HYDRO66 HOLDINGS CORP ("Company")

MANAGEMENT DISCUSSION & ANALYSIS

For the Half Year ending 30th June 2019

This Management Discussion and Analysis ("MD&A") is dated August 28, 2019, unless otherwise indicated and should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements and notes for the six months ended June 30, 2019.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. Results are reported in Canadian dollars unless otherwise noted. In the opinion of management all adjustments (which consist of normal recurring adjustments and a one-time adjustment to allow for the application of IFRS 16) considered necessary for a fair presentation have been included. The results presented for the Half Year ended June 30, 2019 are not necessarily indicative of the results that may be expected for any future period.

The preparation of financial data is in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee.

Cautionary Note Regarding Forward-Looking Information

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. For a complete list of the factors that could affect the Company, please make reference to those risk factors referenced in Part VI – "Risk Factors" of the Filing Statement of the Company dated August 27, 2019**.** Readers are cautioned that such risk factors, uncertainties and other factors are not exhaustive. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

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All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly, or otherwise revise, any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Non-GAAP Measures

This MD&A presents certain non-GAAP ("GAAP" refers to Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company's performance. These non-GAAP measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Management uses these non-GAAP measures to supplement the analysis and evaluation of operating performance.

Throughout this MD&A, the following terms are used, which are not found in the Chartered Professional Accountants of Canada Handbook and do not have a standardized meaning under GAAP.

EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)

• "EBITDA" represents net income or loss excluding net finance income or expense, income tax or recovery, depreciation, and amortization.

• "Adjusted EBITDA" represents EBITDA adjusted to exclude share-based compensation, and impairment and costs associated with one-time transactions (such as listing fees).

Business Overview

Hydro 66 Holdings Corp. is an award winning, data center operator, listed on the Canadian Securities Exchange ("CSE"). The Company hosts third party IT infrastructure, utilizing 100% green power at amongst the EU's lowest power prices within an ISO27001 accredited facility. The Company uses locally generated, clean, green hydropower. Hydro66's data center is located in the leading cloud and data center cluster in the Nordics, in Northern Sweden. The company provides purpose-built colocation space and cooling, telecoms, IT support services and 24/7 physical security in their facility, all powered by true green power at a leading price.

The principal activities of Hydro66, during the period were, and will continue to be, the provision of colocation services specialized in High Performance Computing ("HPC") hosting and the provision of computing power to digital currency pools. For its contribution to the pools the Company receives income in the form of digital currencies.

The Company continues to develop its position in the North of Sweden. During the period to June 30, 2019 Hydro66 maintained the operation of 19.2MW of data hall capacity and focused its efforts on filling this capacity. Hydro66's growth strategy is largely to attract corporate clients on long term hosting contracts. In addition, Hydro66 acquired an amount of additional computer processing capacity expanding the ability to service the needs of digital currency pools to 1.8 MW at the June 30, 2019 with an additional 1.6 MW to be installed in Q3 2019.

Data centers are increasingly under the spotlight as being energy-intensive, and with that scrutiny comes the need for innovation and transparency. Companies are realising the environmental and cost benefits of locating processing power in a cool climate close to abundant green power. The Hydro66 data center is ideally located to deliver these benefits. Hydro66 is uniquely positioned to deliver colocation for High Performance Computing, Enterprise data space and the provision of transaction verification services to digital currency pools.

Whinstone Transaction

On May 30, 2019 the Company announced that it had signed a non-binding letter of intent ("LOI") with Whinstone US Inc. ("Whinstone") to merge the two companies on a 50/50 basis ("Transaction"). Completion of the Transaction was subject to the execution of a definitive agreement and related documentation and all necessary shareholder and regulatory approvals. On July 12, 2019, Hydro66 announced that the Company was withdrawing from the proposed transaction due to difficulties in completing the merger as proposed and would maintain focus on developing revenue from Blockchain and Enterprise customers. The Company will continue to review merger and acquisition targets, as and if identified, to leverage the skills and expertise developed within Hydro66 and enhance growth.

Private Placement

On June 25, 2019 the Company announced a non-brokered private placement financing of up to 6,000,000 Units, at a price of $0.50 per Unit. Each Unit comprises one common share (a "Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional Share at an exercise price of $0.75 for a period of 24 months from the closing of the Offering. The Offering was expected to close on July 12, 2019.

On July 12, 2019 the Company announced that it had raised gross proceeds of $1,824,975 through the issuance of 3,649,950 units ("Units") of the Company at a price of $0.50 per Unit.

Selected Financial Information

Cash and Digital Currencies

The Company closed the period to June 30, 2019 in an adequate financial position with closing cash and cash equivalents of $0.64mm (December 31, 2018: $2.3mm); and closing digital currencies recorded as intangible assets of $0.114mm (December 31, 2018: $0.12mm).

Net Assets

Net assets at June 30, 2019 decreased to $ 12.06mm (December 31, 2018: $15.64mm). The decrease was primarily due to the decrease in current assets, and the drawdown of the convertible debenture that occurred in April.

No dividends were paid during the period.

	Jun 30, 2019 $	Dec 31, 2018 $	Jun 30, 2018 $	Dec 31, 2017 $
ASSETS				
Current assets				
Cash	637,148	2,304,416	6,059,756	1,690,815
VAT / GST receivable	236,447	890,185	373,611	459,606
Amounts receivable and prepaids	2,094,823	1,380,417	2,296,658	860,665
Total current assets	2,968,418	4,575,018	8,730,025	3,011,086
Non-current assets				
Property, plant and equipment	14,119,564	15,903,314	12,477,713	8,171,684
Right of use assets	2,350,632	0	0	0
Digital currencies	114,440	123,838	502,611	286,898
Deferred tax assets	16,768	0	0	0
Total non-current assets	16,601,404	16,027,152	12,980,324	8,458,582
TOTAL ASSETS	19,569,822	20,602,170	21,710,349	11,469,668

Analysis of Financial Performance

During the six-month period to June 30, 2019 Hydro 66 recorded revenue of $2mm, a $0.8mm decrease from the revenue for the same period of 2018 of $2.8mm

The key financial metrics were reported as follows**:**

6 months Ending:	Jun-19	Jun-18
Revenue	2.0mm	2.8mm
Adjusted EBITDA	(1.15mm)	(0.57mm)

Revenue fell from $2.8mm in the half year ended June 30, 2018 to $2.0mm in the half year ended June 30, 2019 reflecting the poor Q1 following the disappointing cryptocurrency markets of Q4 2018 and Q1 2019 and the associated fall in revenue from wholesale hosting customers.

Adjusted EBITDA loss for the half was ($1.15mm) against an adjusted EBITDA loss of ($0.567mm) for the same half in 2018. The loss in the period reflects the fixed costs of the full facility, which was expanded in 2018, as well as the investment in growing the Swedish operation to expand sales of the Company's products. Focus continues to be on filling the unoccupied space.

3 months Ending:	Jun-19	Mar-19
Revenue	1.414mm	0.58mm
Adjusted EBITDA	(0.48mm)	(0.67mm)

The first quarter of 2019 saw a significant decline in revenue as the Company's wholesale hosting companies suffered. As a result, earnings remain below the levels recorded during H1 2018. However, Q2 saw several customers restart operations and, with the improvements in the broader market, revenue recovered during the second quarter.

Adjusted EBITDA in Q2 improved against Q1 $(0.475mm) vs $(0.675mm), the improvement in EBITDA in Q2 was driven by the increased utilisation of the data center, the recovery of the cryptocurrency markets and the expansion of digital currency transaction verification services.

Revenue from digital currency transaction verification services increased from $60,531 in the half ended June 30, 2018 to $794,636 in the half ended June 30, 2019 reflecting the additional capacity in use as a result of running 1.3 MW of servers which were acquired in October 2018, and the 0.5 MW additional capacity installed in early June 2019.

The table below shows the digital currencies held at June 30, 2019 and their recorded value. A comparison to December 31, 2018 and March 31, 2019 is also shown.

	June 30, 2019		March 31, 2019		December 31, 2018	
	Number	Value $	Number	Value $	Number	Value $
Bitcoin	2	34,112	9	21,886	27	27,526
Litecoin	151	21,476	130	8,149	1,070	43,686
Ethereum	70	22,674	10	1,607	21	392
AION	222,834	36,179	222,834	46,968	213,753	48,706
Total		**114,441**		**78,611**		**123,838**

In September 2018, the Swedish Tax Authority published its interpretation of the law which gave data centers energy tax discounts from January 1, 2017. The interpretation only allows the end users of the equipment held within data centers to benefit from the energy tax discounts. From January 1, 2019, the cost of energy tax is being charged to customers who own their own equipment within the data center, who can then opt to reclaim it. Despite this change in the law, growth in traditional enterprise co-location remains in line with management expectations and is expected to expand as a segment significantly in 2020.

Hydro66 remains well positioned to take advantage of the growth in data and computing trends by providing access to low-cost, green energy in an ultra-efficient hyperscale colocation data center. The company has already built the largest High-Performance Computing ("HPC") colocation data center in Europe with further potential to expand this existing capacity. The post balance sheet achievement of Open Compute Project Colocation Facility certification, announced on July 17, 2019, is expected to further increase the attractiveness of Hydro66 to Enterprise colocation customers.

Selected Annual Information

Revenue

The Company's operations are centred on providing data center services and digital currency transaction verification services and blockchain security. Management therefore considers there to be two reporting segments for the Company.

	Six months to June 30,					
	2019	2019	2018	2018	2017	2017
	$	$	$	$	$	$
	Data Center Services	Digital Currency Services	Data Center Services	Digital Currency Services	Data Center Services	Digital Currency Services
United Kingdom	36,653	-	55,795	-	51,819	-
USA & Canada	3,233	37,478	-	104,565	-	398,174
Rest of Europe	1,124,386	794,636	2,603,592	60,531	297,972	14,148
	1,164,272	832,114	2,659,387	165,096	349,791	412,322

	Six months to June 30,					
		2019		2018		2017
	$m	% of total	$m	% of total	$m	% of total
Data Center Services	1.2m	58%	2.7	94%	0.3m	46%
Digital Currency Services	0.8m	42%	0.2	6%	0.4m	54%
Total	2.0m		2.9m		0.7m	

In the half ended June 30, 2019 data center services (colocation) made up 58% of the revenue compared to 94% in the same period last year, representing the difficulties faced by wholesale hosting customers in Q1 due to the poor cryptocurrency markets and the change in energy tax treatment by the Swedish authorities.

The significant growth in transaction verification services is a function of the improving market across Q2 and the expansion of transaction verification services which occurred at the beginning of June.

Adjusted EBITDA

	Six months ended June 30, 2019		
	2019	2018	2017
	$	$	$
Comprehensive (loss) income for the period	-4,013,950	-3,839,902	-234,217
Add back:			
Other comprehensive loss (income) for the period	1,384,020	637,801	253,041
Acquisition and listing expenses	0	1,413,421	
Share-based compensation	517,027	748,450	-
Deferred tax lease assets	-4,194	0	0
Depreciation*	966,418	474,281	334,893
Adjusted EBITDA	-1,150,679	-565,949	353,717

* = Includes depreciation of lease contracts 2019. Positive effect on adjusted EBITDA 254,513 CAD.

Adjusted EBITDA loss for the half was ($1.15mm) against an adjusted EBITDA loss of ($0.57mm] for the same half in 2018. The loss in the period reflects the fixed costs of the full facility, which was expanded in 2018, as well as the investment in growing the Swedish operation to grow the sales of the Company's products. Focus continues to be on filling the unoccupied space by expanding the Enterprise customer footprint and additional investments in transaction verification servers. The company expects to become EBITDA positive on a monthly basis by the end of 2020.

Total Assets:

	Jun 30, 2019	Dec 31, 2018	Jun 30, 2018	Dec 31, 2017
	$	$	$	$
ASSETS				
Current assets				
Cash	637,148	2,304,416	6,059,756	1,690,815
VAT / GST receivable	236,447	890,185	373,611	459,606
Amounts receivable and prepaids	2,094,823	1,380,417	2,296,658	860,665
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Deferred tax assets	16,768	0	0	0
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TOTAL ASSETS	19,569,822	20,602,170	21,710,349	11,469,668

The build of the Hydro66 data center started in 2015 and was officially opened at the end of that year.

During 2017 the data center asset was expanded as fit out of the initial structure was completed, foundations were laid for 4 further data halls and the construction of a further 2 data halls was completed.

During 2018, expansion continued with the completion of the fit out of 2 data halls, the build of 2 further data halls and the fit out of those halls. During 2018 foundations were also laid for a further 3 data halls.

The expansion in 2018 was funded by the issue of a debenture in Arctic Blockchain Limited in February 2018 for $10,000,000. The facility has not been expanded further during the first half of 2019. The overall value of the property, plant and equipment has fallen due to the depreciation charge and the currency movement of the Swedish Kroner which has weakened when compared to the Canadian Dollar over the course of 2019. VAT is receivable on quarterly basis. All VAT due at June 30, 2019 has been recovered.

Total non-current financial liabilities

As at June 30th, 2019 the Company had long term liabilities of ($4,611,487).

Non-current liabilities	Jun 30 2019	Dec 31 2018
Convertible debenture	2,661,744	1,706,895
Lease liabilities	1,949,743	0

In December 2018 the Company closed a secured convertible loan financing of which the initial advance was paid in December 2018. The initial advance was made up of United States Dollars $1,050,000 and Canadian Dollars $300,000 (total Canadian dollars of $1,706,895) and additional drawdowns were made on 4th April 2019 for United States Dollars $525,000 and Canadian Dollars $150,000 respectively for a total outstanding debt financing of Canadian Dollars $2,518,558. The loan bears interest at a rate per annum equal to 10% from the date of the advance of the loan, which is compounded annually and payable in arrears on each December 31st. The interest for the first two years of the loan shall not be payable until the loan is repaid in full.

The amount of the loan, at the option of each lender, will be convertible into common shares in the capital of the Company at the market price at the time of such conversion in accordance with the policies of and subject to acceptance by the Canadian Securities Exchange.

As at June 30, 2019 the interest accrued on the convertible debenture was $110,175, ($4,652 at December 31, 2018)

On June 25 2019 the Company announced a non-brokered private placement financing of up to 6,000,000 Units, at a price of C$0.50 per Unit. Each unit comprised one common share (a “Share”) and one common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one additional Share at an exercise price of C$0.75 for a period of 24 months from the closing of the Offering. The Offering was expected to close on July 12, 2019.

Lease Liabilities arise from the reclassification of certain assets as financial leases in line with IFRS 16 Refer to section 3 of the condensed consolidated interim financial statements for the initial effect from adoption of IFRS 16.

Hydro66 has no other material long term obligations.

Capital Resources

At June 30, 2019 the Company was in the process of completing a Canadian Dollar $3mm private placement for shares in the company. It had no outstanding capital commitments regarding the data halls.

Off-Balance Sheet Arrangements

Hydro66 does not have any off-balance sheet arrangements.

Transactions with Related Parties:

During the six months ended June 30, 2019:

David Rowe, Chairman and Director of the Company, participated in additional drawing under the secured convertible loan agreement with USD$300,000. In addition, Hydro66 Svenska AB borrowed 17.28 bitcoin from David Rowe on 27th June 2019, (six months to June 30, 2018: repaid a loan note of $75,575).

During the six months ended June 30, 2019, Richard Patricio, Director of the Company participated in additional drawing under the secured convertible loan agreement with CAD$50,000.

During the six months ended June 30, 2019, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of $62,476.93 (six months to June 30, 2018: $161,695).

During the six months ended June 30, 2019, 0920 Media AB (brand name Meramedia), of which Anne Graf was a director, provided marketing services to Hydro66 Svenska AB of $6,734.24 (six months to June 30, 2018: $22,205). Anne Graf resigned from 0920 Media AB on February 5, 2019.

During the period ended June 30, 2019, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for $8,950 (period ended June 30, 2018: nil).

The Group has allowed its employees to take up limited loans to cover personal income tax liabilities arising from the exercise of share options in Hydro66 UK Limited prior to the transaction between Arctic Blockchain Limited and Hydro66 UK Limited. The loans were paid in January 2019. This facility was also available to the Group's key management personnel. In January 2019, $52,050 was lent to members of key management personnel. On 28th June, $16,595 of loans was repaid by one employee.

Financial Instruments and Other Instruments

General Objectives, Policies and Processes

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

The Board reviews its monthly reports through which it assesses the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors.

i) Categories of financial assets and liabilities

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- -- Trade receivables
- -- Cash and cash equivalents
- -- Trade and other payables
- -- Borrowings and convertible loan notes

Trade and other receivables are initially measured at the amount of consideration that is unconditional. The Group holds trade receivables with the objective of collecting the contractual cash flows so is subsequently measured at amortized cost. Book values and expected cash flows are reviewed by the Board and any impairment charged to the consolidated Statement of Comprehensive Income in the relevant period.

Trade and other payables are measured at book value. The book value of financial assets and liabilities equates to their fair value.

The Group holds the following financial instruments:

Financial assets	June 30th 2019	December 31st , 2018
	$	$
Cash and cash equivalents	637,148	2,304,416
Trade receivables due at reporting date	254,143	365,392
Other receivables	-	-
Total	891,291	2,669,808

Trade receivables principally comprise amounts outstanding for sales to customers and are net of expected credit loss. Trade receivables that are due at the reporting date have been reviewed and impaired when the collectability is considered unlikely.

Financial liabilities	June 30th, 2019	December 31st, 2018
	$	$
Trade payables	666,160	1,432,005
Other accruals	597,267	1,201,169
Debt financing – loans payable	2,616,636	1,706,895
Total	3,880,063	4,340,069

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

As at June 30, 2019, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

June 30th, 2019	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	931,408	3,725,633
Trade and other payables	1,263,427	-	-	-
Total	1,263,427	0	931,408	3,725,633

This compares to the maturity of the Group's non-derivative financial liabilities at the end of 2018 as follows,

December 31, 2018	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	685,492	2,649,829
Trade and other payables	2,917,239	-	-	
Total	2,917,239	-	685,492	2,649,829

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

Cash and cash equivalents

Cash and cash equivalents are held in Canadian Dollars ($), United States Dollars (USD), Swedish Krona (SEK) and Sterling (GBP) and placed on deposit in Canadian, Swedish and UK banks.

Share Capital

As at the date of the MD&A , the Company has issued, and outstanding share capital comprised of 130,649,950 Common Shares, 8,675,000 Stock Options at exercise prices ranging from $0.38 to $0.50, and 48,819,750 Warrants outstanding at exercise prices ranging from $0.50 to $0.75 per share.