Hydro66 Holdings Corp ("Company")

Management Discussion & Analysis
For the year ended December 31, 2019

1. **Date – April 28, 2020**

This Management's Discussion and Analysis ("MD&A") is dated April 28, 2020, unless otherwise indicated, and should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2019 and 2018.

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 only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented for the year ended December 31, 2019 are not necessarily indicative of the results that may be expected for any future period.

The Company applies 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 June 8, 2018. 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, impairment and costs associated with one-time transactions (such as listing fees).

2. Overall performance

Hydro66 owns and operates an award-winning colocation data center in Sweden specializing in High Performance Computing ("HPC") hosting. The Company hosts third party IT infrastructure, utilizing 100% green power, at amongst the EU's lowest power prices and within an ISO27001 accredited facility.

The Company’s principal activity is the provision of cloud and colocation services, specialised in High Performance Computing, Storage, and information processing. During the year ended December 31, 2019 the Company focussed its efforts on filling its capacity and developing its Enterprise offering.

During the year to December 31, 2019 the Company consolidated its position in the North of Sweden, operating six data halls with a total capacity of 19.2 MW (Megawatts). 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 as well as investing in its own computing capacity in order to offer cloud services to customers.

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 centre 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 information processing and other cloud services to customers.

Cash and digital currencies

The Company closed the period to December 31, 2019 with closing cash and cash equivalents of $1.0m, (December 31, 2018: $2.3m); and closing digital currencies recorded as intangible assets of $0.0m (December 31, 2017: $0.1m).

Net assets

Net assets at December 31, 2019 decreased by $4.6m to $11.0m (December 31, 2018: $15.6m). The $4.6m decrease in net assets during the year to December 31, 2019 was mainly as a result of the company’s losses which stem from the decline in revenue from decreased occupancy compared to 2018 and continuing high levels of direct energy cost, 62% of revenue (December 31, 2018: 76%) due to elevated costs of power in Sweden compared to the years prior to 2018 and a $2.0m depreciation charge during the period.

Analysis of financial performance

During the year to December 31, 2019 Hydro66 recorded revenue of $4,273,047, a 44% decrease from the prior year revenue of $7,644,122.

Revenue from colocation data center services fell from $7,070,510 in 2018 to $1,822,340 in 2019 reflecting the decline in customer volumes during late 2018 early 2019 which resulted from the digital currency bear markets of that period and the changes in Swedish treatment of energy taxes for colocation data centers and their customers. Utilisation of the facility fell from 50% at the end of November 2018 to 9.8% at the end of December 2018 due to the decline in customer activity in that period. Usage recovered to 20.8% by the year end December 31, 2019.

Revenue from information processing and other cloud services provided to customers rose from $573,612 in 2018 to $2,450,707 in 2019 reflecting the increased investment in servers and calculation capacity in 2019. On December 31, 2019, an impairment on digital currencies was recorded of $29,213 to reflect the value of the currencies held at the end of the year.

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

	December 31, 2019		December 31, 2018	
	Number	Value $	Number	Value $
Bitcoin	0	0	27	27,526
Litecoin	0	0	1070	43,686
Ethereum	0	0	21	3,920
AION	222,834	16,477	213,753	48,706
Total		**16,477**		**286,898**

The site was maintained at 19.2 MW during 2019, however, financial performance was negatively impacted by market conditions relating to the price of power and reduced interest in colocation services in Sweden due to changes in the energy tax regime relating to colocation customers. Direct costs of power fell from 76% of revenue in 2018 to 62% of revenue in 2019, but this compares with 32% of revenue in 2017. Power prices averaged €37.94 per MWh in 2019, compared to €44.23 per MWh in 2018 and €30.84 per MWh in 2017.

Hydro66 operated its facility at 9.8% percent of capacity at the start of 2019 expanding to 20.8% of capacity at December 31, 2019. The higher than historic power prices seen throughout 2019 combined with the increasingly international competitiveness of the colocation market and the changes in energy taxation relating to colocation data centers in Sweden impacted growth adversely.

Adjusted EBITDA loss for the year was ($2,718,375) against a prior year adjusted EBITDA loss of ($1,693,068), as a result of the reduction in co-location revenues due to the impact of the change in Swedish energy taxation treatment, investment in the growth of the team in Sweden to support the marketing of enterprise grade services and maintenance of the 19.2MW data center, the ongoing costs of 24/7 security at the facility and fees and other costs relating to operating in Canada as a listed entity.

No dividends were paid during the period.

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. As a result of this from January 1, 2019, the power input cost for colocation customers increased. Many customers can reclaim the energy tax and from January 1, 2019, the cost of energy tax was charged to customers, where appropriate, who could then opt to reclaim it. This change to energy tax has presented a headwind to sales growth as it results in an increased working capital need for customers and increases complexity of start-up. The Company can reclaim energy tax on equipment it owns and operates itself either for itself or which it uses to provide an information service to customers.

Hydro66 remains well positioned to take advantage of growth in data and computing trends by providing access to low-cost, green energy and cloud solutions to customers from an ultra-efficient hyperscale data center. The company has completed the current phase of buildout and now operates one of the largest High-Performance Computing ("HPC") colocation data center in Europe with further potential to expand this existing capacity.

3. Selected Annual Information

Revenue

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

The geographical split of revenue by customer location for the last three years is as follows:

	Year ended December 31,					
	2019	2019	2018	2018	2017	2017
	$	$	$	$	$	$
	Data Center Services	Information Processing Services	Data Center Services	Information Processing Services	Data Center Services	Information Processing Services
United Kingdom	43,957	-	14,039	-	106,051	-
Asia	-	526,228				
USA & Canada	127,565	48,602	-	290,255	-	764,552
Rest of Europe	1,650,818	1,875,877	7,056,471	283,357	1,246,650	136,433
	1,822,340	2,450,707	7,070,510	573,612	1,352,701	900,985

In the year to December 31, 2019 data center services (colocation) made up 43% of the revenue compared to 92% in 2018 representing the shift of the business to the provision of Information Processing Services and Cloud provision and away from the provision of colocation to third party customers. This change was driven by the impediment to colocation activities caused by the Swedish government changes to energy tax treatment and investment in additional capacity to offer cloud computing and calculation services.

Adjusted EBITDA

	Year ended December 31		
	2019	2018	2017
	$	$	$
Comprehensive (loss) income for the year	(6,891,293)	(6,646,054)	(665,340)
Add back:			
Other comprehensive (loss) income for the year	1,617,935	310,233	150,035
Listing expenses	-	460,925	-
Share-based payment expense	-	1,500,000	-
Share-based compensation	431,404	1,342,389	205,111
Provision GST	100,994	-	-
Depreciation	1,993,372	1,127,397	617,523
Impairment on digital currencies	29,213	212,042	-
Adjusted EBITDA	(2,718,375)	(1,693,068)	307,329

Adjusted EBITDA loss for the year was ($2,718,375) against a prior year adjusted EBITDA loss of ($1,693,068), reflecting the ongoing higher power costs in Sweden, the loss of customers in late 2018/early 2019 and the impediments to acquiring new customers resulting from the changes to the energy tax regime.

Total assets

	Dec 31, 2019 $	Dec 31, 2018 $	Dec 31, 2017 $
ASSETS			
Current assets			
Cash	997,568	2,304,416	1,690,815
VAT / GST receivable	378,114	890,185	459,606
Amounts receivable and prepaids	633,828	1,380,417	860,665
Total current assets	2,009,510	4,575,018	3,011,086
Non-current assets			
Property, plant and equipment	14,401,005	15,903,314	8,171,684
Right-of-use assets	1,939,674	-	-
Digital currencies	16,477	123,838	286,898
Total non-current assets	16,357,156	16,027,152	8,458,582
TOTAL ASSETS	18,366,666	20,602,170	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.

Total property, plant, and equipment additions in 2019 were $1.5m funded largely through the issuance of new share capital in July 2019.

VAT is receivable on a monthly basis. All VAT due at December 31, 2019 has been recovered.

Total non-current financial liabilities

As at December 31, 2019, the Company had long term liabilities of $5,247,341. This amount includes long-term lease liability of 1,595,350 which in accordance with the new accounting standard IFRS16 have been added to the statement of financial position in 2019.

In December 2018, the Company closed a debt 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). The maximum amount of the future advances was up to the same amount as the initial advance. The rate used to translate the advance of USD was 1.3399 Canadian Dollars to each US Dollar. The loan has term of 7 years from the date of the initial advance of the loan. The loan bears interest at a rate per annum equal to 10%. The interest is compounded and calculated annually, not in advance, and is payable on each December 31. The interest for the initial two years of the loan shall not be payable until such time as the loan is repaid in full. Additional drawdowns were made over the course of 2019, with $0.85m on April 4, 2019 and a further $0.85m was received on November 18, 2019.

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

As at December 31, 2019, the interest accrued on the convertible debenture was $249,848.

4. Discussion of operations

The Company's principal activity is the provision of co-location and cloud computing services, specialised in High Performance Computing, Storage, and information processing. During the year ended December 31, 2019 the Company focussed its efforts on filling its co-location capacity and investing in the provision of cloud computing services.

Hydro66 delivers low-cost, environmentally friendly colocation services. Using locally generated clean green hydropower, Hydro66's first data centre is 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 sells cloud computing power to customers. From these sales the Company may receive income in the form of digital currencies.

The expansion was completed as planned in 2018 and foundations were laid to support further expansion out to 32MW, with the Company retaining the potential to grow the existing site to greater than 40MW.

In 2019, the expanded capacity has not achieved the revenue and profitability as planned due to the reduction in demand in the region for large scale colocation as a result of the abnormally high power prices in the region, the difficulties in the digital currency market and the changes to the energy taxation regime in Sweden.

Hydro66 continues to be cash flow negative at the end of 2019 for the reasons outlined above.

2019 was a year of consolidation as the total data center capacity was maintained at 19.2 MW. Market conditions, including elevated power costs and the depressed digital currency markets meant that although there was a significant increase in capacity utilisation during 2019 a large element of the capacity remained unutilised at the end of 2019.

During the year to December 31, 2019 Hydro66 recorded revenue of $4,273,047, a 44% decrease from the prior year revenue of $7,644,122, this was due to the decrease in customer operations observed in the final quarter of 2018.

Revenue from colocation data center services fell to $1,822,340 in 2019 from $7,070,510 in 2018 reflecting the decline in customer operations observed in the final quarter of 2018 as well as the growth headwinds from the elevated power prices and the changes in energy taxation previously noted.

Revenue from information processing and other cloud services provided to customers rose to $2,450,707 in 2019 from $573,612 in 2018 reflecting the increase in investment made in equipment used to provide these services and the offering of cloud services to customers.

At December 31, 2019, an impairment on digital currencies was recorded of $29,213 to reflect the value of the currencies held at the end of the year.

Hydro66 is positioned to take advantage of the exponential growth in data and computing trends by providing access to low-cost, green energy and cloud compute and colocation services in an ultra-efficient hyperscale colocation data center. The company has built one of the largest High-Performance Computing ("HPC") colocation data centers in Europe with further potential to expand this existing capacity.

The Company sees growth from customers in four key sectors; System Integrators, Enterprise Businesses, Cloud Hosting and HPC.

- System Integrators: Applications are normally served from a client's premises, a third-party data center or a public cloud. It is essential for the System Integrator to help clients make hosting decisions to maintain control and ensure quality. Having a strong colocation data center partnership is beneficial for System Integrators to add value to a client, enhance retention rates and increase margin opportunities.
- Enterprise Businesses: Hydro66's colocation data center is perfect for security conscious Enterprise clients whose needs extend beyond on-premises solutions. Reducing complexity by outsourcing non-core activities, such as physical data center operations, allows clients to focus on their principal business. Hydro66 is proving to be a perfect partner.
- Cloud Hosting: Hydro66 helps security conscious cloud providers who need EU carrier neutral colocation and recognize their hosting partner must offer economies of scale and flexible growth options. Saving money with ultra-efficient colocation at zero carbon cost is a win-win for cloud providers and their clients.

- High Performance Computing: By operating industrial grade wholesale HPC optimised server and ASIC or GPU data halls Hydro66 offers a quick and assured solution for operators needing to deploy megawatts of equipment in the minimum time possible.

In addition to the colocation and cloud businesses that Hydro66 continues to build, the Company monitors the global cryptocurrency and blockchain space for opportunity. The Company is opportunistic in utilizing its world-class data center infrastructure to provide computing power to customers when positive returns can be generated. This flexibility, to turn on and off computing power, is a strong competitive advantage and avoids leaving the company materially exposed to negative movements in the sector, while providing significant leverage to a potential revenue upside.

Hydro66 continues to look at the digital asset space and opportunistically enter whenever it is profitable. Utilizing equipment that was acquired at the bottom of the market means that there is limited capital expenditure to recuperate. This allows the Company to gain exposure to digital currency markets while substantially protecting itself from any downside volatility.

In May 2019, Hydro66 Holdings Corp entered negotiations with Whinstone US to merge and develop a site in Texas into a 500MW HPC facility to act as a colocation facility for large corporate blockchain activities. The merger was not completed and Hydro66 withdrew from the process during due diligence on the July 12, 2019.

5. Summary of quarterly results

Selected Financial Information

The following selected financial information is derived from the audited consolidated financial statements of the Company.

	Fiscal 2019				Fiscal 2018				Fiscal 2017			
	dec-19	sep-19	jun-19	mar-19	dec-18	sep-18	jun-18	mar-18	dec-17	sep-17	jun-17	mar-17
	2019	2019	2019	2019	2018	2018	2018	2018	2017	2017	2017	2017
	$	$	$	$	$	$	$	$	$	$	$	$
Operations:												
Revenue	977 879	1 298 781	1 414 727	581 660	1 939 581	2 880 058	1 949 060	875 423	771 642	719 931	589 527	172 586
Comprehensive income / (loss) from continuing operations	-1 325 877	-1 551 465	-2 078 062	-1 935 889	-1 964 666	-841 488	-2 437 858	-1 402 042	-848 555	417 432	301 686	-535 903
Basic loss per share	(0,010)	(0,012)	(0,016)	(0,015)	(0,015)	(0,007)	(0,019)	(0,013)	(0,781)	0,384	0,278	(0,583)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Non diluted	130 646 950	130 646 950	127 000 000	127 000 000	127 000 000	127 000 000	127 000 000	105 000 000	1 087 084	1 087 084	1 087 084	919 611

Revenue decreased sharply from Q4 2018 to Q1 2019 due to the decrease in customer occupancy as a result of the weak digital currency markets and the change in energy taxation treatment for co-location customers in Sweden. The increase in revenue in Q2 and Q3, 2019 is due to the short-term reactivation of one major colocation customer who operated their equipment from May 2019 to August 2019 in the Company's data center. Q4, 2019 revenue represents growth in sales of cloud services to customers relative to Q1, 2019.

6. Liquidity

During the year to December 31, 2019, the Company incurred a net loss for the period of ($5,273,358), (2018: net loss ($6,335,821)).

Total Administration expenses before acquisition and listing expenses declined by 26% to ($4,775,641), (2018: $6,492,217) due to savings initiatives carried out by the Company across all aspects of the business and a significant decline in share-based compensation costs.

The loss in 2019 reflects share based compensation, the higher than normal power costs in the region of the North of Sweden, the high fixed power costs for running the expanded capacity with the reduced customer occupancy, as well as the investment in growing the Swedish operation to grow the sales of the Company's products. Until these activities enable the Company to reach a sustainable level of operations, it will continue to rely on financial support from additional funding to enable it to continue its activities and to meet its liabilities as they fall due.

During the year to December 31, 2019, the Company raised $3.5m. $1.767 m was raised in July 2019 through the issuance of share capital via a private placement and a further $1.7m was received from convertible debenture holders, $0.85m on April 4, 2019 and $0.85m was received on November 18, 2019**.**

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. The Company's current business plan indicates that additional funding or income will be required within the next 12 months. The funding will be necessary to allow the business to continue to trade beyond this point. The directors have considered the business plan and potential sources of funding and have a plan in place to secure equity or other funding such that they expect to obtain sufficient funding in the coming months to enable the Company to continue as a going concern. The directors acknowledge that there can be no certainty over achieving the projected revenue and managing the cost base as forecast, as well as the timing and the quantum of future fund raisings and that this represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

7. Capital Resources

As December 31, 2019 the Company had no capital commitments.

On March 31, 2020, the company entered into a secured convertible loan agreement with David Rowe, a significant shareholder and a director of the Company, and with Robert Keith, a significant shareholder of the Company. The maximum amount of the loan will be USD$1,000,000 in the aggregate, convertible at the market price of the common shares at the date of conversion, with the initial advance of USD$300,000 with exchange rate on March 27, 2020 for conversion of amounts advanced in USD to Canadian dollars. The remaining amounts of the Loan may be requested by the Company, if necessary, on or before December 31, 2021. The Company will request that any amount advanced be made in Canadian dollars, however, the Company acknowledges that the lenders may make advances in either British Sterling or USD.

The Loan will be evidenced by second ranking secured convertible promissory notes in favour of the lenders for each advance under the Loan. The maturity date of the principal amount, interest and any fees of the Loan is seven (7) years from the date of the Initial Advance and the rate of interest is 10% per annum. The interest for the initial two (2) years of the Loan shall not be payable until such time as the Loan is repaid in full.

8. Off-Balance Sheet Arrangements

Hydro66 does not have any off-balance sheet arrangements.

9. Transactions with Related Parties

The Group's related parties include key management and others as described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

During the year ended December 31, 2019, Hydro66 UK Limited repaid a loan note to David Rowe of $nil (year ended December 31, 2018: $74,295).

During the year ended December 31, 2019, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of $124,950 (year ended December 31, 2018: $222,886).

During the year ended December 31, 2019, Kurchakee Ltd, of which David Rowe is a Director, bought finance and legal services and office space of $ nil (2018: 38,012) from Megamining Ltd.

During the year ended December 31, 2019, Black Green Capital Ltd, of which David Rowe and Richard Croft are Directors, bought services from Megamining Ltd of $12,937 (2019: $12,959).

During the year ended December 31, 2019, Moiety AB, of which Anne Graf is a Director, provided consultancy services to Hydro66 Svenska AB of $nil (2018: $8,827).

During the year ended December 31, 2019, 0920 Media AB (brand name Meramedia), of which Anne Graf is a director, provided marketing services to Hydro66 Svenska AB of $6,734 (year ended December 31, 2018: $34,543).

During the year ended December 31, 2019, Hydro66 Services AB, provided colocation services to B-chain e-services AB, of which Anne Graf was a director, of $nil (year ended December 31, 2018: $1,013,202). Anne Graf resigned as a director from B-chain e-services AB on June 21, 2018.

During the year ended December 31, 2019, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for $19,100 (year ended December 31, 2018: $24,600). During 2018, 75,000 share options were also issued to Chase Management Limited with an associated in year cost of $12,167.

On 27th June 2019 Hydro66 Svenska AB borrowed 17.28 BTC from David Rowe. On 12th August 2019 Hydro66 Svenska AB repaid the loan of 17.28 BTC from David Rowe.

In November 2019, Hydro66 Holdings Corp raised funding via a convertible debenture. The directors and related parties participated in the funding as follows:

Name of related party	Nature of related party to Hydro66 Holdings Corp	Participation in Hydro66 Holdings Corp convertible debenture
David Rowe	Director	USD 300,000
Robert Keith	Owner	USD 225,000
Richard Patricio *through Totus Inc*	Director	$50,000

In July 2019, Hydro66 Holdings Corp exercised a private placement. The directors and related parties participated in the private placement as follows:

Name of related party	Nature of related party to Hydro66 Holdings Corp	Participation in Hydro66 Holdings Corp Private placement	Purchased units during private placement
David Rowe	Director	$659,100	1,318,200
Robert Keith	Owner	$294,615	589,320

As a part of the private placement in July 2019, David Rowe made an advance payment of USD 500,000 which was used to acquire computing equipment.

In March 2019, Hydro66 Holdings Corp raised funding via a convertible debenture. The directors and related parties participated in the funding as follows:

Name of related party	Nature of related party to Hydro66 Holdings Corp	Participation in Hydro66 Holdings Corp convertible debenture
David Rowe	Director	USD 300,000
Robert Keith	Owner	USD 225,000
Richard Patricio *through Totus Inc*	Director	$50,000

In December 2018, Hydro66 Holdings Corp raised funding via a convertible debenture. The directors and related parties participated in the funding as follows:

Name of related party	Nature of related party to Hydro66 Holdings Corp	Participation in Hydro66 Holdings Corp convertible debenture
David Rowe	Director	USD 600,000
Robert Keith	Owner	USD 450,000
Richard Patricio *through Totus Inc*	Director	$100,000

In February 2018 Arctic raised funding via a convertible debenture. The directors and related parties participated in the funding as follows:

Name of related party	Nature of related party to Hydro66 Holdings Corp	Participation in Arctic Blockchain Limited convertible debenture
Michael Hudson *through Elmwood Partners Discretionary Trust*	Director	$400,000
Richard Patricio *through Totus Inc*	Director	$475,000
Nick DeMare	Company Secretary	$124,800

Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. Key management personnel remuneration includes the following expenses:

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Short-term employee benefits:		
- Salaries including bonuses	560,887	651,887
- Social security costs	102,607	168,629
	663,494	820,516
Post-employment benefits:		
- Defined contribution pension plans	17,552	1,899
Share-based payments	296,883	600,222
Total remuneration	977,929	1,422,637

During 2018 the group 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 and Hydro66 UK Limited. 29,940 GBP of these employee loans was to key management personnel of which 10,000 GBP has been repaid during 2019.

10. Proposed Transactions

There are no proposed transactions.

11. Basis of Preparation and Critical Accounting Policies

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRIC").

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.

Revenue

Revenue arises from the sale of data center services, including space and power; and from the provision of transaction verification services within digital currency networks. 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.

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position as deferred income. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes a receivable in its statement of financial position. During the year of 2018, the Company expanded its facility. All customers who contract for services in the expanded facility are invoiced in advance. This has resulted in deferred income being recognized at December 31, 2018.

Data Center Services

The Company recognizes revenue from the provision of data center services (sometimes referred to as colocation). The Company enters into agreements with customers who require space and power in the Company's data center. A price for the service is determined at the point of contract. The customers physically locate servers in the Company's data center. Customer servers are housed in racks and connected to a power supply. Revenue represents amounts invoiced for the provision of data center services, including space and power.

Transaction Verification Services within Digital Currency Networks

The Company also recognizes revenue from the provision of transaction verification services within digital currency networks. The Group enters into agreements with digital currency pools to provide transaction verification services. As consideration for these services, the Company receives digital currency from each specific network in which it participates. Management consider it appropriate to recognize revenue when a digital currency coin is received from the pool as that is the point that the economic benefit transfers to the Company and can be converted to traditional (fiat) currencies.

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.

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.

12. Changes in accounting policies

Adoption of New Accounting Standards
The Company adopted IFRS 16 – Leases ("IFRS 16") effective January 1, 2019. In January 2016, the IASB issued IFRS 16, Leases, which replaced IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has applied this standard on a modified retrospective basis, where the cumulative effect of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings and comparative balances are not restated. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether a lease exists. The Company elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company also accounts for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

Reconciliation operating lease obligations to lease obligations in accordance with IFRS 16:

	$
Operating lease obligations at 31 December 2018	4,288,619
Adjustment for service agreements	(1,195,838)
Short term lease agreements and agreements of low value	-
Effects of optional periods	155,612
Financial lease agreements at 31 December 2018	-
Discounting of lease agreements	(611,486)
Lease obligation at 1 January 2019	(2,636,907)

Initial effects on "Consolidated statement of financial position":

Right-of-use assets	2,636,907
Total assets	2,636,907
Long-term lease liabilities	2,132,934
Current portion of lease liabilities	503,973
Total lease liabilities	2,636,907

Accounting Standards and Interpretation Issued but Not Yet Effective

No new standards not yet effective have been identified that can have a significant impact on the Company's consolidated financial statements for 2020 and forward.

13. 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.

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 amortised 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	Dec 31, 2019 $	Dec 31, 2018 $
Cash and cash equivalents	997,568	2,304,416
Trade receivables due at reporting date	94,730	365,392
Other receivables	917,212	-
Total	2,009,510	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	Dec 31, 2019 $	Dec 31, 2018 $
Trade payables	688,461	1,432,005
Other payables	272,481	-
Other accruals	771,751	1,201,169
Lease liabilities	2,012,232	-
Debt financing – loans payable	3,651,991	1,706,895
Total	7,396,916	4,340,069

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

As at December 31, 2019, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

December 31, 2019	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	1,360,837	4,331,258
Lease liabilities	259,860	255,621	1,803,324	110,948
Trade and other payables	1,713,263	-	-	-
Total	1,992,553	255,621	3,164,161	4,442,206

This compares to the maturity of the Group's non-derivative financial liabilities in the previous reporting periods 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.

14. Share Capital

As at the date of this 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 48,819,750 Warrants outstanding at exercise prices ranging from $0.50 to $0.75 per share.

15. Post Balance Sheet Events

Convertible loan
On March 31, 2020, the company entered into a secured convertible loan agreement with David Rowe, a significant shareholder and a director of the Company, and with Robert Keith, a significant shareholder of the Company. The maximum amount of the loan will be USD$1,000,000 in the aggregate, convertible at the market price of the common shares at the date of conversion, with the initial advance of USD$300,000 with exchange rate on March 27, 2020 for conversion of amounts advanced in USD to Canadian dollars. The remaining amounts of the Loan may be requested by the Company, if necessary, on or before December 31, 2021. The Company will request that any amount advanced be made in Canadian dollars, however, the Company acknowledges that the lenders may make advances in either British Sterling or USD.

The Loan will be evidenced by second ranking secured convertible promissory notes in favour of the lenders for each advance under the Loan. The maturity date of the principal amount, interest and any fees of the Loan is seven (7) years from the date of the Initial Advance and the rate of interest is 10% per annum. The interest for the initial two (2) years of the Loan shall not be payable until such time as the Loan is repaid in full.