's also dependent on what our balance sheet looks like. How much capital we have. Three, it also depends on what the pricing does. I could say this.

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We did not buy. We were offered a VIP pricing on the S15 on the first batch. Typically, I don't buy first batches of any new model that Bitmain brings out. I like to see the first batch come to market, working, and let the bugs get worked out on somebody else's dime.

But in this case, we were offered a VIP pricing deal and access to some decent supply or decent numbers. We respectfully declined it. As I said earlier, everything I was seeing and the people I speak to.

I'm not going to name names with people that are very influential in the crypto industry, specifically Bitcoin. There has been an overall bearish sentiment for the last six to eight weeks. I kind of listened to that sentiment and decided let's wait.

Although, I don't want to try to bottom hunt for the price of Bitcoin. I think I got a better shot of trying to bottom feed and buy mining hardware when they're at their lowest or close to their lowest prices –

Dan Smith: No. Yeah.

Stephen Schaeffer: – Going forward.

Dan Smith: Okay. Listen, I don't want to be a hog. Thank you so much for your time. I appreciate it.

Stephen Schaeffer: Thank you, Dan. I appreciate your time. Thank you, sir.

Operator: Our next question comes from Gary Craselli. Your line is now open.

Gary Craselli: Hi guys, good morning.

Stephen Schaeffer: Good morning, Gary.

Gary Craselli: Good morning. You spoke a little bit about using some of the hash power for some private mining activities, maybe moving forward. How big of a market do you see that being in the future?

I envision it as being a very large part of hash. But what do we envision moving forward 2019 and 2020?

Stephen Schaeffer: Yeah. I agree with you. Ultimately, I think that's going to be where the hash is going to be. It's going to be on private change. It's going to be working for the private sector so to speak. I look at us almost like a cloud provider would

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be, or a cloud, or software as a service provider.

In our case, it would be a hash as a service type of provider. Although, I don't see that coming to market in any major way in 2019. I think it's further out, maybe late 2020- or 2021-time frame, after the next halving. I think up until the next halving.

Yeah. Obviously, I'm bullish on Bitcoin in the long-term or the medium-term. I think 2019. I'm not making price predictions. But we're not going to be \$4,200.00 this time next year on this Q3 call in my opinion. If that's the case, I think the Bitcoin blockchain is probably going to provide you the best upside for the use of power.

But obviously, as all Bitcoin miners, we're going to have to really reassess where we're at come May, June 2020 when we're looking at that next halving. Because the price of Bitcoin is going to dictate whether or not it's prudent for us to keep our power on that chain or move it through another chain.

We'll have to make that decision at that time. But I would say for the foreseeable future and certainly for the next 12 months until the end of 2019, I really don't see any reason that I'm going to be switching off of the Bitcoin blockchain.

For the record, that even goes for Bitcoin cash. I'm more of a Bitcoin maximalist. I'm sitting back and kind of acting as a paid viewer or listener to all of this craziness going on with this fork and Bitcoin cash. Although it has, I think, had some sort of a deleterious effect on Bitcoin itself; and I think in a larger sense, the overall Bitcoin cash fork has had a significant negative effect on Bitcoin. Yeah.

I think we'd be much higher if Bitcoin cash had never forked off. With that being said, yeah, I see the value. I see the adoption in Bitcoin and not Bitcoin cash right now.

I believe the New York Stock Exchange and Bakkt are not trading Bitcoin cash on December 12th. They're trading Bitcoin. I think that says a lot.

Gary Craselli:

The last question, I see that obviously in your prior statement. A lot of private miners are going to be distressed right now. There is going to be a lot of pressure for them to either close facilities or monetize some of their hardware or look for being bought out. Is part of your plans looking for distressed miners that could utilize our location and our buying power, either using capital or _____ [00:41:26]?

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Stephen Schaeffer: Absolutely, our cash position, as we build our cash position, that's going to put us in a real good position; one for organic growth, two, as well as a potential acquisitive phase. I don't know.

Just speaking to a lot of the people I know in mining, I mean tens of thousands of miners that are new, old stock. In the boxes, still brand new are being floated out there at deeply depressed levels right now. That's one of the reasons I'm not jumping on the new fancy S15s.

Because if I could buy an S9 or an S11, which is coming to market, I think today or tomorrow. That might be a better opportunity from us going forward. But as I said, having the cash to make the moves, and take advantage of the opportunities, and do it in an expeditious manner is going to be going to be the key.

From our perspective, we are really cognizant of trying to build our cash position to be able to, one, vet out any acquisition opportunities of other distressed miners. We may be able to go in and do a distressed at purchase of assets and operations; and, or to organically grow ourselves through expansion of our own mining facilities.

Gary Craselli: Thank you for your answer. I'm looking forward to a good 2019.

Stephen Schaeffer: Thank you.

Operator: Once again, if you would like to ask a question, please press the star and one on your touch tone phone. Our next question comes from John Ward. Your line is now open.

John Ward: Good morning, guys.

Stephen Schaeffer: Good morning.

John Ward: Can you hear me? Hi. Thanks for doing this call. This information is appreciated. I wanted to ask. I'm a private investor by the way. I wanted to ask. Is the only real source of liquidity here and now, the ATM or what is, I guess, the L-2 agreement?

Stephen Schaeffer: The HELOC, yeah, you're referring to. Yes. While we have that small operation still running in Washington, which is about 500 machines. Frankly, at \$4,200.00, those machines are not making money. Obviously, we're not generating cash flow there.

With that being said, our primary method of raising capital and liquidity is

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the L2 equity line of credit. We obviously are very prudent and judicious about how much we utilize it. But yes, that is our short-term liquidity means until we get our miners up and running next month.

John Ward: Yeah. The notes payable, which I guess they're coming to a little over \$3 million, right? That is coming up, right? I mean, you're dealing with that. Did we start that in February, right?

Stephen Schaeffer: No. The notes payable, those notes, we've been making our monthly payments –

John Ward: Yeah.

Stephen Schaeffer: Yeah – as obligated. We've been doing that every month. We've been on time making our payments each month up to current. We have, I believe, five months. Yeah. I think five more months left on those notes.

John Ward: Yeah. Okay. I guess the other question is when you did write down the S9s, what number did you guys put on them, if there were 2,500, right, in the prior quarter? Where did you mark them down to in terms of value?

Stephen Schaeffer: Okay. I'll let Mr. Lowrey go into more detail on that. I will say that we did a pretty deep dive into the economics and the earning potential. We're very aggressive in hair cutting them. Because we felt that it wouldn't...

Taking the write down now would really enhance our 2019 earnings considering we're taking the hit now. We're kind of doing the baby out with the bathwater scenario. I'll let Mr. Lowrey go into a little more detail on that.

Robert Lowrey: Yeah. That was based on, as we said in the 10Q, a discounted cash flow analysis over the 18-month period left. The resulting amount was about, just right around \$1000.00 per machine.

John Ward: Yeah. Okay. Thank you. I appreciate it. Have a good Thanksgiving.

Robert Lowrey: Alright, you too. Thank you.

Operator: We'll take our next question from Chris Rogeski. Your line is now open.

Chris Rogeski: Good morning. Thank you for taking my call, and just looking at the recent fillings, and the number of Bitcoins mined. Can you talk a little bit about of out of those 161 Bitcoins mined, how many of those contributed to our roughly \$600,000.00 in revenue?

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I'm just trying to understand how you guys are prioritizing company on owned miners versus investor miners. Moving to Colorado, how are we going to decide who is to hook up first? If you can, give us any added costs and estimates on moving from Sweden to Colorado.

Robert Lowrey: Alright, I'll take the first one. Of the 161 coins that were mined in the quarter that you spoke of, approximately 85 were mined by our wholly owned miners. Seventy-six were mined by the partnerships. Then, if you could –

Stephen Schaeffer: Yeah, but Chris.

Chris Rogeski: You said there are twice as any miners that they do, right?

Stephen Schaeffer: Yeah. It's not quite 50,50. But yeah, in the third quarter, from July on, we were running all of the machines. It's just some machines may have been underperforming. Some may have been overperforming. There were a lot of variables in the summer out there. It was hot.

Let me just speak to some.... I see where you're going to kind of speak and to address some of your concerns about the move. The team that's out there in Colorado as well as our internal team. We're going to get these machines shipped in there and hooked up.

We're not talking months. We're talking about getting them from start to finish, a matter of weeks. I mean clearly, here we are middle of November. We're stating we're going to be mining in the next five and six weeks here.

With that being said, we're not talking about months. As far as prioritizing whose machines get hooked up first or second, we're talking a day or two here and there. They're all going to get hooked up. They're all going to get hooked up in a couple of weeks' time period.

Chris Rogeski: Yeah.

Stephen Schaeffer: It's not like the partnerships are getting an advantage. We're getting an advantage. They will all be hooked up clearly within a short time frame. As far as the moving expenses, we spent – I can't even tell you how many hours. As you can imagine, it's not easy shipping 250 and 300 pallets from the Arctic Circle to Colorado – or Arctic Circle and Sweden to Colorado.

We've spent, I can't even tell you how many dozens of hours dealing with freight forwarders and different international shippers. We feel we've got the best price for the service of shipping. We're going to be doing a variable

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speed shipping to try to save some money.

Instead of shipping everything at the fastest time frame, and having 6,000 plus miner's land, and then just sit there, we're going to try to use maybe two-week shipping on the first batch, and then send some out four-day air. This way the miners are arriving and getting hooked up in the most efficient manner where we could save 10, or 20, or \$30,000.00 of shipping expenses over just shipping them all four-day air and the fastest, and most costly method to do it.

I would estimate that the overall price to ship and get everything set up is going to be about between 150 and \$200,000.00. That's, yeah, probably closer to the higher end of that, and closer to the \$200,000.00 range. As I said, it's in excess of 250 pallets when you take into account both the power supplies as well as the miners themselves.

Chris Rogeski: Thank you. Do you want to talk at all about the facilities in the agreement there in terms of that nine percent threshold that was in agreement? You seem pretty confident that world at least be able to turn a profit there.

If we get all of these miners there, how much room does that leave us for a capacity at that 10MW? Is that pretty much close to capacity? Or, do we have room there to add? You pick a rough number, I guess, of capacity we could have without having to take a new building or get new power agreements?

Stephen Schaeffer: Yeah. In short, I mean, the one building. We're contracting for 10MW now, which will supply us ample power to plug in all of the miners that we currently own, which was our primary concern. As I said, it's just coincidentally, there was a little side building to this mega complex of about 600,000 square feet.

There is one side building that had a 10MW feed to it. It worked out. It fit our needs perfectly. It was just a perfect fit. We jumped on that. But as I said, I mean right now, there are.... I was recently out at the facility. There are 32MW of available power sitting in their racks.

All you have to do is buy miners, and have them shipped in, and plug them in. I mean, there's plenty of ability to expand on location. Our contracts, we have really enjoyed working with the group that runs the center. They've been good partners and very fair in their negotiations.

We feel that we've got a really good deal as far as pricing and service provided. We're really happy about it. I think it's a good fit. I'm not saying that I'm not looking at other places. Absolutely, we're identifying other places

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that we may go into in the future. But right now, this is a good fit.

With the carpet being swept out from under all of the miner's feet, I think it's just critical for us to have a solid piece of ground under us. This is that ground. It's a good place, a fair price. Most importantly, it's a couple hour travel from anywhere in the country compared to 30 hours, and the logistics, and the headaches we've had in Sweden.

We have much more control of everything there. It's a good thing. One of the things that I think was most critical about the hosting agreement. I don't know if anybody really caught onto it? But we were able to do something, which was unique, at least in my experience.

We were able to get an agreement to have a really – what I would say was a real fair conservative minimal cost. In the case of the 10MW, our monthly power cost, I believe would be, if we drew the full power for the month, a nominal 10MW, 24/7. We would be looking at about \$480,000.00 a month in power and hosting fees.

Our minimum there is \$50,000.00. If there is a month where economics is just horrible. If Bitcoin goes to 2,500, and difficulty takes two cycles to reassert themselves, and come back into an equilibrium. If we decided we needed to turn off because we didn't want to mine at a major loss, we have that ability where we only have a \$50,000.00 minimum.

To me, I think that's a huge asset that we're able to negotiate into that agreement. I've never had it in any of my prior agreements. It's something that hasn't been offered up. But, in the supply and demand being what they are right now, I think it's a buyer's market when it comes to miners and hosting centers.

We got that in there. I think that's critical. Because we're really only looking at a \$50,000.00 a month minimum commitment in a worst-case scenario for mining.

Chris Rogeski: Thank you. I hope you all have a good Thanksgiving.

Stephen Schaeffer: You too, thanks, Chris.

Robert Lowrey: You too.

Operator: Our next question comes from Clint Horner. Your line is now open. Clint Horner or Warner, your line is now open. At this time, it appears that we have no further questions. I will turn the call back to our speakers for any

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additional remarks.

Stephen Schaeffer: We'd just like to thank everybody who participated in the call. I really appreciate everybody doing this with us each quarter. Obviously, this is going to be a long journey for us and being in such a volatile and nascent industry such as Bitcoin.

We can't tell you how much we appreciate everybody's support, and everybody as a shareholder. We look forward to speaking after the New Year on a next call.

We wish everybody a Happy Thanksgiving that's in the United States, and a good day to everybody else on the call. Thank you.