HYDRO66 HOLDINGS CORP (“Company”)

MANAGEMENT DISCUSSION & ANALYSIS

For the nine months ending 30th September 2019

This Management Discussion and Analysis (“MD&A”) is dated November 27, 2019, unless otherwise indicated and should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements and notes for the nine months ended September 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 nine months ended September 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 refer 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.

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. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the Company’s ability to meet its working capital needs at the current level for the next twelve-month period; management’s outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions.

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.

The principal activities of Hydro66, during the period were, and will continue to be, the provision of Cloud colocation services specialized in High Performance Cloud Computing, Storage, and information processing. The Company continues to develop its position in the North of Sweden. During the period to September 30, 2019 Hydro66 maintained the operation the data center and focused its efforts on filling that capacity, adding 1.6MW of information processing and high-performance compute capacity. Sales activity for the remainder of 2019 and for 2020 is focused on increasing the occupancy of the data center by expanding the services provided by the data center into cloud Infrastructure as a service for enterprise grade clients and obtaining additional high performance compute clients.

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 and low-cost green power. The Hydro66 data center is ideally located to deliver these benefits. Hydro66 is well positioned to deliver green cloud colocation for High Performance Computing, Storage, and Information Processing.

Selected Financial Information

Cash and Digital Currencies

The Company closed the period to September 30, 2019 with closing cash and cash equivalents of $0.45mm (December 31, 2018: $2.3mm); and closing digital currencies recorded as intangible assets of $0.07mm (December 31, 2018: $0.12mm).

Net Assets

Net assets at September 30, 2019 increased slightly to $ 12.11mm (June 30th, 2019: $12.06mm)

	Note	Sep 30, 2019 $	Dec 31, 2018 $
ASSETS			
Current assets			
Cash		446,136	2,304,416
Amounts receivable and prepaids	5	1,258,514	2,270,602
Total current assets		1,704,650	4,575,018
Non-current assets			
Property, plant and equipment	6	14,330,836	15,903,314
Right-of-use assets	7	2,124,722	0
Digital currencies	8	68,465	123,838
Deferred tax assets		17,582	0
Total non-current assets		16,541,605	16,027,152
TOTAL ASSETS		18,246,255	20,602,170
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	1,197,778	3,253,712
Current portion of lease liabilities	10	447,430	
Total current liabilities		1,645,208	3,253,712
Non-current liabilities			
Convertible debenture	11	2,731,120	1,706,895
Lease liabilities		1,759,450	0
TOTAL LIABILITIES		6,135,778	4,960,607

Analysis of Financial Performance

The key financial metrics were reported as follows:

9 months Ending:	Sep-19	Sep-18
Revenue	3.3mm	5.7mm
Adjusted EBITDA	(1.69mm)	(0.49mm)

Revenue fell from $5.7mm in the nine months ended September 30, 2018 to $3.3mm in the nine months ended September 30, 2019 due primarily to the reduction in wholesale customer occupancy after the difficult markets of Q1. This decline in revenue is the result of the loss of customer contracts acquired to facilitate the build phase of the data center and with the completion of the build phase the company remains focused on the Enterprise segment in order to drive strong underlying revenue growth

Adjusted EBITDA loss for the nine months to September 30 was ($1.69mm) against an adjusted EBITDA loss of ($0.49mm) for the same period in 2018. The loss in the period reflects the impact of the increased fixed costs of the full 19.2 MW facility capacity, which was expanded during 2018, the decline in revenue, as well as the investment in growing the Swedish operation to generate and meet anticipated demand.

3 months Ending:	Sep-19	Sep-18
Revenue	1.3mm	2.9mm
Adjusted EBITDA	(0.54mm)	0.07mm

Adjusted EBITDA in Q3 was broadly in line with Q2 $(0.54mm) vs $(0.48mm) and an improvement on Q1 (0.67mm).

Adding back the impact of share-based compensation to adjusted EBITDA shows the following trend

3 months ending	Sep-19	Jun-19	Mar-19
Adjusted EBITDA (ex-Share based Compensation adj)	(0.32mm)	(0.76mm)	(0.901mm)

Revenue from the sale of information processing increased from $406K in the nine months ended September 30, 2018 to $1,633K in the nine months ended September 30, 2019 reflecting the additional capacity in use as a result of compute power acquired in October 2018, and the additional capacity installed in June 2019 and in September 2019.

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 has been 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.

Digital Currency Holdings

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

	September 30, 2019		June 30, 2019		March 31, 2019		December 31, 2018	
	Number	Value $	Number	Value $	Number	Value $	Number	Value $
Bitcoin	4	48,551	2	34,112	9	21,886	27	27,526
Litecoin	0	0	151	21,476	130	8,149	1,070	43,686
Ethereum	5	1,100	70	22,674	10	1,607	21	392
AION	222,834	18,814	222,834	36,179	222,834	46,968	213,753	48,706
Total		**68,465**		**114,441**		**78,611**		**123,838**

<u>Selected Interim Information</u>

Revenue

The Company's operations are centred on providing data center services and the provision of specialised information processing services to customers. Management therefore considers there to be two reporting segments for the Company.

	Nine months to September 30,					
	2019	2019	2018	2018	2017	2017
	$	$	$	$	$	$
	Colocation Services	Information Processing Services	Colocation Services	Information Processing Services	Colocation Services	Information Processing Services
United Kingdom	37,659	0	55,795	-	51,819	-
USA & Canada	52,709	48,958	-	104,565	-	398,174
Rest of Europe	1,571,644	1,584,199	2,603,592	60,531	297,972	14,148
	1,662,011	1,633,157	2,659,387	165,096	349,791	412,322

In the nine months to September 30, 2019 data center services (colocation) made up 50% of the revenue compared to 94% in the same period last year.

	Nine months to September 30,					
	2019		2018		2017	
	$m	% of total	$m	% of total	$m	% of total
Data Center Services	1.7m	50%	5.3m	93%	0.8m	55%
Information Processing Services	1.6m	50%	0.4m	7%	0.7m	45%
Total	**3.3m**		**5.7m**		**1.5m**	

The significant growth in information processing services is a function of the market growth through Q2 and Q3, 19 and the expansion of information processing services which occurred at the beginning of June 19 and in September 19.

Adjusted EBITDA

Adjusted EBITDA loss for the year to 30/9 was ($1.69mm) against an adjusted EBITDA loss of ($0.49mm] for the same period 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 generate and service expected demand. The company expects to become EBITDA positive on a monthly basis by the end of 2020.

Total Assets

	Sep 30, 2019 $	Dec 31, 2018 $	Sep 30, 2018 $	Dec 31, 2017 $
ASSETS				
Current assets				
Cash	446,136	2,304,416	2,175,382	1,690,815
VAT / GST receivable	148,309	890,185	611,826	459,606
Amounts receivable and prepaids	1,110,205	1,380,417	3,036,718	860,665
Total current assets	1,704,650	4,575,018	5,823,926	3,011,086
Non-current assets				
Property, plant and equipment	14,330,836	15,903,314	14,535,326	8,171,684
Right of use assets	2,124,722	0	0	0
Digital currencies	68,465	123,838	522,630	286,898
Deferred tax assets	17,582	0	0	0
Total non-current assets	16,541,605	16,027,152	15,057,956	8,458,582
TOTAL ASSETS	18,246,255	20,602,170	20,881,882	11,469,668

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 overall value of the property, plant and equipment has been reduced due to depreciation and the currency movement of the Swedish Kronor which has weakened when compared to the Canadian Dollar over the course of 2019.

VAT is receivable on quarterly basis. All VAT due at September 30, 2019 has been recovered.

Total non-current financial liabilities

As at September 30, 2019 the Company had long term liabilities of ($4,490,570).

Non-current liabilities	Sep 30 2019	Dec 31 2018
Convertible debenture	2,731,120	1,706,895
Lease liabilities	1,759,450	0

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.

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 September 30, 2019 the interest accrued on the convertible debenture was $174,654, ($4,652 at December 31, 2018)

Post Balance Sheet Event

On November 14, 2019, Hydro66 Holdings Corp drew down the remaining CAD$ 845,101 of the secured convertible loan financing. This last part of the loan was made up of USD 525,000 and CAD$150,000 respectively, bringing the total outstanding to CAD$3,380,421. Hydro66 has no other material long term obligations.

Capital Resources

On 12th July 2019, Hydro 66 Holdings Corp announced the closing of its non-brokered private placement, raising gross proceeds of $1,824,975 through the issuance of 3,649,950 units ("Units") of the Company at a price of $0.50 per Unit. Each Unit is comprised of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional common share in Hydro66 Holdings Corp at an exercise price of CAD$ 0.75 until 12th July 2021.

An additional 73,800 finder warrants ("Finder Warrants") where issued to EMD Financial Inc at the closing of the private placement. Each Finder Warrant entitles the holder to purchase one additional common share in Hydro66 Holdings Corp at an exercise price of CAD$ 0.75 until July 12, 2021.

Off-Balance Sheet Arrangements

Hydro66 does not have any off-balance sheet arrangements.

Transactions with Related Parties

During the three months ended September 30, 2019, David Rowe, Chairman and Director of the Company, was repaid 17.28 BTC by Hydro66 Svenska AB on August 12, 2019

During the three months ended September 30, 2019, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of $30,924

During the period ended September, 2019, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for $4,473.

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. On September 9, $24,876.27 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	September 30, 2019 $	December 31, 2018 $
Cash and cash equivalents	446,136	2,304,416
Trade receivables due at reporting date	148,309	365,392
Other receivables	-	-
Total	594,445	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	September 30, 2019	December 31, 2018
	$	$
Trade payables	479,874	1,432,005
Other accruals	538,789	1,201,169
Debt financing – loans payable	2,731,122	1,706,895
Total	3,749,785	4,340,069

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

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

September 30, 2019	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	923,540	3,694,160
Trade and other payables	1,018,663	-	-	-
Total	1,018,663	0	923,540	3,694,160

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, 10,625,000 Stock Options at exercise prices ranging from $0.21 to $0.50, and 48,915,750 Warrants outstanding at exercise prices ranging from $0.50 to $0.75 per share.