

**HYDRO66 HOLDINGS CORP.**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**SEPTEMBER 7, 2018**

The following discussion is management’s assessment and analysis of the results and financial condition of Hydro66 Holdings Corp. and should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements and notes for the six months ended June 30, 2018 as well as the consolidated financial statements and related notes for the year ended December 31, 2017. The preparation of financial data is in accordance with International Financial Reporting Standards (“IFRS”) and all figures are reported in Canadian dollars unless otherwise indicated.

**Listing**

On February 28, 2018 Hydro66 UK Limited was acquired by Arctic Blockchain Limited. The Acquisition resulted in the former shareholders of Hydro66 UK Limited holding the majority interest in the Company.

On March 12, 2018, Arctic Blockchain Limited entered into a letter of intent with Caza Gold Corp providing for the amalgamation of Caza and Arctic Blockchain to form the Issuer. On June 6, 2018, Caza and Arctic Blockchain entered into a business combination agreement (the “Amalgamation Agreement”) whereby Arctic Blockchain would complete an amalgamation pursuant to the Amalgamation Agreement under the provisions of the BCBCA (the “**Amalgamation**”) and upon the completion of the Amalgamation, Arctic Blockchain would become a reporting issuer listed on the CSE and the company name would change.. The Amalgamation was completed on June 8, 2018.

On June 13, 2018 Hydro66 Holdings Corp listed on the Canadian Securities Exchange (CSE:SIX).

**Overall performance**

The principal activities of Hydro66 during the period were, and will continue to be, the provision of colocation services.

Hydro66 delivers low-cost, environmentally-friendly colocation services. Using locally generated clean green hydropower, Hydro66’s first data centre is located in the leading cloud and data centre cluster in the Nordics, in Northern Sweden. This gives customers the ability to reduce their carbon footprint while providing cost savings against the traditional colocation model.

The Company also contributes a small amount of its computing power to digital currency pools. For its contribution to the pools the Company receives income in the form of digital currencies.

The prospects for Hydro66 are healthy. The Company continues to enhance its position in the North of Sweden. During the period June 30, 2018 Hydro66 pre-sold and opened two new data halls with a total capacity of 7.6 MW, increasing total capacity to 11.2 MW. A further 8 MW is planned for completion during H2 2018. Hydro66’s growth strategy is largely to attract corporate clients on long term hosting contracts, which in turn aims to fund the delivery of additional data center space.

**Selected Financial Information**

The Company closed the period to June 30, 2018 in a strong financial position with closing cash and cash equivalents of \$6.1m (December 31, 2017: \$1.7m); and closing digital currencies recorded as intangible assets of \$0.5m (December 31, 2017: \$0.2m).

Net assets at June 30, 2018 increased to \$17.1m (December 31, 2017: \$9.4m).

No dividends were paid during the period.

Revenue and EBITDA, two of the key financial metrics were reported as follows:

	Six months ended June 30 2018	Six months ended June 30 2017
Revenue [\$]	2.8m	0.8m
EBITDA [\$]	(2.7m)	0.4m

Revenue saw high growth in the six-month period to June 2018, up 250% on the same period in 2017 reflecting the sell out during the year of the existing space and earnings from digital currency pools.

EBITDA for the period includes acquisition and listing costs of \$1.4m, share based compensation of \$0.7m. Exchange gains realised from the conversion of digital currency has fallen from \$0.8m in the 6 months to June 30, 2017 to \$0.5m in the same period this year

Gross margin has fallen from 63% to 35% as the business increases focus on providing colocation to customers and has reduced its focus on digital currency verification.

The table below shows the split of revenues for each of the reportable segments:

	6 months to June 2018		6 months to June 2017	
	%m	% of total	£	% of total
Colocation	2.6m	93%	0.4m	50%
Digital currency verification services	0.2m	7%	0.4m	50%
<b>Total</b>	<b>2.8m</b>		<b>0.8m</b>	

Data centers are increasingly under the spotlight as being energy-intensive, and with that scrutiny comes the need for innovation and transparency. Large numbers of companies are realising the environmental and cost benefits of locating processing power in a cool climate close to abundant green power. The Hydro66 data centre is ideally located to deliver these benefits. Hydro66 is uniquely positioned to deliver colocation for crypto currency mining, enterprise data space and digital currency verification services (self-mining).

### **Basis of preparation**

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”), and its interpretations, using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates which are detailed below. These accounting policies were consistently applied for all the periods presented.

## **Critical accounting policies**

### *Revenue*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services, stated net of discounts and returns. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities. Revenue represents amounts invoiced for the provision of data centre services, including space and power.

The Company also recognizes revenue from the provision of transaction verification services within digital currency networks. As consideration for these services, the Company receives digital currency from each specific network in which it participates.

Revenue is measured based on the fair value of the currency received. The fair value is determined using the spot price of the currency on the date of receipt. The currency is recorded on the statement of financial position, as an intangible asset at the spot rate. Realised gains or losses, as well as gains or losses on the sale of currency for traditional (fiat) currencies are included in profit and loss. There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment. Management has examined various factors surrounding the substance of the Company's operations and the guidance in IAS 18, Revenues, including the stage of completion being the completion and addition of a block to a blockchain and the reliability of the measurement of the digital currency received. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

### *Intangible assets - Digital currency valuation*

Digital currencies consist of cryptocurrency denominated assets such as Bitcoin and Litecoin; and are included in non-current assets as an intangible asset. Digital currencies are treated as intangible assets and carried at the spot rate they were earned at. The fair value is determined using the spot price of the currency on the date of receipt. Gain or loss is recognised in the profit and loss account at the point of sale. Digital currency is not amortised as the directors consider that it has an indefinite useful life. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

## **Liquidity**

On 15 February 2018, a sale purchase agreement was executed to sell 100% of the company to Arctic Blockchain Ltd. As consideration for the sale the shareholders of Hydro66 UK Ltd were issued 80% of the shares and rights to subscribe to further shares in Arctic Blockchain Ltd.

To accelerate the growth plan, on 1 March 2018 Arctic Blockchain Limited transferred \$9.0m to Hydro66. This ensured that the existing growth plan to 19.2 MW could be delivered in 2018.

Hydro66 does not expect a working capital deficiency. Hydro66 has no debt. Hydro66 has no capital lease obligations. Hydro66 has no other material long term obligations.

## **Capital Resources**

As June 30, 2018 Hydro66 had capital commitments of \$3.3m for the fit out of two data halls. Hydro66 had the funds in place, both in cash and in digital currency assets held, to meet these commitments.

Expenditure not yet committed at June 30, 2018 required to complete the expansion to 19.2 MW was \$0.2m. This will be funded by the cash in the business.

## **Off-Balance Sheet Arrangements**

Hydro66 does not have any off-balance sheet arrangements.

## **Transactions with Related Parties**

During the six months ended June 30, 2018, Hydro66 UK Limited repaid a loan note to David Rowe of \$75,575 (six months to June 30, 2017: nil).

During the six months ended June 30, 2018, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of \$161,695 (six months to June 30, 2017: \$60,900).

During the six months ended June 30, 2018, 0920 Media AB (brand name Meramedia), of which Anne Graf is a director, provided marketing services to Hydro66 Svenska AB of \$22,205 (six months to June 30, 2017: \$65,070).

During the six months ended June 30, 2018, Hydro66 Services AB, provided colocation services to B-chain e-services AB, of which Anne Graf was a director, of \$517,850 (six months to June 30, 2017: \$177,158). Anne Graf resigned as a director from B-chain e-services AB on June 21, 2018.

## **Changes in accounting policies**

No changes in accounting policies are expected.