

HYDRO66 HOLDINGS CORP (“Company”)

MANAGEMENT DISCUSSION & ANALYSIS

For the three months ending 31st March 2020

This Management Discussion and Analysis (“MD&A”) is dated May 28, 2020, unless otherwise indicated and should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements and notes for the three months ended March 31, 2020.

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 three months ended March 31, 2020 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 the conciliated financial statements for the year ended 2019, in note 18 “Financial Instruments and Risk Management”, filed by the Company on April 28, 2020. 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, and cloud services provider 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 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 and 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 March 31, 2020 Hydro66 maintained the operation the data center and focused its efforts on filling that capacity. Sales activity for 2020 and for 2021 is focused on increasing the occupancy of the data center and 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 March 31, 2019 with closing cash and cash equivalents of **\$0.56mm (December 31, 2019: \$1.0mm)**; and closing digital currencies recorded as intangible assets of **\$0.02 mm (December 31, 2019: \$0.02mm)**.

Net Assets

Net assets at March 31, 2020 decreased to **\$ 10.12mm (December 31, 2019: \$10.97mm)**

	Note	Mar 31, 2020 \$	Dec 31, 2019 \$
ASSETS			
Current assets			
Cash		561,997	997,568
Amounts receivable and prepaids	5	572,061	1,011,942
Total current assets		1,134,058	2,009,510
Non-current assets			
Property, plant and equipment	6	14,307,635	14,401,005
Right-of-use assets	7	2,028,755	1,939,674
Digital currencies	8	24,488	16,477
Total non-current assets		16,360,878	16,357,156
TOTAL ASSETS		17,494,936	18,366,666
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	1,091,872	1,732,693
Current portion of lease liabilities	10	476,402	416,882
Total current liabilities		1,568,274	2,149,575
Non-current liabilities			
Convertible debenture	11	4,161,072	3,651,991
Lease liabilities	10	1,641,403	1,595,350
TOTAL LIABILITIES		7,370,749	7,396,916
SHAREHOLDERS' EQUITY			
Share capital	13	34,890,714	34,890,714
Other reserves		(7,155,763)	(7,155,763)
Share option reserve		1,909,135	1,794,867
Foreign exchange reserve		(1,124,586)	(1,445,505)
Deficit		(18,395,312)	(17,114,563)
TOTAL SHAREHOLDERS' EQUITY		10,124,187	10,969,750
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		17,494,936	18,366,666

Analysis of Financial Performance

The key financial metrics were reported as follows:

	3 months Ending:	Mar-20	Mar-19
	Revenue	0.96mm	0.58 mm
	Adjusted EBITDA	(0.49mm)	(0.58mm)

Revenue rose from \$0.58mm in the three months ended March 31, 2019 to \$0.96mm in the three months ended March 31, 2020 due primarily to the increase in revenues from Information Processing Services. This increase in revenue is the result of investment in the Information Processing Services and Cloud Computing Infrastructure and the increase in customer income from these sources.

Adjusted EBITDA loss for the three months to March 31, 2020 was (\$0.49mm) against an adjusted EBITDA loss of (\$0.58mm) for the same period in 2019. Note that this calculation includes depreciation of lease contracts, this has a positive effect on adjusted EBITDA of CAD\$ 116K for 2020 and CAD\$ 119K for 2019.

Revenue from the sale of information processing and cloud computing increased from \$256K in the three months ended March 31, 2019 to \$780K in the three months ended March 31, 2020 reflecting the increase in investment in this area of the business during 2019, and the increased customer income in this segment.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds, however the Company does expect that customer growth rates and earnings will be lower than planned for 2020.

Digital Currency Holdings

The table below shows the digital currencies held at March 31, 2020 and their recorded value. A comparison to December 31, 2019, September 30, 2019 and June 30, 2019 is also shown.

	March 31, 2020		December 31, 2019		September 30, 2019		June 30, 2019			
	Number	Value \$	Number	Value \$	Number	Value \$	Number	Value \$		
Bitcoin	1	7,063	0	0	Bitcoin	4	48,551	Bitcoin	2	34,112
Litecoin	1	334	0	0	Litecoin	0	0	Litecoin	151	21,476
Ethereum	6	215	0	0	Ethereum	5	1,100	Ethereum	70	22,674
AION	222,834	16,876	222,834	16,477	AION	222,834	18,829	AION	222,834	36,179
Total		24,488		16,477	Total	68,480	Total		114,441	

Selected Interim Information – Revenue Breakdown

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.

	Three months to March 31,							
	2020		2019		2018		2017	
	\$	\$	\$	\$	\$	\$	\$	\$
	Data Center Services	Information processing Services	Data Center Services	Information processing Services	Data Center Services	Information processing Services	Data Center Services	Information processing Services
United Kingdom	8,166		6,492		53,917		18,542	
Asia		760,316						
USA & Canada	43,622	17,181	0	8,809		93,298		13,622
Rest of Europe	127,932	2,560	319,071	247,288	728,208		140,422	
	179,720	780,057	325,563	256,097	782,125	93,298	158,964	13,622

In the three months to March 31, 2019 Information processing and cloud services made up 81% of the revenue compared to 44% in the same period last year.

	Three months to March 31,							
	2020		2019		2018		2017	
	\$m	% of total	\$m	% of total	\$m	% of total	\$m	% of total
Data Center Services	0.2m	19%	0.3m	56%	0.8m	89%	0.2m	92%
Information processing services	0.8m	81%	0.3m	44%	0.1m	11%	0.0m	8%
Total	1.0m		0.6m		0.9m		0.2m	

The significant growth in information processing services is a function of the market growth through 2019 and the expansion of information processing services and cloud computing investment by the Company during the year.

Adjusted EBITDA:

The table below shows the calculation of adjusted EBITDA.

Three months ended mars 31, 2020	2020	2019	2018	2017
	\$	\$	\$	\$
Net (loss) income for the period	-1,280,749	-1,371,335	-988,325	-638,927
<i>Add back:</i>				
Other items/expenses	124,786	89,287	-38,330	52,604
Share-based compensation	114,268	234,117	0	0
Depreciation*	556,529	464,055	181,107	158,123
Adjusted EBITDA	-485,166	-583,876	-845,548	-428,200

* = Includes depreciation of lease contracts 2019 and 2020. Positive effect on adjusted EBITDA 116 097 CAD (119 301 CAD last year).

Total Assets:

	Mar 31, 2020 \$	Dec 31, 2019 \$	Sep 31, 2019 \$	Dec 31, 2018 \$
ASSETS				
Current assets				
Cash	561,997	997,568	446,136	2,304,416
VAT / GST receivable	71,625	378,114	265,358	890,185
Amounts receivable and prepaids	500,436	633,828	993,156	1,380,417
Total current assets	1,134,058	2,009,510	1,704,650	4,575,018
Non-current assets				
Property, plant and equipment	14,307,635	14,401,005	14,330,836	15,903,314
Right of use assets	2,028,755	1,939,674	2,124,722	0
Digital currencies	24,488	16,477	68,465	123,838
Deferred tax assets	0	0	17,582	0
Total non-current assets	16,360,878	16,357,156	16,541,605	16,027,152
TOTAL ASSETS	17,494,936	18,366,666	18,246,255	20,602,170

During 2018, expansion of the data center 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, bringing the total active data halls to 6, foundations were also laid for a further 3 data halls. This expansion was funded by the issue of a debenture in Arctic Blockchain Limited in February 2018 for \$10,000,000.

Investments in 2019 focused on the expansion of the equipment used to provide the information processing and cloud services.

The overall value of the property, plant and equipment has been reduced due to depreciation and the decline of cash balances.

VAT is receivable monthly. All VAT due at March 31, 2020 has been recovered.

Total non-current financial liabilities

As March 31, 2019 the Company had long term liabilities of (\$5,802,475).

Non-current liabilities	Mar 31 2020	Dec 31 2019
Convertible debenture	4,161,072	3,651,991
Lease liabilities	1,641,403	1,595,350

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.

Convertible Loan

In March 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 31, 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, in the same amounts as advanced by such lender under the Initial Advance. 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. This brought the total amount outstanding under the two convertible loan agreements to \$4,161,072.

The new convertible Loan is 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.

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 173,000
Robert Keith	Owner	USD 127,000

Hydro66 has no other material long term obligations.

As at March 31, 2020 the interest accrued on the convertible debenture was \$334,717, (\$249,898 at December 31, 2019).

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	March 31, 2020	December 31, 2019
	\$	\$
Cash and cash equivalents	561,997	997,568
Trade receivables due at reporting date	113,777	94,730
Other receivables	458,284	917,212
Total	1,134,058	2,009,510

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	March 31, 2020	December 31, 2019
	\$	\$
Trade payables	439,657	688,461
Other Payables	203,138	272,481
Other accruals	449,079	771,751
Lease liabilities	2,117,805	2,012,232
Debt financing – loans payable	4,161,072	3,651,991
Total	7,370,751	7,396,916

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

As at March 31, 2020, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

March 31, 2020	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	1,488,116	5,008,797
Lease liabilities	290,639	290,639	1,911,309	24,108
Trade and other payables	1,091,874	-	-	-
Total	1,382,513	290,639	3,399,425	5,032,905

This compares to the maturity of the Group's non-derivative financial liabilities at the end of 2019 as follows:

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	1,973,123	255,621	3,164,161	4,442,206

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.

Post Balance Sheet Events:

No significant events have taken place since March 31, 2020, that are expected to have a material impact on these condensed consolidated interim financial statements.

Off-Balance Sheet Arrangements

Hydro66 does not have any off-balance sheet arrangements.

Transactions with Related Parties:

During the three months ended March 31, 2020, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of \$30,996.

During the period ended March 31, 2020 the Group bought services from Chase Management Limited of which Nick DeMare is a director, for \$865.

During the three months ended March 31, 2020 Mr David Rowe, a significant shareholder and a director of the Company participated in a secured convertible loan agreement in the amount of USD 173,000.

During the three months ended March 31, 2020 Mr Robert Keith, a significant shareholder of the Company participated in a secured convertible loan agreement in the amount of USD 127,000.

Share Capital

As at the date of the MD&A, The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid. All the common shares are of the same class and, once issued rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets upon dissolution or winding up.

There are 130,649,950 shares in issue, all fully paid as at March 31, 2020.